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BUSINESS AND ENTREPRENEURSHIP

CLASS XI

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FOREWORD

Entrepreneurship is a process of generating new business ideas, gathering economic resources and establishing business ventures. A person who carries out such activities and willing to bear risks and enjoy profit as a reward is known as an entrepreneur. Entrepreneurs play a critical role in the economic development of a country. They mobilise resources from the entrepreneurial ecosystem and add value to create new goods and services required in the society, generate employment opportunities and become revenue contributors to the government in the form of taxes besides other contributions.

Entrepreneurship education has become one of the indispensable learning areas in any education system. It enhances entrepreneurial competencies such as creativity, innovation, calculated risk-taking and problem-solving skills which in turn, help in generating business ideas, establishing and managing businesses to address socio-economic challenges. Entrepreneurship education has become crucial for Bhutan owing to the emerging issues such as youth unemployment, trade deficit and soaring national debt. Further, Bhutan is exposed to the global market where ethical issues such as product adulteration, exorbitant prices, integrity and trust, customer rights, breach of moral and ethical duty prevail, posing grave concerns in a small society. Therefore, it is important to make learners aware of such emerging issues and prepare them to overcome or address it through the entrepreneurship education.

The new business and entrepreneurship curriculum developed by Royal Education Council intends to enable learners to develop foundational knowledge and competencies in generating and pitching business ideas, developing business proposals, and mobilising finance to pursue entrepreneurship as a career. The curriculum will also provide a solid foundation for higher studies in entrepreneurship and business management. To that extent, the curriculum has incorporated up-to-date contents and pedagogy which are relevant to the current business world, and particularly applicable to the Bhutanese business ecosystem. Further, the new textbook is rooted in Bhutanese values and development paradigm of Gross National Happiness to ensure that the learners are well-grounded on national goals and aspirations.

It is my sincere belief, therefore, that learners will reap immense benefits by acquiring knowledge, skills, competencies and values in launching entrepreneurial ventures. This would ensure gainful employment after their schooling and contribute in addressing the unemployment and related issues in the country. I am also optimistic that the new curriculum will help our learners to fulfil His Majesty's vision of nurturing SMART (Sincere, Mindful, Astute, Resilient, and Timeless) citizens and help them to become nationally rooted and globally competent.

Tashi Delek!

Karma Galay
Director General

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Chapter 1

1. Introduction to Business

Learning objectives

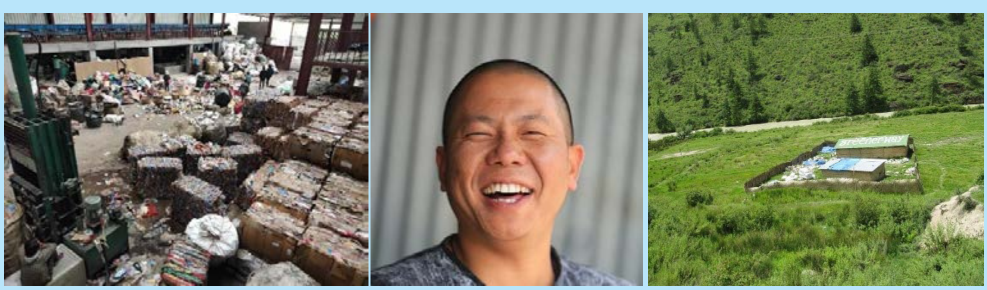
- Define business
- State the objectives of business
- Identify the characteristics of business
- Explain the classification of business
- Describe the branches of commerce and industries
- Explain the documents used in trade
- Explain emerging modes of business
- Explain ethical business practices and social responsibilities

Learning Activity 1.1

This activity aims to introduce learners to business, its objectives, and draw inspiration to explore entrepreneurship as career option.

Instructions: Read the story titled 'The Trash Man' and complete the subsequent tasks.

The Trash Man



Karma Yonten ventured into a waste management business on 8th March 2010 when such undertakings were still not popular. Not many saw business opportunities in waste management then. There were no Bhutanese ready to take up this kind of business in an organised form. Besides, activities associated with waste management especially, collection and disposal of waste were considered a social taboo by youths. However, he decided to venture into waste management business, molding it with entrepreneurial approaches and making it one of the most lucrative businesses in Bhutan. After a decade of establishment, his business is flourishing and he is popularly known as the 'Trash Man of Bhutan'.

Karma Yonten is the founder and Chief Executive Officer (CEO) of Bhutan's first waste management firm, Greener Way, established with initial financial support from his families and friends. The firm started by collecting waste from offices, households and business communities, and segregating and selling them. The service was unique since it offered timing slot to the clients for garbage disposal. Within few months of his venturing into the business, he was branded as the Trash Man by the locality. Since then the firm has grown from one man's mere passion to a medium sized business valued at about Nu. 80 million as of 2020.

The entrepreneurial journey was not as rosy as he thought. There were times, when he was publicly declaring his difficulties with the communities through various social media and crying for support from the entrepreneurship ecosystem. The lenders also litigated him for failing to pay the loan on time and his financial planning often led to several disappointments. He was at the rock bottom of his liquid financial status in 2019. Even at the lowest point of his career, he was resilient enough to bounce back making the way as he dreamt to build his own world which he dearly valued.

When asked about his difficulties as an entrepreneur, Trash Man replied smilingly, "the world has its own difficulties, so do I. My difficulties may not be relevant to yours but my difficulties are all of you. Unless people change their perspective towards waste, my business is subjected to people's behavior." Trash Man believes that Greener Way will only do well when the country does well in managing waste. He added, it is not only the numerical value of the firm that matters to him as the founder but also to educate people and make Bhutan litter free with her own recycling industry in future.

The Greener Way is involved with municipality's solid waste collection work in Thimphu and recovering recyclables from the waste stream before being landfilled. The Greener Way is equipped with waste sorting plant and manned by over 70 employees working on regular basis as of 2020. The firm recovers waste plastics, papers, bottles, and other valuable waste from the waste stream. With their constant look out for innovation, Trash Man and his team have also launched fencing post manufactured from the waste plastics. The Engineer of the plant said, "We are trying to create value from waste that had no value, and we are excited in working towards our vision."

The Greener Way believes that the waste business in Bhutan will grow with growing purchasing power and changing consumption pattern. When asked about the future of Greener Way after 3 years from 2020, Trash Man said "my business is expected to value at about Nu. 200 million in another 3 financial years." However, achieving financial growth remains secondary to his ultimate vision of making Bhutan litter free.

Tasks:

1. Define business in your own words.
2. Discuss how social issues in Bhutan can be transformed into business opportunities.
3. Elucidate the inspirations that you have imbibed from reading the story.
4. In pairs, list challenges you may face to take up a business.

1.1 Definition of Business

Business refers to production, sale, exchange or transfer of goods and services with a profit motive. In addition to the economic objectives, a business may have social, and environmental objectives. In realising these objectives, business mobilises resources from different stakeholders and in turn serve their interest.

Learning Activity 1.2

This activity intends to help learners explore the business objectives, characteristics and their classification.

Instructions: Read the article titled 'Druna Ghu Cookies' and complete the tasks.

Adapted from The Bhutanese, issue dated 19th October 2019.

Druna Ghu Cookies

Druna Ghu Cookies, home-made cookies have hit the market after winning the best sales pitch with a cash prize of Nu. 25,000 at Druk Tshongrig Gatoen (DTG). The nine grains (Druna Ghu): red rice, millet, sweet buckwheat, bitter buckwheat, barley, amaranth, mustard, wheat and maize are used as ingredients.

Chimi Dema, 37-year-old, is the founder of Druna Ghu Cookies. She said that her product is traditional as it uses home grown ingredients. She came up with the business idea to revive the culture of using Druna Ghu. The biscuit factory is located at Dawakha in Paro. It was established with support from the Loden Foundation.

She said, "In the ancient times, Bhutanese made their living by eating those nine cereals and were independent in terms of sustainability. However, with time and development, the import of goods has increased drastically; the choice of people changes with numerous choices." She then decided to come up with a home-produced biscuit which can keep the culture of using Druna Ghu alive and also to reduce import of biscuits.

She said, "People complimented me after tasting my products and I am happy that I got lots of positive feedback right after the launch." She feels that the price charged is reasonable as the product can satisfy the customers. In future, if everything goes well and support continues, she plans to expand her business, keep the culture of Druna Ghu alive, and create more employment opportunities. Further, she intends to target international market.

Tasks:

1. In the light of the given article, list the business objectives as per the classification given in the table.

Economic objectives	Social objectives	National objectives

2. Describe characteristics of business in relation to the article

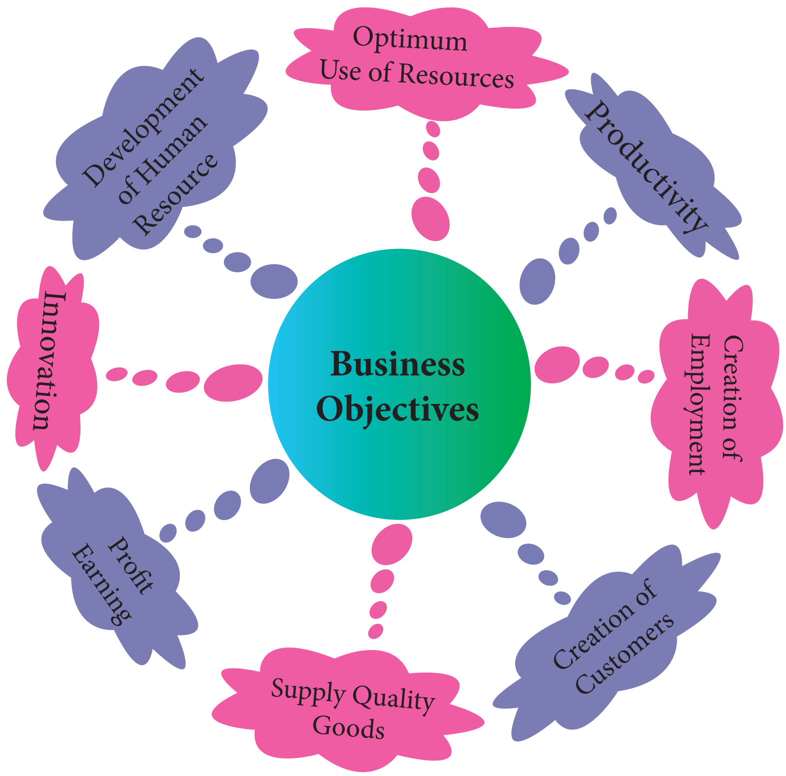


Figure 1.1 Business objectives

Business objectives are generally classified into following categories:

a. Economic objectives

Economic objectives are the targets set by business to achieve the goal of earning profit. Most businesses are driven by their economic objectives which include creation of customers, production and sale of products, earning returns, optimum utilisation of resources, fostering innovation, growth and survival, and building reputation.

b. Social and human objectives

Social objectives are the commitments and obligations of business towards customers, employees, investors, suppliers, government and the general public. Business uses the resources of the society and earns returns by selling the products or services to the members of society. Therefore, businesses must serve the interest of the society in return, which includes supply of desired quality products at fair price, adoption of fair and ethical practices, community services, timely payments of taxes and looking after general welfare of the stakeholders.

c. National objectives

Businesses have objectives of fulfilling national goals and aspirations. It is concerned with production of goods and services according to national priorities, creation of employment opportunities, promotion of regional development, environmental conservation, optimum utilisation of resources, self-sufficiency and export promotion, and contribute to the revenue of the country.

1.2 Classification of Business

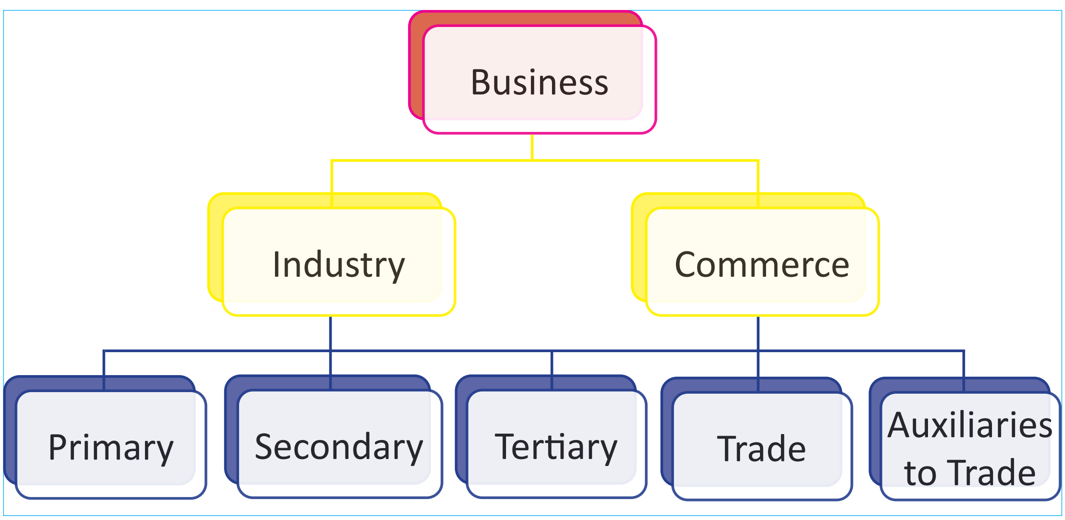


Figure 1.2 Classification of business

1.3 Industry

Industry refers to a cluster of business organisations engaged in production of goods or rendering services in a similar line of business.

Generally, the economy is categorised into three sectors – primary, secondary and tertiary sectors. Each sector is further divided into different industries. The industries include genetic, extractive, manufacturing, construction and services.

In Bhutan, industries are classified into three categories- Production and Manufacturing, Services and Contract.

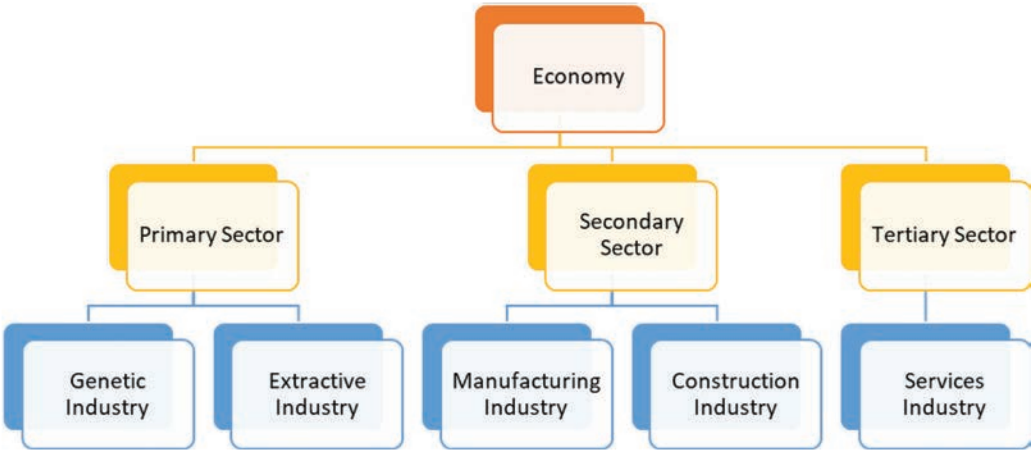


Figure 1.3 Classification of industries

a. Primary Sector

Primary sector is concerned with extraction of natural resources and reproduction of useful products for satisfaction of human wants. This sector comprises of extractive and genetic industries.

- Extractive industry: Extractive industry is engaged in the discovery and extraction of natural resources like mining, fishing, agriculture, minerals from earth, and timbers from forest. Some of the firms engaged in extractive industries are Natural Resource Development Corporation Limited, State Mining Corporation Limited, Jigme Mining Corporation Limited and Druk Satair Corporation Limited.
- Genetic Industry: Genetic industry engages in the reproduction or multiplication of certain species of plants and animals. National Centre for Aquaculture, National Jersey Breeding Farm at Samtse, KK Pullets Farms at Sarpang, Mountain Hazelnut Venture and Samtenling Agriculture Nursery are some of the entities under genetic industry.

b. Secondary sector

This sector uses the outputs of primary sector as raw materials for production of new products. It consists of manufacturing and construction industries.

- Manufacturing Industry: This industry creates form utility by converting raw-materials into finished goods. Few companies engaged in this industry in Bhutan are Bhutan Agro Industries Limited, Zimdra Food Private Limited, Penden

Cement Authority Limited and Lhaki Steel & Rolling Private Limited.

- Construction Industry: It engages in the creation of infrastructural development. This industry uses the product of manufacturing and extractive industries to construct infrastructures such as roads, dams, buildings and bridges. Nima Construction Company, Rigsar Construction Private Limited, Construction Development Corporation Limited and Lhaki Construction are some examples of firms operating in the construction industry in Bhutan.

c. Tertiary sector

Tertiary sector deals with the distribution of goods and rendering services. It is also known as the service sector. The various types of industries under this sector are transport and communication, banking and insurance, warehousing and packaging, advertising, food and lodging, and recreation. Some of the companies operating in this sector includes Bhutan Broadcasting Service Limited, Royal Insurance Corporation of Bhutan Limited, Bhutan Postal Corporation Limited and Bank of Bhutan Limited.

Learning Activity 1.3

This activity aims to facilitate the learners to identify the most vibrant industry in their localities, and analyse how these industries contribute in achieving national objectives of Bhutan.

Instructions: Referring to the National Key Result Areas (NKRAs) from the current Five-Year Plan document, select an industry of your choice from the locality and analyse how the industry contributes to attainment of the NKRAs.

Task: Make a presentation to the class.

1.4 Commerce

Commerce refers to exchange of goods and services aided by logistic activities such as transportation, banking, insurance, and warehousing for economic benefits. It connects producers and consumers, and brings goods and services from place of production to the place of consumption.

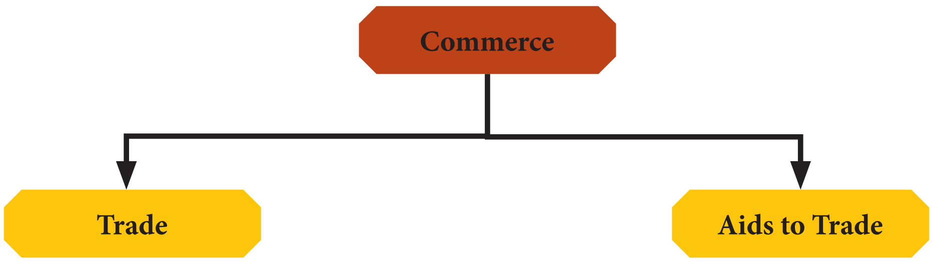


Figure 1.4 Classification of commerce

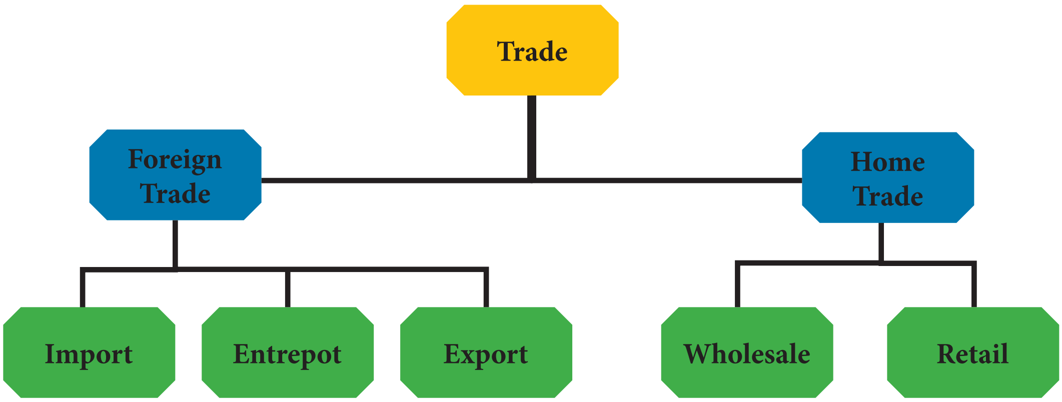


Figure 1.5 Classification of trade

a. Trade

Trade refers to the sale, transfer or exchange of goods and services. Trade is classified into home trade and foreign trade.

Learning Activity 1.4

This activity enables learners to understand the concept of home and foreign trade.

Instruction: Make a list of various trades practiced in Bhutan and classify them into home trade and foreign trade.

Task: Differentiate home trade from foreign trade. Share your answers to the class.

i. Home trade

Home trade in Bhutan are classified into:

- **Micro trade:** It is a type of trade where the average turnover is less than Nu.1 million. In Bhutan this type of trade does not require registration and license fee. Such trade is allowed after obtaining Micro Trade Registration Certificate.
- **Retail trade:** Retail trade refers to sale of goods by retailers to customers and it includes small, medium, and large retail trades. Small retail trade is a type of retail trade where the average turnover is between Nu. 1 and 5 million and a registration/ license fee of Nu. 3,000 is charged. Medium retail trade is a retail trade with average turnover ranging from Nu. 5 to 10 million. A registration/ license fee of Nu. 5,000 is charged for such trades. The retail trades with average turnover exceeding Nu. 10 million are classified as large retail trade and therefore, a higher amount of Nu. 10,000 is charged as registration/license fee.
- **Wholesale trade:** It refers to a trade where goods are procured and stored in large quantities, and sold in relatively smaller bulk quantities to the retailers. Wholesale trade is classified as large-scale trade and needs to pay a registration fee of Nu. 10,000 to start the business.

Documents used in home trade

Trade license is necessary to start both home and foreign trades. Nowadays, licensing process is done online through Government to Citizen Services Web Portal. Trade license is necessary for those traders importing and exporting commodities. It is the responsibility of every trader to renew their trade license annually. Once trade license is obtained, the traders use following approaches to procure goods:

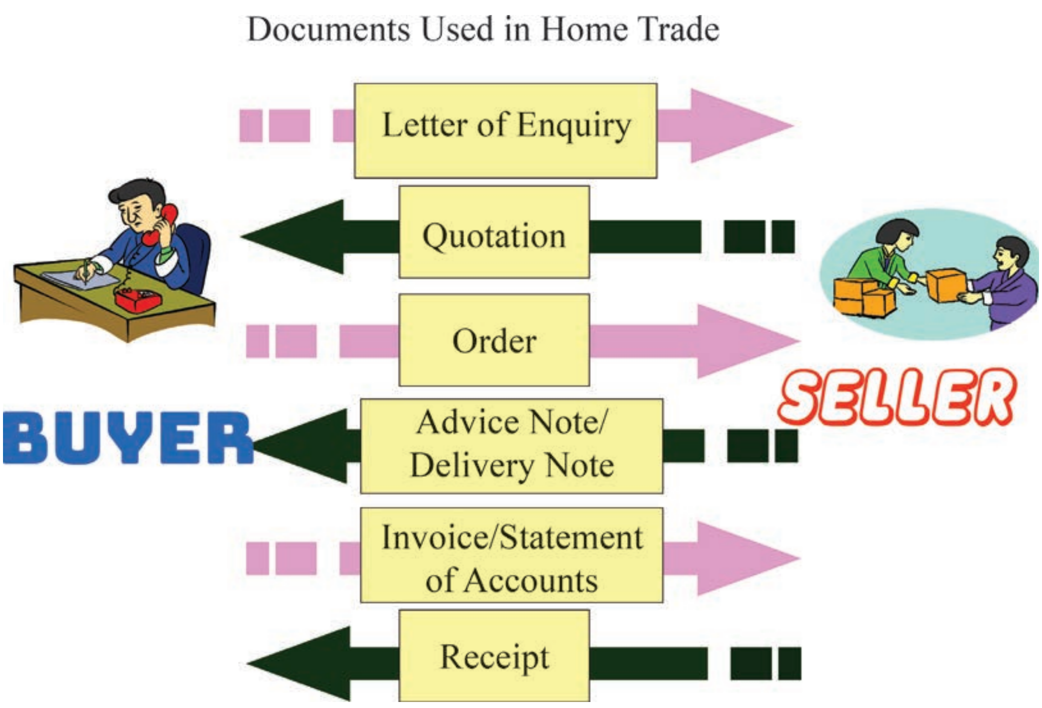


Figure 1.6 Procedure for home trade

- **Letter of enquiry:** An enquiry is seeking information about the availability of the goods required. Buyer sends letter of enquiry to obtain information about quantity, size, design, price, and terms of payment about the goods. The enquiry may be verbal, written or announced through media.
- **Quotation:** It is a response to an enquiry with the detailed description and specification through price list and catalogue of the goods enquired.
- **Order:** If a prospective buyer decides to purchase goods, an order is placed. An order is a document sent by a potential buyer to a seller requesting them to send specified goods under certain terms and conditions. Order is placed by filling an order form, writing an order letter, sending an e-mail, faxing or sending a short text message or giving a verbal order.

- **Advice note:** This is a document sent by the seller to the buyer to inform the buyer that the ordered goods have been dispatched. It contains information such as the means of delivery, a description of the goods, quantity dispatched, date, name and address of buyer and seller.
- **Invoice:** This is a document sent by the seller to demand for the payment for goods delivered or services rendered. Invoice can be cash invoice or credit invoice. The contents of an invoice include invoice number, name and address of the buyers and seller, date on which the document is prepared, details of goods repaired, unit prices of goods delivered, total value of goods, discounts if any, and E and OE (Errors and Omissions Excepted) printed at the bottom. The letters E and OE means the information in the document is not necessarily accurate and the seller reserves the right to correct any errors and omissions made in the invoice.
- **Payments:** The buyer makes remittance for goods by means of cash, bank transfer, cheque or electronic transfer.

ii. Foreign trade:

Foreign trade includes import, export and entrepot. The major exports of Bhutan are ferroalloys , carbides, dolomite, gypsum and raw plastic sheeting, and these goods are exported to 26 countries especially to India , Nepal, Germany, Italy and France. Bhutan's major imports are refined petroleum, cars, large construction vehicles, iron reductions and machineries, which are imported mostly from India, the United States, South Korea, Japan and Singapore.

Documents used in foreign trade

Foreign trade is carried out based on trade agreements signed at the national level. A business engaged in foreign trade must have a license. Trading between two countries with trade agreement does not require import permit whereas trading without trade agreement needs import permit and certificate of origin in case of export. Foreign trade requires following procedures:

- **Indent:** An order placed by the importer to exporter through an intermediary for the supply of goods is called an Indent. Names and addresses of importer/exporter(s), date of placing indent, specification and quantity of goods, mode of packing, mode of payment, and mode of shipment and insurance are included in the Indent.
- **Bill of Lading:** It is written agreement between the shipping company and the exporter. It acts as a shipping company's acknowledgment for the shipment of goods to the port of destination. The importer can collect the goods from shipping company at the ports after presenting Bill of Lading.
- **Mate's Receipt:** After the goods have been loaded on the ship, the master of the ship issues a receipt as a proof that the goods have been loaded on the ship. This receipt is known as Mate's Receipt.

- **Letter of Credit:** It is the document issued by the importer's bank to the exporter. It is a surety that the importer will make payment to the exporter through the bank. It is also called as the Letter of Undertaking, or Bank Guarantee.
- **Foreign Bills of Exchange:** It is an unconditional order to the importer to pay specified amount on demand or after the expiry of specified period to the drawer for the value of goods received.
- **Foreign Commercial Invoice:** It is a document prepared by exporter and sent to importer, which contains description of goods with their specifications, quantity, price and expenses incurred.
- **Shipping Bill:** It is a document prepared by the exporter which contains the details about the goods, port of destination, and exporter's name and addresses. This is used for obtaining custom clearance.
- **Shipping Order:** It is a document issued by the shipping company to the exporter indicating the availability of space in the ship. The shipping company then instructs the captain of the ship to receive the specified goods on board after custom clearance.

b. Aids to trade

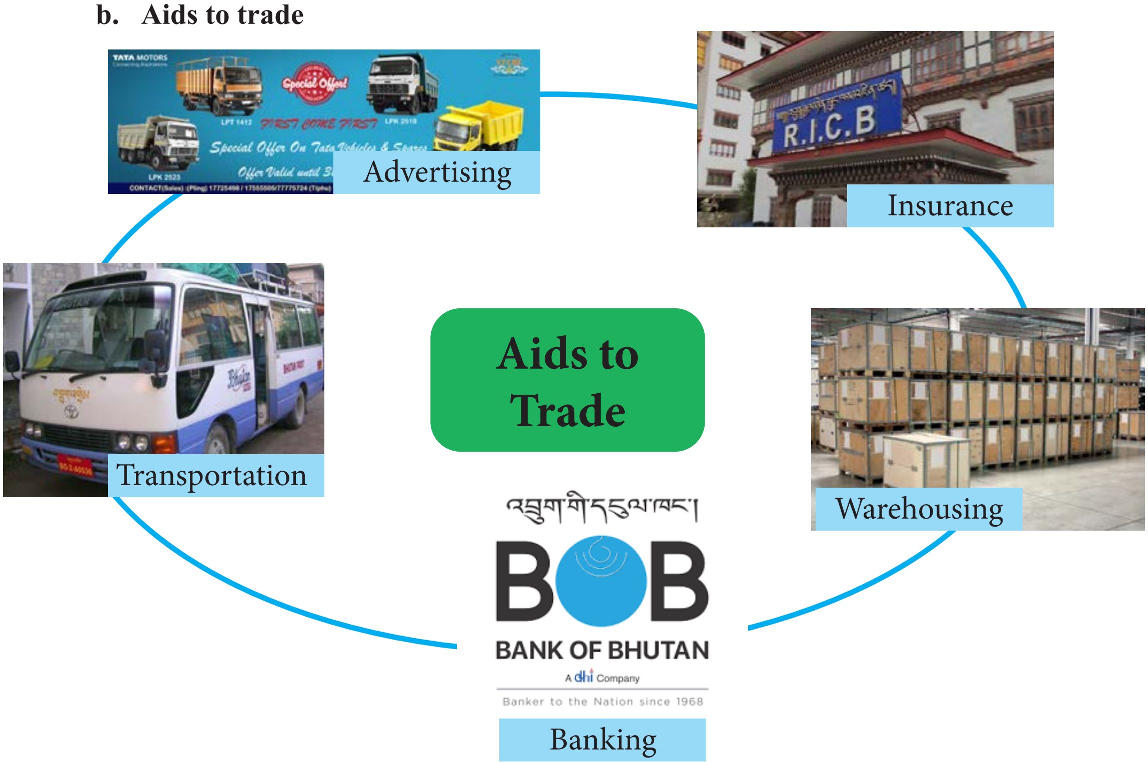


Figure 1.7 Aids to trade

These are logistic activities such as transportation, warehousing, banking and finance, insurance, and advertising which facilitate smooth flow of goods from producers to consumers. The aids to trade help in removing various problems faced in commerce. Few of the problems and the importance of logistic activities are illustrated in Figure 1.6.

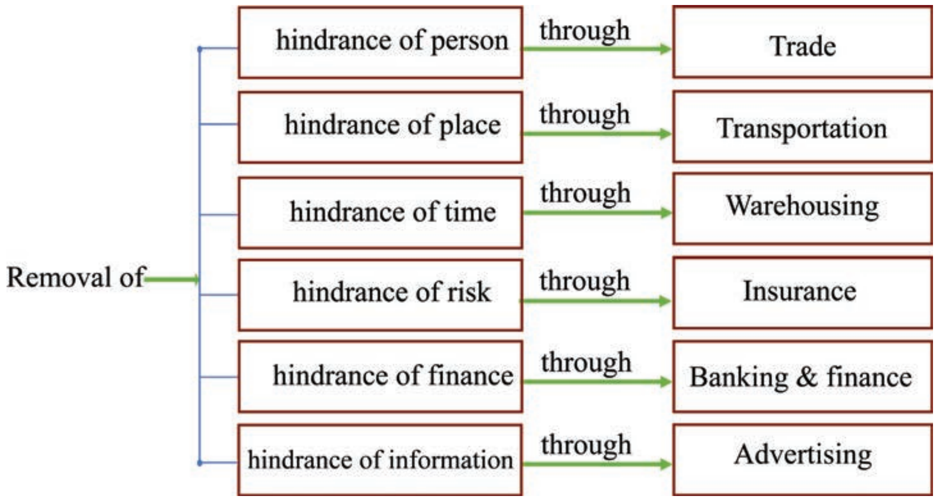


Figure 1.8 Need for aids to trade

1.5 Other Trends in Business

1.5.1 E-Business

E-business refers to conducting business activities using electronic gadgets and internet. Today, the leading e-commerce companies have become more of technology companies than online retailing company. Companies such as Amazon and Alibaba integrate emerging technologies such as machine learning and artificial intelligence for predictive analysis and virtual reality into their businesses. The proliferation of e-commerce businesses has eased the lives of customers through enabling virtual shopping which saves time and resources. However, customers must be cautioned about risk of scams or online deceptions.

Learning Activity 1.5

This activity helps learners to identify the steps involved in online business, examine the pros and cons of online business and cite examples of e-commerce businesses in Bhutan.

Instructions: Access internet and complete the given tasks.

Tasks:

Identify the steps involved in online business from both sellers' as well as buyers' perspectives. Conduct a proper analysis of pros and cons of online business and also cite few examples of e-commerce businesses in Bhutan.

a. **Types of e-commerce model**

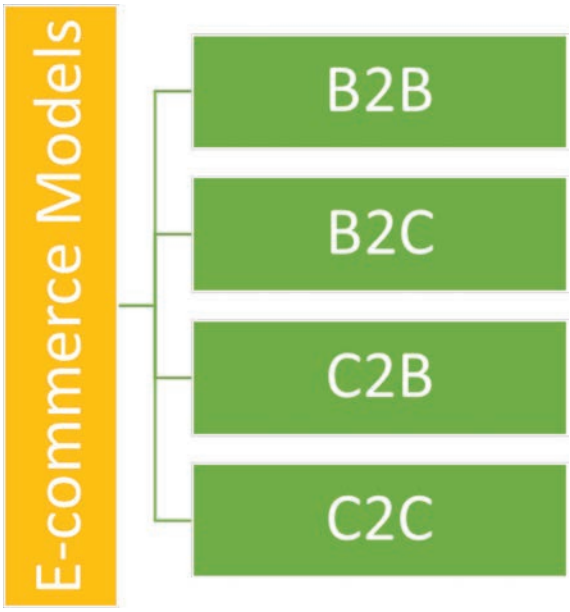


Figure 1. 9 E-commerce models

- Business to Business (B2B): In this model, both the parties involved in the transaction are business firms. For instance, a car manufacturer buying spare parts from spare-part manufacturers will fall under this model.
- Business to Consumer (B2C): B2C indicates the transaction between a business firm and its customers. Sell of groceries and other products by Sherza (a Bhutanese e-commerce firm) is an example of this model.
- Consumer to Business (C2B): C2B e-commerce is when businesses pay for the services rendered by the consumers. For examples, companies may reward customers for taking part in co-creation of products and providing reviews.
- Consumer to Consumer (C2C): This consists of electronic transactions of products and services between two consumers. Here, businesses are not involved in the transaction. Classified sections of newspapers selling goods and services, and transactions on different Facebook groups facilitating sale and purchase of second-hand goods are common examples.

1.5.2 Outsourcing

Outsourcing is a business practice in which a company hires another company or an individual to perform tasks, handle operations or provide services that were previously been done by the company's own employees. Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) are common outsourcing practices.

a. Business Process Outsourcing (BPO)

BPO means getting task accomplished through an outside agency. BPO is also known as Information Technology Enabled Services (ITES). The Bhutan Industry Association for Business Process Outsourcing (BIABPO) is the promotional and coordinating body for the BPO industry in Bhutan. Few examples of BPO services are as given in Figure 1.10.

Figure 1.10 Examples of BPO Services

b. Knowledge Process Outsourcing (KPO)

It is a form of outsourcing in which knowledge and information related work of one company is carried out by workers in another company. Companies may resort to KPO when they are short of their own skilled employees or professionals, or sees an opportunity for reducing cost by hiring another company to get the job done. Few examples of KPO services are given in Figure 1.11.

Figure 1.11 Examples of KPO Services

1.6 Ethical Business Practices and Social Responsibilities

Businesses must ensure compliance with applicable rules, regulations and laws. In addition, the businesses are also expected to be ethical in conduct of their business, and fulfill their social responsibilities.

Ethics are a set of moral values, conduct and principles widely accepted by the society. Business ethics refer to the ethical behaviour and conduct of business practices in pursuing their objectives and serving different sections of the society. Ethical business behavior improves public image, creates consumer satisfaction, develops good relationship with stakeholders and earns public acceptance, confidence and trust.

Social responsibility refers to the responsibilities of the businesses in meeting the societal claims and expectations. The Company Guidelines on Corporate Social Responsibilities (CSR), Druk Holding and Investments Limited, 2013 categorises CSR activities into three, namely legal compliance, operational and charitable contributions.

a. Legal Compliance

This refers to the responsibilities of the businesses in ensuring adherence to the applicable rules, regulations and law.

b. Operational Responsibilities

This pertains to the responsibilities of the businesses in ensuring their operational efficiency and effectiveness, and also minimising footprints on the society and environment. It consists of business practices such as optimising resource usage, reducing cost, reducing consumption of energy and water, reducing waste, and overall ecosystem management.

c. Charitable Contributions

This relates to the philanthropic or discretionary responsibilities of the business towards the society. It includes both charitable contributions in monetary form and non-monetary contributions such as monetary sponsorships, in-kind donations and discounted or free services.

Learning Activity 1.6

This activity aims to explore some issues on ethical business practices in Bhutan and analyse social responsibilities for different stakeholders.

Instruction: Explore and choose a case related to business ethics in Bhutan and complete the given tasks.

Tasks:

1. Identify and discuss some of the ethical/unethical business practices based on the chosen case.
2. If you want to start a business, what social responsibilities would you consider to fulfill and why?

Chapter Review

1. Describe business in your own words.
2. Explain the key objectives of business.
3. Discuss the classification of industry and commerce.
4. Discuss the emerging business practices.
5. Corporate Social Responsibility must be made compulsory. Support or argue with justifications.

Chapter 2

2. Operations and Supply Chain Management

Learning Objectives:

- Describe the concept of operations
- Differentiate between manufacturing and service operations
- Explain the concept of supply chain
- Explain the elements, process and objectives of supply chain
- Explain the concept and purpose of inventory management

2.1 Concept of operations

Operations is one of the essential elements of a supply chain. It refers to the business activities that a firm engages in to produce and deliver products or services. Every organisation has operations because it produces and delivers some type of products or services. For example, a manufacturing company purchases raw materials and converts those materials into intermediate or finished products. Generally, operations use an 'input-transformation-output' process to produce and deliver products or services. This means, operations carry out a function of sourcing input resources and transforming these resources into outputs in the form of products or services as shown in Figure 2.1.

Figure 2.1 Operations process

Figure 2.2 illustrates the operations process followed in the Green Road, Bhutan.

Collection of raw materials from landfill at 'Memelakha' such as plastic carry-bags, plastic wrappers, and disposable cups.

Segregation of the raw materials col-lected. Grouping the materials into plastic carry-bags, plastic wrappers and disposable cups separately.

Shredding the materials collected. Plastics collected are shredded or cut into required size. Wastes are shred-ded between 5mm and 8mm.

Processing the shredded waste in machine and mixed with hot gravels to convert into finished product.

Final product is ready to be used for making roads

Mixture is transferred to the road and road is laid

Figure 2.2 Operations process of Green Road, Bhutan

The given example of operations process relates to manufacturing of a physical product. Although in all operations, 'input-transformation-output' model apply, the process may differ from one organisation to another due to use of a specific nature of input resources and the expected outputs. As such, the process for rendering a service may differ from the process followed in manufacturing a physical product. For instance, the process used in building road by the Green Road differs from the processes observed in the of opening of a bank account or availing a flight service.

For example, Figure 2.3. represents the general operations process used in flight service.

Figure 2.3 Operations process used in flight service.

Learning Activity 2.1

This activity aims at facilitating learners to understand the operations flow in service firm and distinguish it from manufacturing firm.

Instructions: Examine operations process involved in any service firm other than aviation and complete the following tasks.

Tasks:

1. Draw a flow chart of operations of chosen service firm.
2. Explain the differences between manufacturing and service operations.

2.2 Concept of supply chain

Supply chain refers to a business network that links manufacturer with its key partners such as suppliers and distributors for fulfilling the demands of the end users. It consists of gathering necessary materials from the suppliers, transforming materials into finished goods by the manufacturer, distributing the finished goods through wholesalers and retailers, and reaching it to customers. It also includes the third party services like finance, insurance and customer services. Supply chain creates place, time, form and possession utility.

According to Handfield and Nichols, the supply chain "encompasses all those organisations and activities associated with the flow and transformation of goods from the raw materials stage through to the end user, as well as the associated information flow". They also define supply chain management as "the integration and management of supply chain organisations and activities through cooperative organisational relationships".

A basic supply chain can be viewed as follows:

Figure 2.4 Basic supply chain

Consider a case of a newly married couple with their basic demand for necessary items such as kitchen utensils and crockeries. The supply chain begins with the customer and their need for these appliances. The next stage of this supply chain is the retail store that the customer visits. Retailer stocks its inventory of these items that may have been sourced from a wholesaler. The wholesaler in turn gathers its inventory from the manufacturers. Consequently, the manufacturers receive raw material from a variety of suppliers.

Through a supply chain, the partners add value at each stage of supply chain for final delivery of the products to end consumers. This is followed by rendering of after sales services by the manufacturer or its representatives. Thus, the overall goal of any supply chain is to fulfill the end-consumers' needs and expectations in a cost-effective manner.

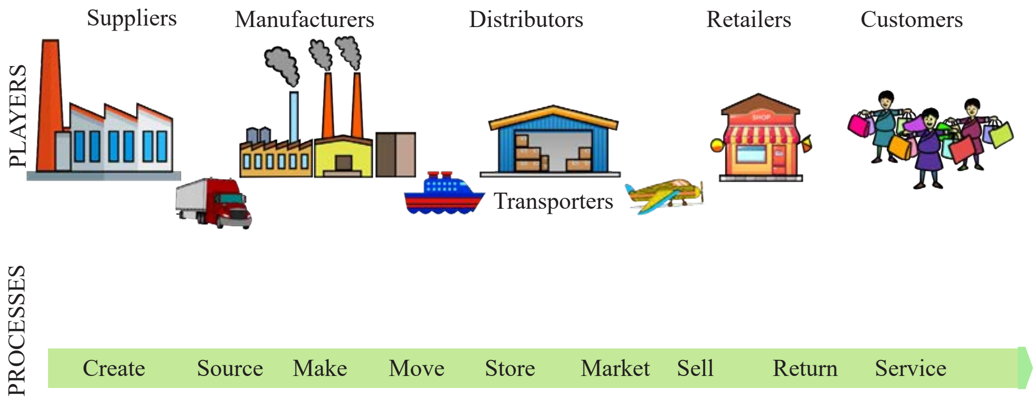
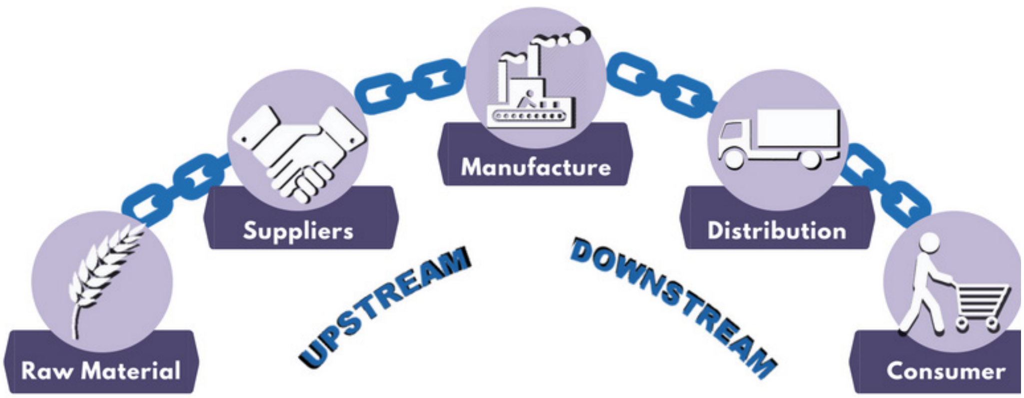


Figure 2.5 Supply chain (players and processes)



Upstream: Upstream supply chain shows the relationship between manufacturer and suppliers. This includes supply of raw materials, machineries, technologies and technical knowhow to the manufacturer by suppliers. It also relates to relationship with the supplier of suppliers.

Downstream: Downstream supply chain represents the relationship between the manufacturer and distributors in fulfilling the customers' demand. This includes transportation of finished goods to the distributors and further to the customers. In some cases, the company also sells by-products to other companies. In such cases, down-stream of one company becomes upstream of another company.

Supply chain plays a vital role in the success and competitive position of any business organisation in the market. An efficient supply chain is paramount for smooth functioning and achieving operational efficiency. The importance of efficient supply chain includes but is not limited to the following:

- Meeting customer demand
- Improving sales/revenues for the company
- Reducing operating cost
- Building and sustaining trust amongst players in the supply chain process
- Providing better medium for information sharing amongst players
- Improving customer satisfaction

2.2.1. Elements of supply chain

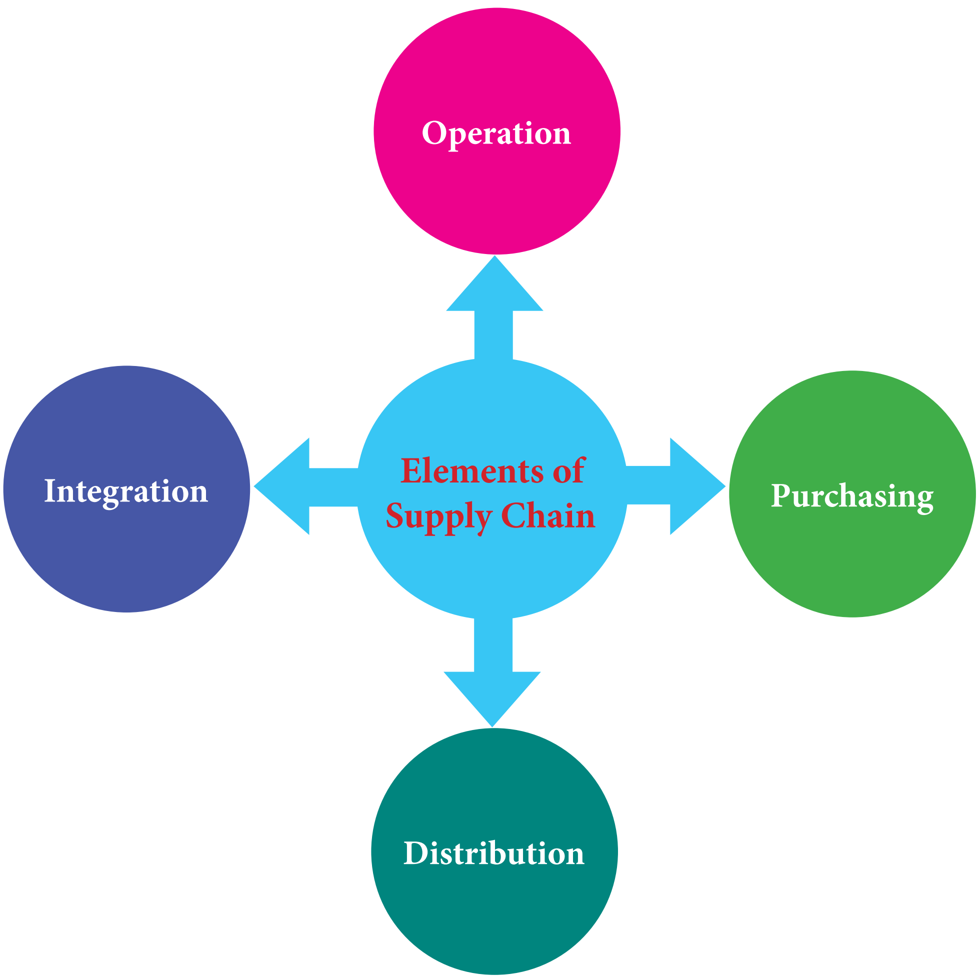


Figure 2.6 Elements of supply chain

Integration: Integration refers to the process of uniting the key partners involved in the supply chain by ensuring clarity of roles among the partners and fulfilling them through proper coordination. Integration enables a business to foster an effective supply chain. A vibrant communication network for sharing information pertaining to customer needs and the individual roles is important for ensuring proper integration. Enhanced integration helps in minimising errors, saving time and cost, and making the supply chain efficient.

Operations: Operations refers to the process of transforming raw materials into finished goods by the manufacturer. An efficient operation facilities, process, and system of the manufacturer are essential for a vibrant supply chain. An efficient operation system entails minimising errors, reducing wastage, saving time and cost, and ensuring optimal utilisation of resources and facilities.

Purchasing: The purchasing element of supply chain ensures that the manufacturer has all resources required for the production of the products, including materials, supplies, tools and equipment. It also involves maintaining right level of stock/inventory which is required for ensuring uninterrupted production.

Distribution: It refers to the flow of goods and services from the manufacturer to the customers. The supply chain ends when these goods and services reach the retailers from where customers can buy. Today, many companies use logistics software to manage their shipments, while others handle it on their own or outsource to a third-party. Some examples of logistic companies are FedEx, DHL, Bhutan Postal Corporation Limited, etc.

2.2.2. Supply chain process

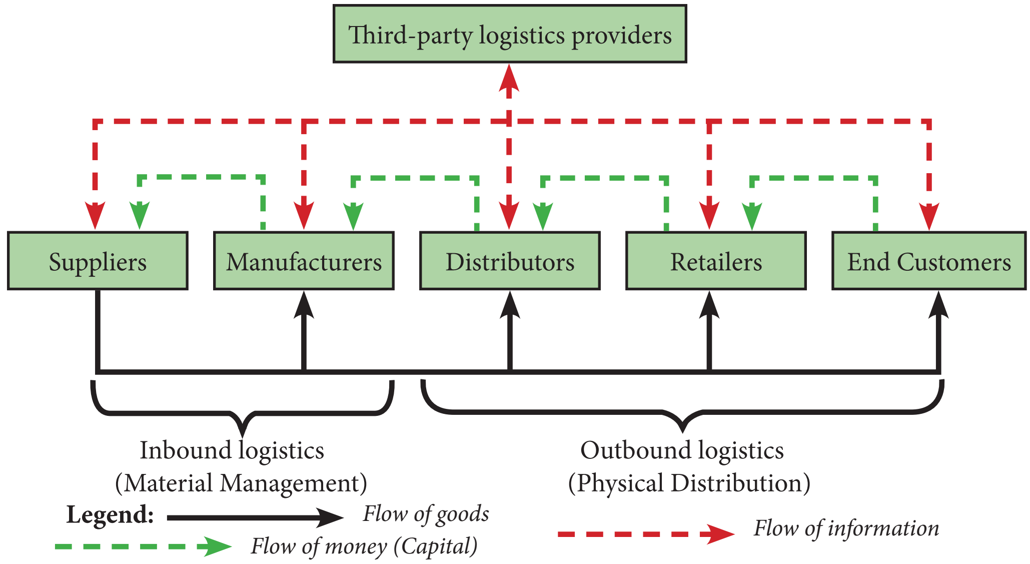


Figure 2.7 Supply chain process

A basic representation of a supply chain involves five stages of flow of raw materials or goods from suppliers to the final customers. The stage from supplier to manufacturer relates to inbound logistics and material management. Likewise, the stage from manufacturer to customers relates to outbound logistics and physical distribution. Figure 2.7 depicts flow of goods, flow of information and flow of money from one partner to another involved in supply chain.

Flow of goods consists of shipment of raw materials from suppliers to manufacturers and finished goods from the manufacturers through distributors and retailers to end customers. The supply chain also relies on network and logistic services such as warehousing, packing, shipping, and insurance rendered by the third parties. A reverse sequential flow of money takes place from customers to distributors, manufacturers and suppliers as shown in the Figure 2.7 for the purchase of goods. However, the order of payment and flow of money may differ based on credit and payment policies of the partners.

Make or Buy Decisions

One of the important decisions in supply chain management is related to make or buy decisions. These decisions involve making a choice of whether to undertake the business activity of producing or delivering a service required for business by the firm itself or subcontract or outsource such activity to another. Generally, a firm will not outsource supply of core activities since these business activities are the main areas of competitive advantage of the firm. For example, a firm may outsource its payroll service to an external firm that specialises in such functional services. There are advantages as well as disadvantages for outsourcing business activities.

Advantages of outsourcing

- There are opportunities of reducing cost of undertaking that activity by an external specialist supplier.
- A firm can receive better quality products or services because of the expertise of the supplier.
- The management effort can be released for undertaking core business activities.

Disadvantages of outsourcing

- The outsourcing can increase transaction and other non-monetary cost such as time and administrative cost.
- There is also a potential risk of adversarial relationship between customer and supplier.

Learning Activity 2.2

This activity aims at facilitating learners to understand the concept of make/buy decision in supply chain.

Instructions: Read “Make or Buy Decisions” and complete the given tasks.

Tasks:

1. Identify supply chain of your school and share with the class. Use a flow chart to depict each partner organisation across the supply chain.
2. Classify the activities which are handled by the school and outsourced by the school.

2.3 Concept of Inventory Management

Inventory management is a component of supply chain, which relates to supervision of flow of materials from the suppliers to the manufacturers, flow of goods from manufacturers to warehouse and subsequently from the warehouse to the point of sale. Thus, inventory management involve sourcing of inventories and maintaining an appropriate level of inventories so that the firm is able to serve the demand of the customers at the minimum cost. Inventory management is also an important part of working capital management of the organisation.

According to Bhutanese Accounting Standard 2 (BAS-2), inventories are assets:

a. held for sale in the ordinary course of business;

b. in the process of production for such sale; or

c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories include materials for production of goods, semi-finished goods which are in the process of production and finished goods which are ready for sale. Inventories also include items such as loose tools and spare parts that are used in providing services or for maintenance of other long-term assets.

Maintenance of appropriate stock levels is paramount for effective operation of business. Inventories currently held by an organisation without using it is an idle resource that will cost the organisation. However, organisations hold inventories to:

i. meet the ongoing demand of customers;
ii. avoid disruption in the production of goods;
iii. meet a minimum order size of the suppliers; and
iv. qualify for a minimum order quantity for suppliers' discount.

The costs involved in inventory management are:

i. cost of holding inventories such as warehouse charges, insurance, supervision and security costs;
ii. cost of ordering or delivery costs;
iii. cost of purchase of inventories; and
iv. shortage costs due to shortage of inventories (also called stock out) and loss of revenue and damage of relationship with customers.

The objective of inventory management is to reduce these costs to the minimum level without compromising the quality of products to the end-consumers.

The level of inventory should be such that the total cost of ordering and holding inventory is the least and simultaneously stock out cost is minimal. Therefore, businesses must set minimum safety stock level, reorder level and ordering quantity. Nowadays, companies manage their inventory using computer systems and softwares such as Enterprise Resource Planning (ERP) and spreadsheets to maintain a database of the inventory.

Learning Activity 2.3

This activity intends to help learners explore the merits and demerits of using computerised software/system for inventory management.

Instruction: Explore usage of computerised system for inventory management.

Task:

Discuss the merits and demerits of using computerised software/system for inventory management.

2.3.1 Inventory management approaches

The different approaches to inventory management are:

- Economic Order Quantity (EOQ)

It is a method used in inventory management that determines the optimum or most favourable quantity of inventory to be bought at each order to minimise inventory costs such as ordering cost and carrying cost. The EOQ can be determined with help of following formula:

$$EOQ=\sqrt{\frac{2UO}{C}}$$

Where:

U = annual usage in units (Demand)

O = ordering cost

C = carrying cost

Ordering cost refers to the cost incurred every time the business places an order. It consists of order processing cost and inbound logistic costs. The order processing cost includes fees for placing the order and all kinds of costs related to invoice processing, communication and accounting. The inbound logistic cost includes cost related to transportation, unloading and inspection.

Carrying cost relates to costs associated with financing (cost of capital), storage and insurance, etc.

A retail clothing shop deals in a line of socks, and the shop sells 1,000 pairs of socks each year. It costs the company Nu. 5 per year as carrying cost for a pair of socks in inventory, and the fixed cost to place an order is Nu. 2.

$$Q=\sqrt{\frac{2UO}{C}}$$

$$Q=\sqrt{\frac{2 \times 1000 \times 2}{5}} = 28.3$$

Therefore, the ideal order size to minimize costs and meet customer demand is more than 28 pairs of socks.

- Just-In-Time (JIT)

JIT is just what the name suggests. Parts or raw materials are ordered as and when they are needed in the production process. It is a strategy to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs. In other words, JIT inventory refers to an inventory management system with objectives of having inventory readily available to meet demand. This means, inventory orders and production schedules are based on customers' demands and goods are produced when there is demand for it.

For example, Burger King franchisers keep a substantial inventory of hamburger ingredients on hand all the time, but a hamburger is only cooked when it is ordered. This saves waste and provide fresh burger.

In order to achieve the objectives of JIT system of inventory management, the organisation must meet the following basic conditions:

i. a reliable supplier who can respond to their orders promptly.

ii. flexible workforce which means the workers should be willing to work anytime and any extent to produce goods as per customers' demand.

iii. a factory layout that allows the movement of materials, work in progress and finished goods swiftly from stores to production sites and then to a warehouse where finished goods will be stored so that the overall inventory cost is reduced to the lowest possible level.

- First-In, First-Out (FIFO)

FIFO is an inventory costing method that assumes that the first items placed in inventory are the first sold. Thus, the inventory at the end of a year consists of the goods most recently placed in inventory. It is an inventory valuation method used widely around the world.

Kakuru Ltd purchased 10 books during the month of January and sold 6 books, details of which are as follows:

January 1: Purchased 5 books @ Nu. 50 each

January 5: Sold 2 books

January 10: Sold 1 book

January 15: Purchased 5 books @ Nu. 70 each

January 25: Sold 3 books

The value of 4 books held as inventory at the end of January may be calculated as follows:

Date	Purchase			Issue (CoGS)			Inventory		
	Units	Nu/Units	Nu Total	Units	Nu/Units	Nu Total	Units	Nu/Units	Nu Total
Jan 1	5	50	250				5	50	250
Jan 5				2	50	100	3	50	150
Jan 10				1	50	50	2	50	100
Jan 15	5	70	350				5	70	350
Jan 15							7		450
Jan 25				2	50	100			
				1	70	70	4	70	280

As can be seen from the above illustration, the inventory cost under FIFO method relates to the cost of the latest purchases, that is Nu. 70.

Learning Activity 2.4

This activity will encourage learners to discover the benefits of automating inventory management and challenges resulting from improper inventory management.

Instruction: Read the given extract and complete the task.

Inventory Management at Jarikoto

Jarikoto Herbal Tea Company started a small tea manufacturing plant with a few staff. With-in a short span of time, the domestic demand for herbal tea increased. Further, owing to the authentic taste and organic nature of the tea, the demand from foreign customers also picked up. This resulted in expansion of the company's operation capacity, increased workforce and up gradation of the plant. Despite the increase in demand, the company relied on the manual approach of inventory management, resulting in operational inefficiency and ineffectiveness. Wastage of resources, increasing storage and labour costs, fragmented reporting and communication network and misrepresentation were proliferating in the company.

Task:

Considering that you are the newly appointed operations manager, suggest how these issues can be addressed through automation of inventory management system.

Chapter Review

1. Explain operations.
2. Discuss how manufacturing operations is different from service operations.
3. Discuss how operations necessitate supply chain in a business.
4. Describe the different approaches to inventory management that an organisation can use to ensure effective management of the inventory.

Chapter 3

3. Business Model

Learning objectives:

- Explain the meaning of business model
- Discuss various types of business models
- Explain the components of Business Model Canvas

Learning activity 3.1

This activity aims to make the learner discover the key segments of the business model.

Instruction: Identify all the key components in the business, that you feel has contributed toward the success of the business in the case 'Youth in Agriculture' and complete the given task.

Adapted from Yeewong Magazine, issue December 2018

Youth in Agriculture

Kinzang Duba, along with some friends, started the project 'Door to Door' to deliver locally grown vegetables around Babesa, Thimphu.

It was through this project that they discovered there was a huge demand for local produce. Since his school days, Kinzang Duba has always been interested in projects that could be both socially and ecologically beneficial. Therefore, establishing an organic farm was the best way to fulfil his dreams and those of his childhood friends.

However, none of them had any farming experience and they learned everything from scratch. Growing vegetables on an 80-decimal plot of land in Tshimasham, Chukha in 2015, the group that calls themselves the Youth in Agriculture Programme (YiAP) enjoyed a bumper harvest.

The YiAP has received support from the government and other agencies. It received a grant of Nu. 275,000 from the Labour Ministry and the UNDP. Additionally, the Loden Foundation provided interest-free loan of Nu. 490,000 and the Dzongkhag (district) Administration of Chhukha provided the young farmers with Nu. 500,000.

"We piloted with different varieties of vegetables from radish, tomato, onion to cabbage, and learnt that there is a market", said Kinzang Duba. They earned Nu. 70,000 from supplying vegetables to the Gedu College of Business and other buyers in their first year of farming.

Kinzang says that it is sometimes a struggle to avoid chemical fertilizers but for him and his friends, organic farming is both a source of income and an act of spiritual fulfilment, which is in tune with Buddhist values and Gross National Happiness.

For Bhutan, sustainability has always been a prime concern and organic agriculture is the heart of the movement as more than 60% of the Bhutanese people rely on agriculture farming. In 2007, Bhutan's New Agricultural Policy (Development of Organic Agriculture) which envisioned the country to fully convert to organic by 2020 was announced. The traditional agricultural techniques in Bhutan is organic by nature, thus making it relatively easy for farmers to apply organic farming methods.

The YiAP members said that the larger dream of the project is to curb vegetable shortage in Bhutan by using fallow land. They also want to spread the message that sustainable agriculture can be an intervention to solve youth unemployment in the country.

"I encourage youth to take up organic farming to have healthy food, reduce imports, create jobs and take over the role from aging farmers", said Kinzang.

Task:

Select a partner next to you and discuss about what constitutes business model.

3.1 Concept of Business Model

Business model refers to the approach businesses adopt to identify and serve customer needs for earning returns. Osterwalder and Pigneur (2017) define business model as the rationale of how an organisation creates, delivers and captures value. It involves:

- identification of customers that the business aims to serve,
- production and delivery of value proposition through an appropriate channel,
- maintaining a mutually beneficial relationship with the customers,
- identification of revenue streams,
- noting the essential activities required to be undertaken for production and delivery of the value proposition,
- partnering with the stakeholders that provide resources to the business, and
- computation of cost involved in production and delivery of the value proposition.

Through unique and superior business models, businesses offer customers better value compared to competitors and earn returns. Following are some of the commonly used business models:

a. Crowdsourcing

Crowdsourcing is a process of generating ideas or funds from a large group of people mostly through an online system. This model uses contribution from different people to obtain services or ideas. It engages people in sharing ideas, co-creating and translating ideas into businesses resulting in innovation, cost saving and increase in efficiency.

Lay's is one of the world's largest chips brands owned by PepsiCo Inc. The company conducted a crowdsourcing campaign titled 'Do Us a Flavor'. The campaign encouraged customers to create their own new flavor for chips and shared online. This enabled the company to come up with new chips flavors such as Cheesy Garlic Bread, Chicken & Waffles and Sriracha. Another popular example of successful crowdsourcing model is development of Google Maps by Google.

b. Freemium

It is a model in which digital products such as games, anti-virus and other softwares and applications, which are initially given free of cost with an expectation of making money later while upgrading the features and services. The users are given right to use only the basic features of the product initially.

The word freemium is a blend of the words 'free' and 'premium'. It describes a business model which provides products with basic functionality and services free of cost but charges a premium price for more advanced and value-added functionalities and services. Free antivirus software, Dropbox and Skype are few examples.

c. Subscription

Subscription is a business model in which the customers pay for the products at a regular interval. Instead of paying per product or every time a customer uses the service, the subscription fee is paid in advance for a longer period of time.

Subscriptions for receiving a newspaper, accessing television programme, video streaming on Netflix and unlimited music streaming subscriptions on Spotify are some examples.

d. Franchise

A franchise is a license granted to an individual or a company (franchisee) by a party (franchisor) owning the brand to have access to their business proprietary knowledge, processes, trademarks and to sell products under its name within a territory or a region. Few examples of companies which operate on this model are McDonald's, CoCa Cola and 7-Eleven.

e. Aggregator

Aggregator business model is a network from where a business collects the information about the goods or services provider and makes the service provider its partner. The business then sells the goods and services under its brand name. This type of business model is pursued by signing a contract with the partner(s). For instance, big companies such as Uber, Airbnb and Amazon do not own taxi, apartment and inventory of their own respectively, instead they depend on the taxi owners, apartment owners and suppliers for generating huge sales.

f. E- Commerce

Electronic commerce is also one of the business models which has been discussed in chapter one of this textbook.

g. Blockchain

Blockchain is a time-stamped series of absolute data records that is managed by a cluster of computers not owned by any single entity. Each of these data blocks is secured using cryptographic principle (i.e. chain) which binds them together. It is a technology that can enable individuals and businesses to make instant transactions over a network without intermediaries (if they are decentralised). Transactions made on blockchain are fully recorded and secured. Several businesses have embarked on a new business model that is based on blockchain.

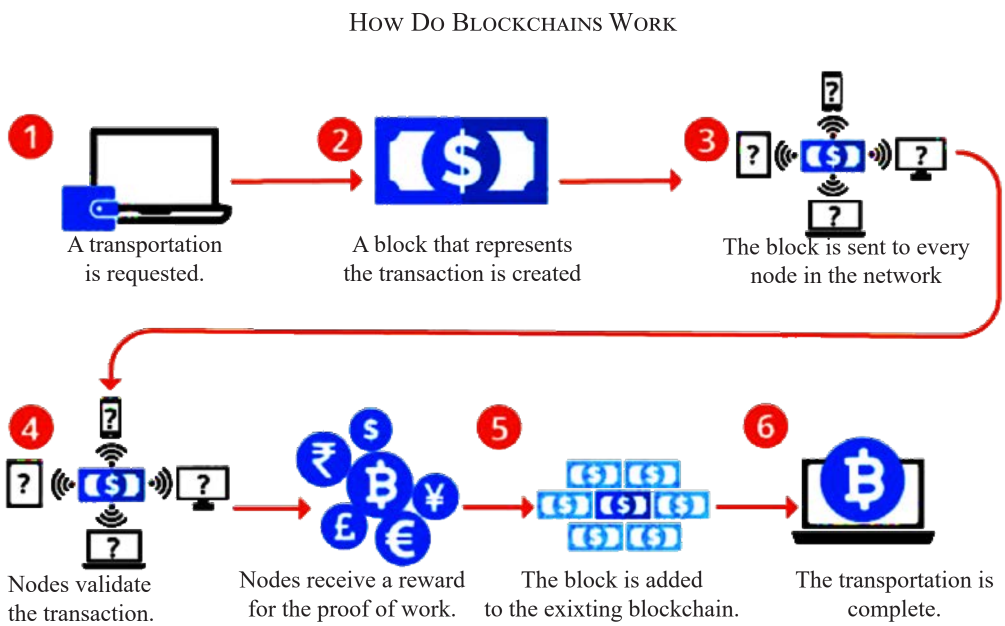


Figure 3.1 Representation of how a blockchain works

The blockchain is used to secure transfer of items such as money, contracts and property without requiring an intermediary such as bank or government.

3.2 Business Model Canvas (BMC)

BMC is a template for developing new or documenting existing business models. It is a tool that helps to get a simple and structured understanding of a business model. The canvas will provide a company with insights into the customers they serve, what value propositions are offered through which channels and how companies make money. Business model is essential for every business to structure the approach of conducting business. Alexander Osterwalder and Yves Pigneur developed a template comprising of nine building blocks of business model in their book titled 'Business Model Generation'.

BMC provides a structure of organising business ideas, exploring revenue prospects and cost involved and developing essential partnerships for realising objectives of the business. Each of the nine blocks focuses on a different factor that a business needs to consider. It is important to remember that these blocks are highly interrelated, and if a change is made in one block, a review of the other blocks must be done for any related item that may need to be changed as well. Figure 3.2 illustrates the template of BMC.

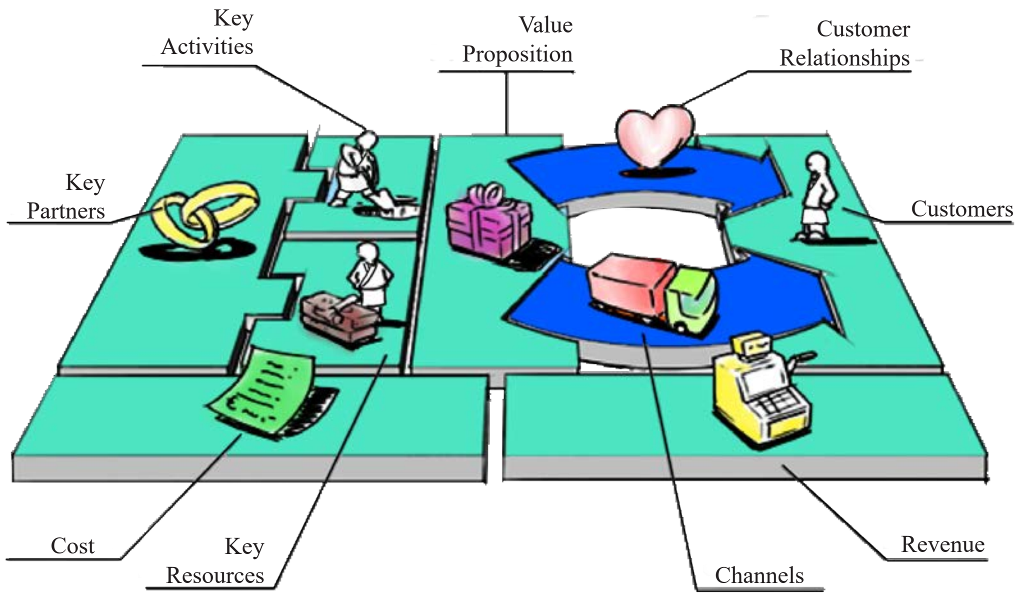
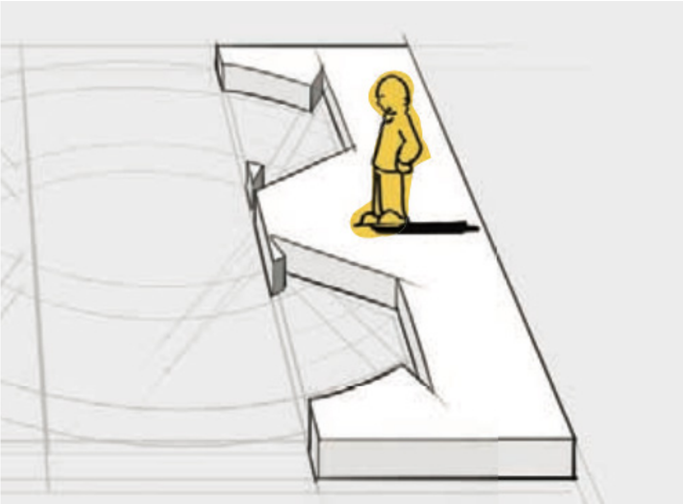


Figure 3.2 Business Model Canvas template

Each of the nine building blocks of BMC is described as follows:

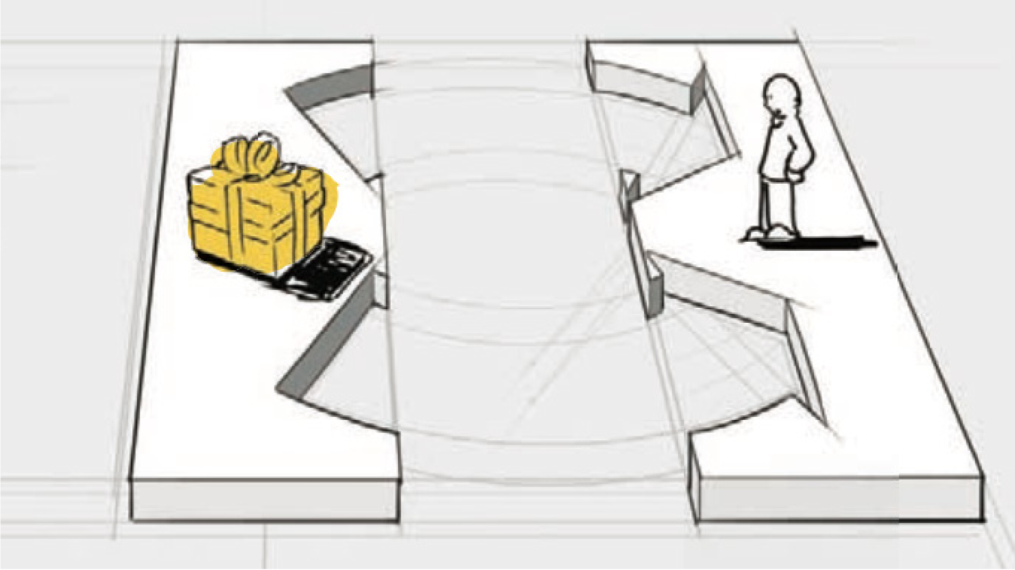
1. Customer Segment

A customer segment is a group of individuals or organisations that a business seeks to reach and serve. Customers make up the heart of any business model and without them no company can operate. Businesses typically group customers into segments distinguished by common needs, behaviors or other attributes to serve them better.



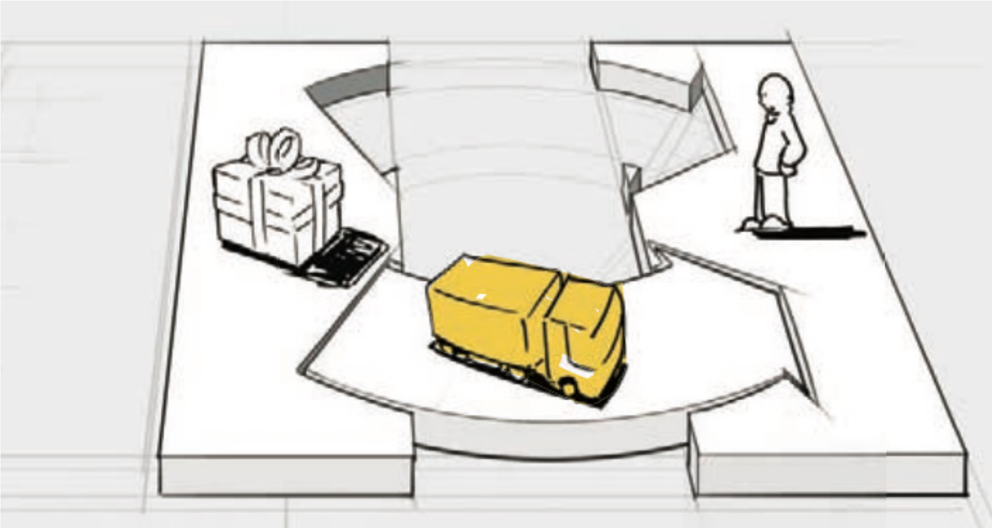
2. Value Proposition

The value proposition refers to the products and associated services offered by the business to fulfill customer needs. The value proposition should describe how the product solves customer problems, benefits the customers can expect and why customers should buy from one business over its competitors. Unique and superior value proposition distinguishes and gives a competitive edge to the business over its competitors.



3. Channel

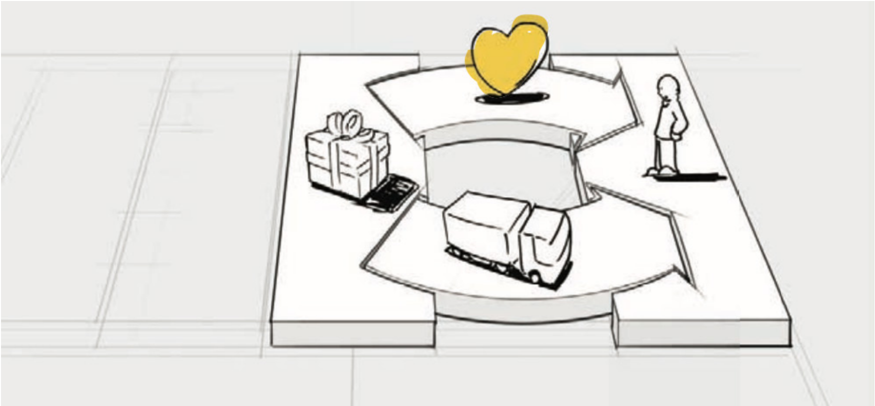
The channel describes how a company communicates to deliver its value proposition and reach out to its customer segment. It is important to understand which pathway (or channel) is best for the business to reach its customers.



A company can select between reaching its consumers either through its own network (B2C), Partner channel (B2B) or through a mix of both. In a broad sense, channel not only includes the mode of transportation but also medium such as websites, social media and other promotional mix through which the business communicates with its customers.

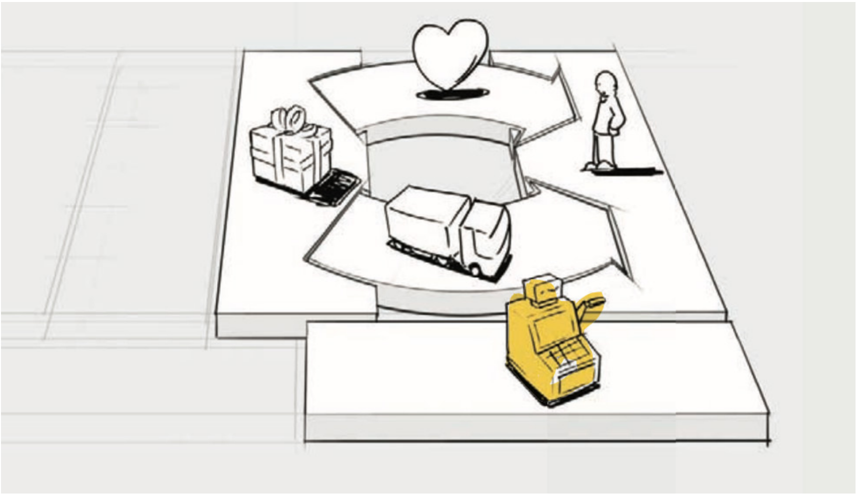
4. Customer Relationship

Customer relationship describes the nature of relation a business has with its customers. It helps in customer acquisition and retention to boost sales. Customer relationship could be improved through personal assistance, automated services, self-service and co-creation to deliver unmatched user experience.



5. Revenue Stream

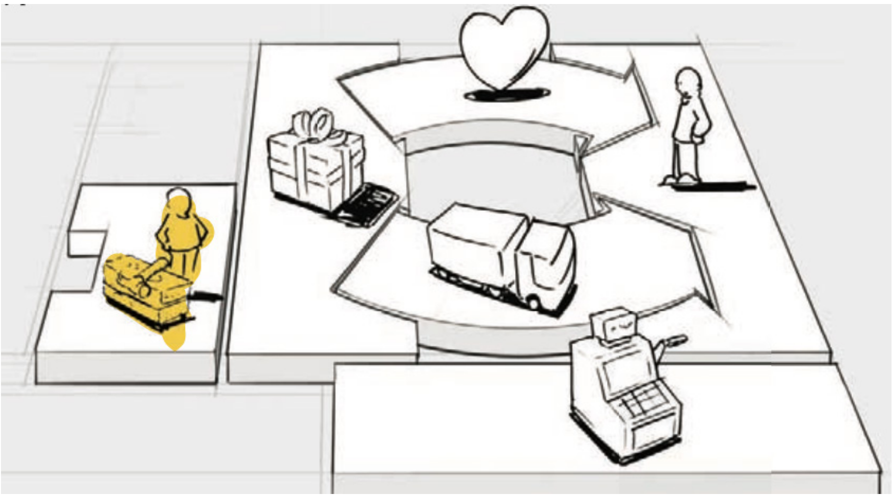
Revenue stream represents the cash that a business generates from each customer segment. Revenue model is the end product for ascertaining the revenue generated by the business.



Mostly, it is thought that businesses generate revenue through sale of goods and services. However, there are several other ways a business can generate revenue such as sale of assets, usage fee, subscription fee, renting, leasing and licensing.

6. Key Resources

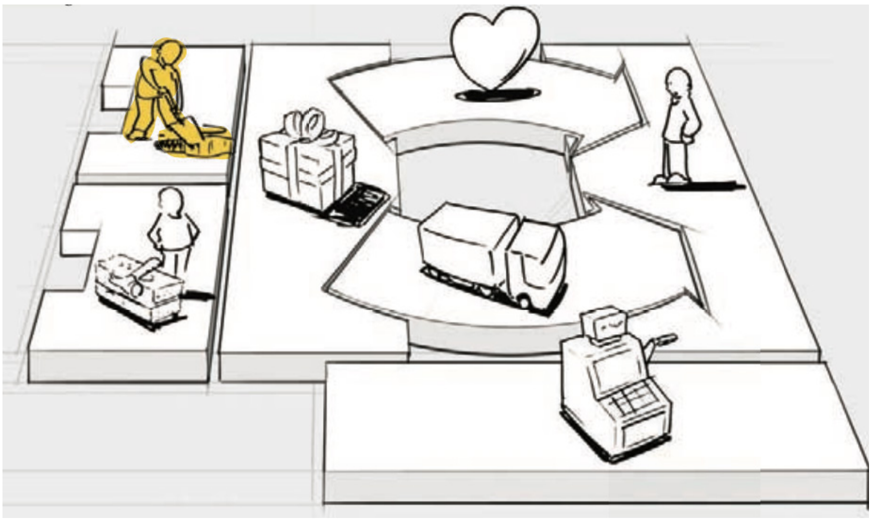
Key resources are the most important assets needed to make a business model work. Key resources can be intellectual, financial, physical or human. A car manufacturer needs capital intensive production facilities, whereas a car designer depends more on the human resources.



Every model requires key resources and it is only through them that businesses generate value proposition and revenue.

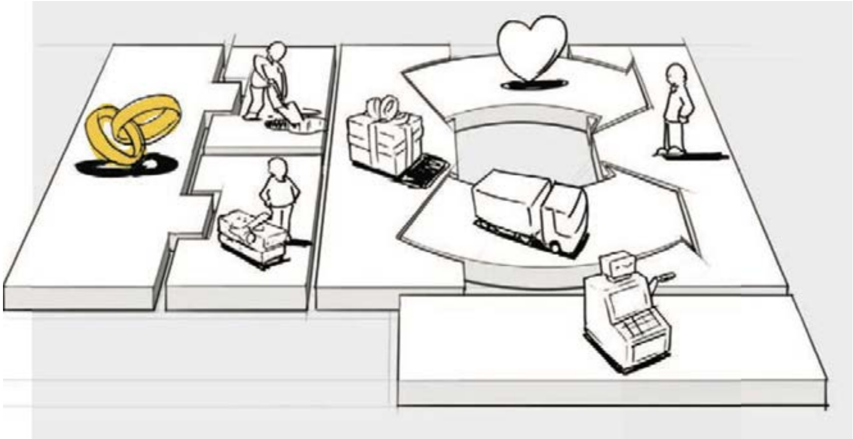
7. Key Activities

Key activities are business activities without which company cannot operate. Every business model requires key activities and they vary depending on the business model. Key activities are essential to create and offer a value proposition, reach markets, maintain customer relationships and earn revenues.



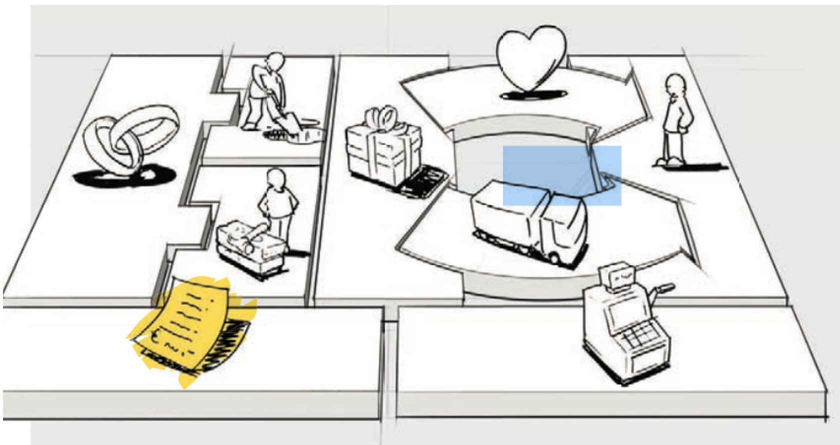
8. Key Partnerships

Key partnership refers to the network a business builds with the stakeholders such as suppliers, distributors and other partners which make the business model work. These partnerships enable the business to mobilise resources, reduce risk and uncertainty, and succeed.



9. Cost Structure

Cost structure refers to the cost incurred in implementing the business model. This component of BMC is important in understanding the cost impact and deciding whether to proceed with the business or change some components in the BMC as desired.



A sample BMC of Uber, world's leading transportation company is given in Figure 3.3 for better understanding.

Learning Activity 3.2

This activity aims to facilitate leaners to develop a competency of building their own BMC.

Instruction: Select a business idea of your choice to develop an appropriate BMC.

Chapter Review

1. What does business model mean to you?
2. There are several business models. If you are to do business, which one would you choose and why?
3. Explain the 9 building blocks of Business Model Canvas.

Figure 3.3 Uber's Business Model Canvas

Chapter 4

4. Business Ecosystem

Learning Objectives:

- Explain the meaning of business ecosystem
- Identify the stakeholders in business ecosystem
- Discuss the roles of stakeholders in business ecosystem
- Ascertain the need for vibrant business ecosystem
- Identify the stakeholders in entrepreneurship ecosystem of Bhutan

Globally, the way business functions and operates is rapidly changing with the advancement in information and communication technology, and general changes in the business environment. Any changes and developments in these areas will impact the business function and operation. Hence, the business must respond to the changes and dynamics in the business ecosystem. The environment in which businesses exist consists of micro and macro environment.

The survival and growth of business largely depend on the capabilities of the business to examine the general environment including the ecosystem which can create opportunities or pose threats. Therefore, a business should scan the environment from time to time to keep abreast of the changes happening in the ecosystem so that opportunities are seized to gain competitive advantage. Stakeholders in the business ecosystem such as suppliers, customers, financial institutions, employees, etc., can greatly influence or be influenced by the way business operates. Therefore, understanding and managing the stakeholders and their power to influence the business is of utmost importance.

In the recent times, youth unemployment has become a major concern in Bhutan requiring immediate attention. For addressing such issue, many institutions are taking initiatives to create a platform for the existing and aspiring entrepreneurs as well as student entrepreneurs to showcase their talents and give a life to their business ideas, thus improving the business ecosystem.

4.1 Concepts of Business Ecosystem

The concept of business ecosystem was first introduced by James F. Moore in his article, ‘Predators and Prey: A New Ecology of Competition’. He proclaims that an entity can never be confined to a single industry, rather it operates with the support of network it builds with the other stakeholders in the business ecosystem.

Moore describes business ecosystem as

an economic community supported by a foundation of interacting organisations and individuals. This economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisations also include suppliers, lead producers, competitors, and other stakeholders. The business ecosystems are characterised by a large number of loosely interconnected participants who depend on each other for their mutual effectiveness and survival.

Thus, business ecosystem is the network of stakeholders such as suppliers, distributors, competitors and government agencies involved in the delivery of products to customers either through competition or cooperation. Business ecosystem enables and brings together several players of diverse nature and size to create, scale, serve and sustain in the market. A single organisation cannot achieve this all alone. Hence, it is essential for businesses to learn, adapt and innovate together for attaining growth and sustainability.

4.1.1 Stakeholders in business ecosystem and their roles

Business is inseparable from the environment in which it operates. Business environment refers to the aggregate of all the factors affecting business functions. It consists of internal and external environment. The external environment refers to factors such as Political, Economic, Socio-cultural, Technological, Environmental and Legal environments (PESTEL), which are beyond the control of the business. Internal environment consists of factors related to management, employee, resources, business image, etc., which are controllable by the business. Figure 4.1 represents business environment.

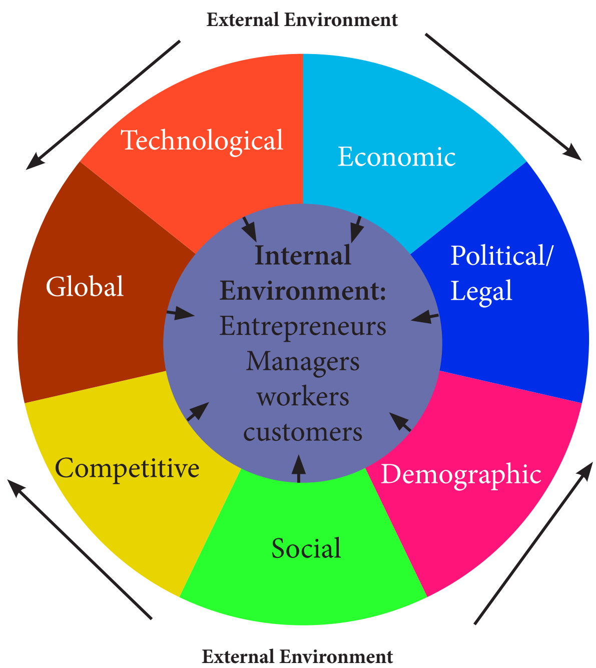


Figure 4.1 Business Environment

The business environment within which the business operates consists of different stakeholders. The stakeholders collectively form the business ecosystem. The stakeholders are categorised into internal and external stakeholders. Figure 4.2 depicts the classification of stakeholders.

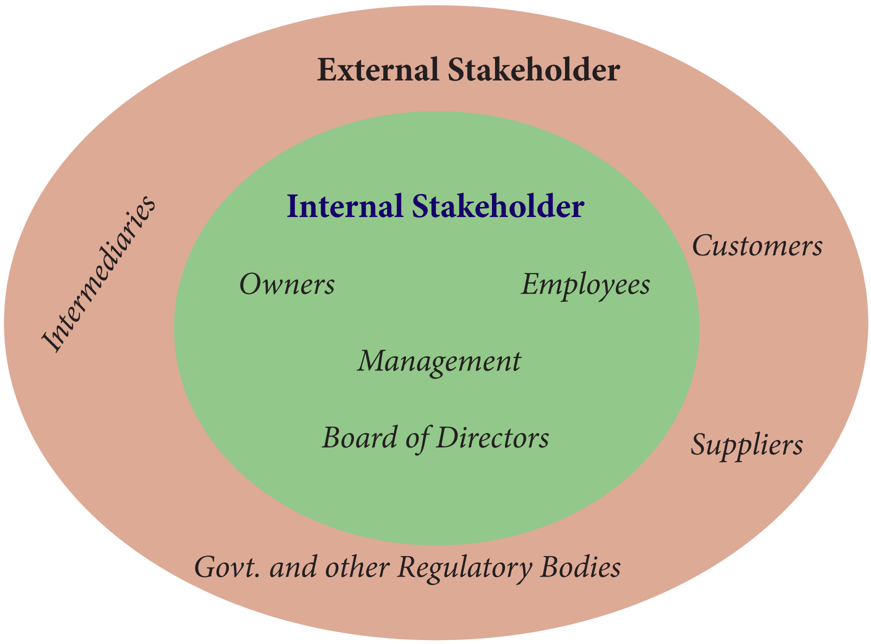


Figure 4.2 Business Ecosystem

4.1.1.1 Internal stakeholders

Internal stakeholders are those individuals or groups who participate in the management and operations of the business. They are internal part of the organisation and can influence and be influenced by the success or failure of business. It includes stakeholders such as owners, board of directors, management and employees. Their contributions are of immense benefit for the growth and survival of business. Table 4.1 illustrates some of the internal stakeholders and their roles.

Table 4.1:Internal stakeholders & their roles

Internal Stakeholders	Definition	Roles
Owners	Owners refer to those individuals or groups who own the business. Depending on the forms of business, they are referred as proprietor, partners or shareholders.	• Overall planning and management of the business in case of sole proprietorship • Roles enshrined in the partnership deed in case of partnership • Election & appointment of board of directors and overall control in case of company
Board of Directors	A group of competent individuals who are elected and appointed by the shareholders for directing and controlling the company on their behalf.	• Setting strategic direction and vision of the company • Appointment of Chief Executive Officer (CEO) and management team • Mobilise resources and approve budget • Establish risk management and control system • Monitor and evaluate performance of management
Management	It refers to a group of individuals led by the CEO responsible for managing the business.	• Day-to-day operations of business • Implement strategic plans and policies • Provide feedback and recommendation on strategic matters to the Board in case of company
Employees	Are individuals who work full time or part-time under the contract of employment. They have recognised rights and duties.	• Implement management plan and activities • Engage in day-to-day operations of the business

4.2.1.2 External stakeholder

External stakeholders refer to the parties or groups who are external to the business. They can influence or be influenced by the outcomes and consequences of organisation's decision. External stakeholders do not take part in the day-to-day operations but perform important roles in providing resources and in achieving plans and objectives of the business.

Few examples of external stakeholders and their roles are discussed below.

- **Customer**

A customer is an individual or a business who purchases goods or services for consumption or resale. Without customers, businesses cannot generate revenue, achieve growth and sustainability. Therefore, it is essential to understand the needs and wants of the customers. Consequently, thorough market research must be conducted before businesses decide on their production plan. Understanding the deeper needs of the customers, satisfying them and providing exceptional user experience are prerequisites for developing sustainable customer relationship for sustainability of the business.

- **Government and other regulatory bodies**

Government is an institution which creates a framework within which the businesses operate. The framework consists of rules, regulations, policies and laws. The business must be cognisant of changes in the framework and be agile enough to respond and adapt accordingly.

- **Supplier**

A supplier is an individual or a business entity that provides raw materials, goods or services to another entity. The supplier provides raw materials or goods for production or resale respectively. They also serve as an intermediary between manufacturers and retailers. Maintaining good relationship with the supplier helps businesses function without disruption in the operating cycle.

The process of establishing relationship with suppliers to improve their performance and capabilities to meet the requirements of businesses is known as vendor development. Vendor development helps in reducing cost, fostering innovation, improving collaboration, enhancing processes and maintaining optimum level of inventory.

- **Investor**

Investor is an individual or an entity who invests money in the business with expectation of earning financial returns and enhancing the value of their investment. Investors enable businesses to ease their access to finance. Finance is an essential requirement for any business entity and therefore termed as the life blood of the business. Few categories of investors include individuals, angel investors, venture capitalists, commercial banks and financial institutions.

Bhutan has sizeable number of commercial banks and financial institutions which serve as important source of debt finance. Of late, the alternative ways of investment through crowdfunds, angel investment, micro finances, etc., are emerging.

- **Intermediaries:**

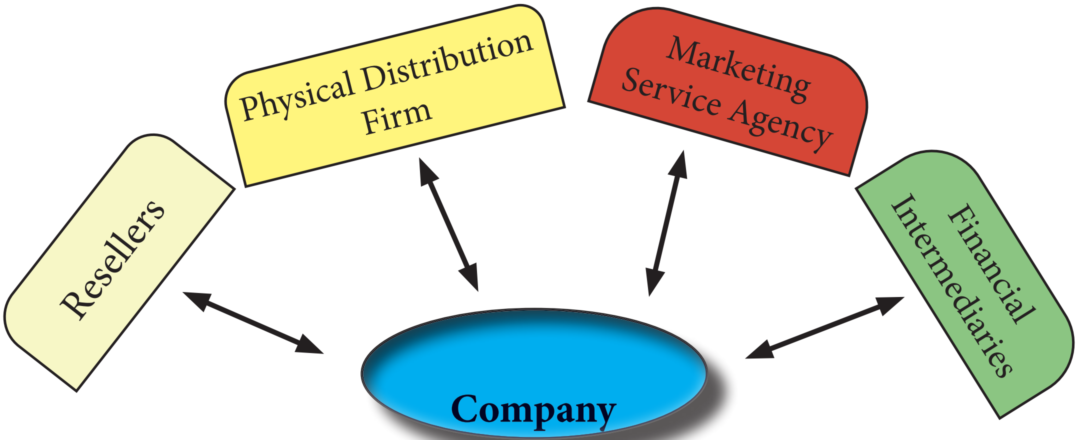


Figure 4.3 Intermediaries

Intermediaries refer to stakeholders such as distributors and logistic firms that support the delivery of goods to the end-consumers. The intermediaries include distribution firms (wholesalers, retailers and transport firms) supporting delivery of products to the customers; service agencies (media firms and marketing firms) that help in marketing of the products; and financial intermediaries (banks and insurance companies) for financing and insuring the goods.

Learning Activity 4.1

This activity facilitates the learners to identify and classify stakeholders. It will also help learners analyse the roles of stakeholders.

Instruction: Choose a business firm in your locality and complete the following tasks.

Tasks:

1. Identify the nature of the business, list the stakeholders involved and classify them into internal and external stakeholders.
2. Analyse the roles of each stakeholder in the context of the chosen business firm.

4.2 Managing Stakeholders

The stakeholders have different claims and expectations from the business organisation. The ability of business to identify the stakeholders, their interests and influence on business is crucial. It requires thorough analysis of stakeholders' power and interest in the business. Figure 4.3 depicts the generic steps involved in stakeholder management.

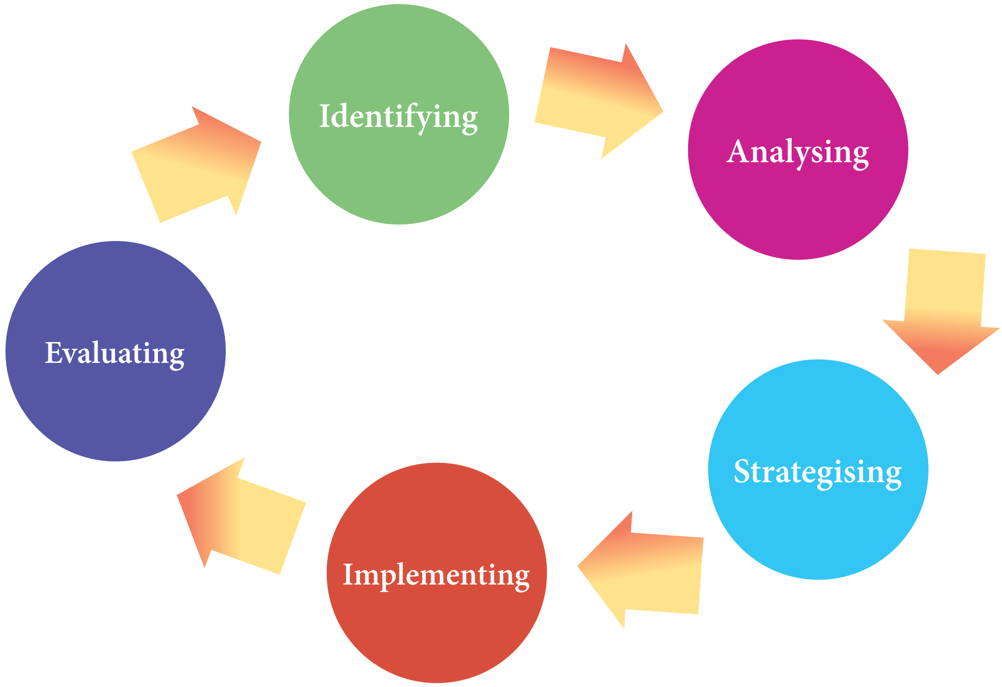


Figure 4. 4 Stakeholders engagement process

Step 1: Identifying

The stakeholder management process begins with identification of stakeholders of the business. Stakeholder identification is done through listing of the stakeholders with whom the business engages.

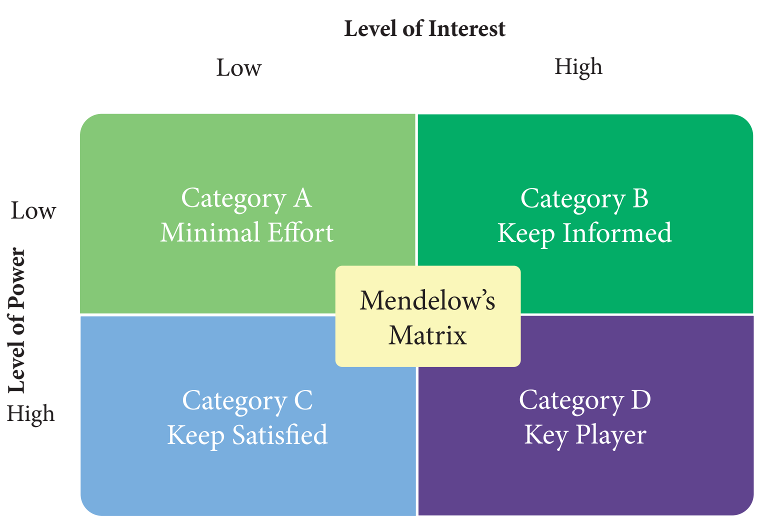


Figure 4.5 Mendelow's Matrix of Stakeholder Management

Step 2: Analysing

After having identified the stakeholders, understanding their relative power and interest in the business is necessary. This requires analysis of interest and power of each stakeholder in the business. Mendelow's Matrix is widely used for analysing the power and interest of stakeholders.

Stakeholders are mapped on the matrix denoting their relative level of power and interest. Those stakeholders with low power and low interest are grouped in Category A. An organisation needs to provide only a minimal effort to manage this group.

Category B consists of stakeholders with low power but high interest. Owing to their interest in the business, this category will always make an effort to remain updated with the business and may become a distractor if their interests are not met. Therefore, business must keep this group informed.

The stakeholders falling in Category C have high power but low interest. This group is likely to interrupt the business operations and processes if their expectations are not fulfilled. There is also high likelihood for this group to shift to next category of stakeholders (Category D). Hence, the business must keep them satisfied.

The stakeholders in Category D consist of most important stakeholders to the business. Due to their high power and interest, they are termed as key players. Business policies, strategies and activities should be aligned to their interest.

Step 3: Strategising

Once the power and interest of the stakeholders are analysed, business must plan ways and means through which the stakeholders are managed. The categorisation completed in Step 2 should form the basis for formulating strategies of stakeholder management.

Step 4: Implementing

This step involves implementation of strategies developed in Step 3.

Step 5: Monitoring and Evaluating

The implementation of strategies must be monitored to avoid wastage of resources in managing stakeholders. The progress of strategy implementation must also be evaluated for determining the effectiveness of stakeholder management.

Learning Activity 4.2

This activity intends to facilitate learners to make use of Mendelow's Matrix for stakeholder mapping and evaluating their relative power and interest.

Instructions: Choose a business of your choice and use Mendelow's Matrix to map and evaluate stakeholders' relative power and interest.

Tasks:

1. Identify the stakeholders of the chosen business and map them according to Mendelow's Matrix to evaluate their power and interest on the business.
2. If you were the entrepreneur, how would you manage these stakeholders?

4.3 Need for Vibrant Business Ecosystem

Learning Activity 4.3

This activity aims to help learners to determine the importance of interdependence between business and its stakeholders.

Role Play (30 minutes)

Requirements:

Wooden cubes of equal size (20 numbers)

Dark cloth to blindfold the entrepreneur

5 student volunteers (entrepreneur, father, banker, friend and a Gup [Gewog head])

Scenario: Ap Bokto (entrepreneur) moved from his village to a town. He wanted to start a cloth manufacturing business. He did not have sufficient capital to start the business. The capital required to start the business is 10 cubes. He had only 2 cubes. Therefore, he borrowed 3 cubes from his close friend Zeko and the rest were borrowed from the bank.

Note: break-even point is 10 cubes (meaning no profit, no loss). Higher the tower, higher is the profit.

Instructions:

- Entrepreneur will carry out a task of building a tower using wooden cubes.
- In the first few minutes, the entrepreneur should be left alone to construct the tower without disturbance. Subsequently, the stakeholders will make their appearances in the business.
- Inform the stakeholders involved in the play to begin their role by introducing the entrepreneur who they are. The friend will come first, followed by banker, father and Gup.

Setting: The five student volunteers will demonstrate the roles of entrepreneur (Ap Bokto) and stakeholders as stated. Rest of the students will be observers. Ap Bokto should be blind folded and build the tower using only one hand. As he constructs the tower, other stakeholders will play their roles as given in the table below.

Roles of remaining stakeholders:

Father	The father must encourage Ap Bokto to build the tower as high as possible. The father is also in urgent need of money (cubes) and asks for help from Ap Bokto. He exerts pressure on Ap Bokto until the latter agrees to give 3 cubes.
Gup	The Gup, as the head of a community, asks Ap Bokto to contribute towards building irrigation channel in the village which would benefit all the people. The Gup asks for contribution (3 cubes).
Banker	Remember the banker gave a loan of 5 cubes. As the banker is interested in getting back the loan, he must ask Ap Bokto to repay the loan once Ap Bokto completes building the tower of more than 5 cubes. The stability of the tower is also important for the banker to get back his money. Therefore, the banker may advise Ap Bokto not to take unreasonable risk of building a higher tower. If Ap Bokto does not listen, the banker can threaten to recall the loan.
Zeko	After having given money (3 cubes) to Ap Bokto, Zeko is now in need of money. Zeko must encourage Ap Bokto to earn profit faster and return his money.

Task:

Write a reflective summary after the role play. It must consist of your experiences or observations with regard to influences of stakeholders on Ap Bokto's business. Also, highlight how you would have managed the stakeholders if you were Ap Bokto.

4.4 Entrepreneurship Ecosystem in Bhutan

The Royal Government of Bhutan views entrepreneurship as a significant economic driver. Recognising the importance of entrepreneurship for economic growth through job creation, efficient use of resources and regional development amongst others, numerous entrepreneurship and business support programs are initiated by various governmental and non-governmental agencies throughout the country, thus making the business ecosystem stronger than a decade ago.

Figure 4.6 depicts the entrepreneurship ecosystem in Bhutan based on the domains of entrepreneurship ecosystem developed by Daniel Isenberg.

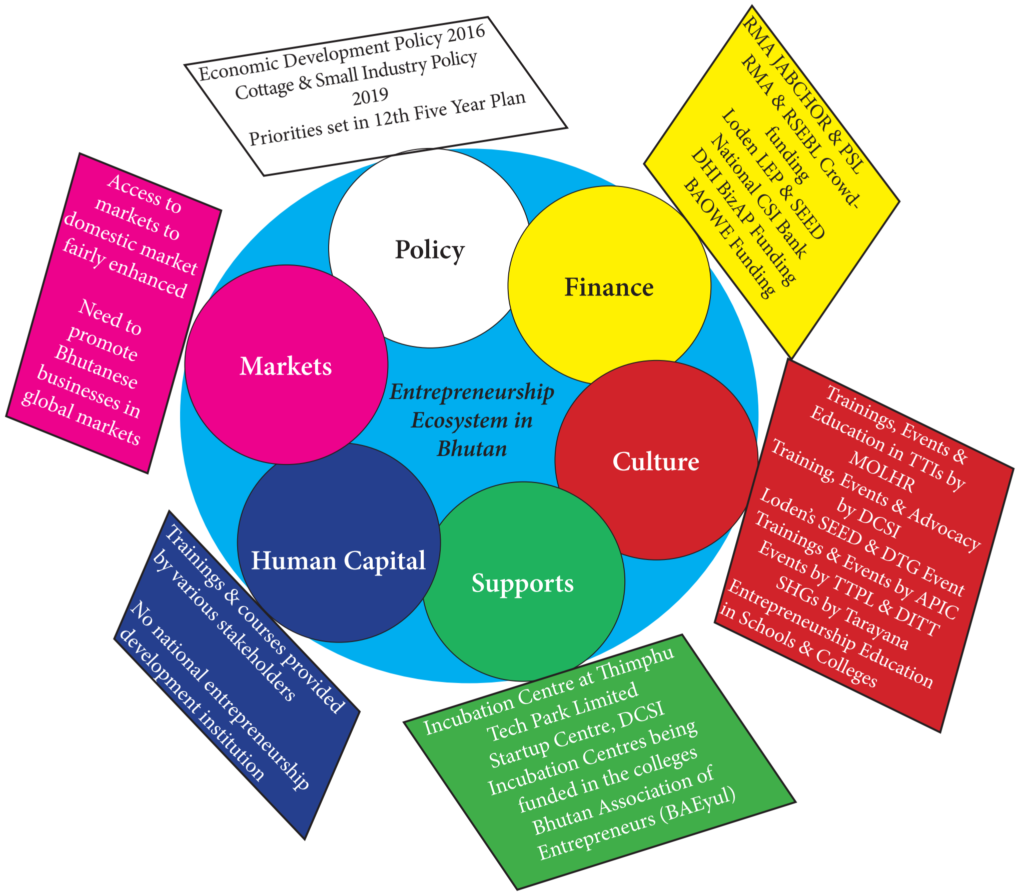


Figure 4.6 Entrepreneurship ecosystem in Bhutan.

a. Policy

The policy environment is becoming more favourable to promote entrepreneurship in Bhutan. The Economic Development Policy 2016 and Cottage and Small Industry Policy 2019 are supportive of promoting entrepreneurship. In addition, priorities have been given for entrepreneurship development in the 12th Five Year Plan.

b. Finance

Making finance available for establishing and running business is essential component of entrepreneurship ecosystem. Bank loans were the predominant source of finance for establishing businesses in Bhutan. However, over the last decade and in the recent years, considerable number of sources of funding for entrepreneurs have been made available. Some of the prominent ones are JABCHOR (angel investment platform) and Priority

Sector Lending by Royal Monetary Authority (RMA); Crowdfunding initiated by RMA and Royal Securities Exchange of Bhutan Limited; Loden Foundation's collateral and interest free loan through Loden Entrepreneurship Programme and SEED fund for students; soft loan by National CSI Bank Limited; and BizAP funding by Druk Holdings and Investment.

c. Culture

Entrepreneurial thinking and mindset must become a part of culture. Several trainings and educational programmes and events are organised by various ministries and organisations such as Ministry of Labour and Human Resources, Department of Cottage and Small Industries, Loden Foundation, Thimphu TechPark, Department of Information Technology and Telecom and Royal University of Bhutan.

d. Supports

Making support services such as business incubation, mentoring, coaching, accounting, legal, marketing and taxation are essential for promotion of entrepreneurship. Several business incubation centres have been established in the country. Incubation centres at Thimphu TechPark, i-Hub and Startup Centre are some of the examples. In addition, the government has started establishment of incubation centres in some of the colleges and dzongkhags in the country. Further, Bhutan Association of Entrepreneurs (BAEyul) provides several trainings and workshop coordination, events and mentoring support services.

e. Human Capital

Entrepreneurship development requires competent people in different facets of business establishment and management. Bhutan does not have a national entrepreneurship development institution and there seems to be only a few competent people specialised in promoting entrepreneurship.

f. Markets

Facilitating market access to the startups and those businesses ready for internationalisation is another essential part of entrepreneurship ecosystem. While access to domestic market has improved over the years, facilitation of access to international markets still remains as a challenge.

Chapter Review

1. What is business ecosystem?
2. Explain the roles of stakeholders in business ecosystem.
3. Assess the entrepreneurship ecosystem in Bhutan.

Chapter 5

5. Consumer Protection

Learning Objectives

- Explain the concepts of consumer protection.
- Explain consumer rights and responsibilities as per Consumer Protection Act of Bhutan, 2012.
- Identify misleading and false representations.
- Describe the procedures to redress consumer grievances.

5.1 Concepts of Consumer Protection

According to Consumer Protection Act of Bhutan 2012:

a. "Consumer" means a natural person:

i. Who buys goods and services for personal, family or household use with no intention of resale,

ii. And shall include farmers.

b. "Business" means any undertaking, whether in the private or public sector, involved in production, supply and distribution of any goods or services to consumers.

The success of business depends upon the satisfaction of the consumer. Business has the obligation of supplying quality goods and services to consumers at reasonable prices. Consumers have basic rights such as right to safety, right to be informed, right to choose, right to be heard and right to redressal. Though consumers are protected by law, most consumers are the victims of shrewd businessmen.

Consumers buy varieties of goods and services every day to derive satisfaction from their consumption. But sometimes products do not deliver satisfaction. This may be because of poor quality of the products, overcharging by sellers, lesser quantity, deceptive advertisement, and so on.

Therefore, consumers must be aware of their rights and responsibilities, legal provisions for protection of their rights, and mechanism for settlement of grievances.

Consumer protection means safeguarding the economic interests, rights and safety of the consumers to avoid economic harm and health hazards while consuming goods and services. In other words, it refers to the measures adopted to safeguard the consumers from unscrupulous, unethical, unfair and deceptive practices by the business entities and to provide appropriate redresses, remedies or compensations to aggrieved consumers.

John F. Kennedy, the 35th President of the United States of America was the first leader to raise the concern of the consumers and stated that “Consumers include us all. They are the largest economic group, affecting and affected by almost every public and private economic decision. But they are the only important group in the economy who is not effectively organized, whose views are often not heard”. He highlighted four fundamentals rights of the consumers: the right to safety, the right to be informed, the right to choose and the right to be heard. Later, the United Nations promulgated United Nations Guidelines for Consumer Protection embracing these rights and expanding further to guide the member nations to enforce consumer rights and consumer protection. The consumer protection act as well as rules and regulations are adopted in Bhutan to enforce consumer rights, protect economic interests of the consumers, ensure fair trade practices, ensure consumer safety, avoid economic harm in the course of consuming goods and services and provide redresses/remedies to aggrieved consumers.

5.2 Need for Consumer Protection

Consumer protection is one of the emerging issues in today’s growing materialist world. The trade and economic activities are increasing to meet the growing consumerism and the markets are inundated with new but spurious goods and services. With myriad range of goods and services available in the market, there are growing cases of adulteration, counterfeit and sub-standard products, exorbitant price with poor quality, black markets, misleading advertisement and marketing, misrepresentation of goods and services, etc., posing risks to health and safety and causing economic harms to the consumers. Therefore, the consumers remain vulnerable to all kinds of market abuses and exploitations by unscrupulous business entities driven by profit motive.

With proliferation of e-commerce activities, there is increase in number of vulnerable consumers: susceptible to abuse of privacy; exploitation due to lack of digital knowledge; unfair treatment; and economic harm in the market. The dominant business players in the market often abuse the powers that are detrimental to the consumers. Businesses often engage in unfair practices such as restricting output and limiting supply, hoarding, price extortion and charging exorbitant price, thereby abusing and exploiting consumers.

In order to address these unfair practices, the United Nations initiated United Nations Guidelines for Consumer Protection in 1985 for its member countries to adopt and ensure consumer protection. In Bhutan, the Consumer Protection Act of Bhutan was enacted in 2012 and the Consumer Protection Rules and Regulations were framed in 2015 to protect consumers’ rights and economic interests in the markets, ensure consumer safety and promote fair and ethical business practices. To implement the Act and the Rules and Regulations, the Office of Consumer Protection (OCP) was established in 2014 under Ministry of Economic Affairs.

The OCP is responsible for consumer protection so as to:

a. protect lives and health of the consumers guarantying their safety in the consumption of goods and services.

b. protect economic interests of the consumers and avoid exploitation by businesses.

c. promote fair and ethical trade practices.

Common malpractices leading to consumer exploitation are:

a. Sale of sub-standard and spurious goods

b. Sale of adulterated goods

c. Use of faulty weights and measures

d. Hoarding

e. Charging exorbitant price

f. Supply of defective goods

g. Misleading advertisements

h. Providing inferior services

i. Anti-competitive behaviours

Examples of consumer exploitation:

a. Selling counterfeit products as originals at higher price.

b. Promoting business and distributing products through pyramid schemes.

c. Selling goods without proper labelling and packaging.

d. Tied selling.

e. Price rigging and market cartel by group of sellers for collusive price fixation for collusive gains.

5.3 Rights and Responsibilities of Consumers

5.3.1 Rights of the consumers

In general, consumers belonging to economically disadvantaged group are vulnerable to exploitation and extortion by unscrupulous business entities. Consumers remain exposed to malicious business practices and market abuses posing risks to their lives and causing economic harms. Therefore, it is necessary to protect their interests by listening to their concerns, respecting their rights and providing legal protection.

The United Nations adopted the four fundamental rights propounded by John F. Kennedy and expanded to include the right to redress, right to consumer education, the right to satisfaction of basic needs and the right to a healthy environment. These consumer rights are globally recognised and serve as a guidance to promulgate consumer protection and enable dignified living. In general, the consumer rights are as outlined below:

- The right to be protected from all kind of hazardous goods and services.
- The right to be fully informed about the quality and quantity of all goods and services.
- The right to free choice of goods and services.
- The right to be heard in all policies related to consumer interests.
- The right to seek redressal of grievances.
- The right to consumer education.
- The right to basic goods and services to satisfy basic needs.
- The right to a healthy environment.

Similar to other countries, Bhutan recognises the consumer rights and need for consumer protection in the wake of increasing trade activities, globalisation, growing consumerism and increasing unfair trade practices. The consumer rights are clearly articulated in the legislations to provide legal mandates to respect and protect consumer rights. As enshrined in the Consumer Protection Act of Bhutan 2012, the consumer has the rights to:

- Protection of their lives, health and safety in the consumption of goods and services;
- True, sufficient, clear and timely consumer education including information on goods and services offered, as well as on prices, characteristics, quality and risks that may be encountered in the consumption of goods and services;
- Fair, non-discriminatory and equitable treatment by businesses which will include fair terms of contract and sale;
- Be assured, wherever possible, access to a variety of products, technologies and services at competitive prices;
- Get redress against unfair trade practices and unscrupulous exploitation of consumers;
- Form consumer associations;
- A physical environment that will enhance the quality of life for present and future generations; and

- Basic goods and services, which guarantee dignified living.

5.3.2 Responsibilities of the consumers

While there are a legal and institutional arrangements to ensure consumer protection and promote ethical and fair-trade practices, the consumers are entrusted with certain responsibilities to keep themselves informed and exercise due care for oneself and others, be responsible consumer for self-protection and other consumers and assist regulatory authorities in consumer protection activities. The responsibilities of consumers specified in the Consumer Protection Rules and Regulations 2015 are as follows:

- Keep themselves informed;
- Exercise due care when making decisions in the marketplace, be it offline or online;
- Consider the detrimental consequences that may arise from purchases;
- Compare price, quality, standard and features with competing products or services;
- Understand that advertising and marketing materials may not necessarily give the full picture and further inquiries may be necessary;
- Avoid making impulsive decisions based on extravagant claims or exaggerated representations;
- Seek clarification when the price indicated is outside the normal pattern;
- Ask for a receipt, statement or transaction record for every transaction;
- Keep receipt, product manuals, maintenance /warranty documents; and
- Act in good faith.

Learning Activity 5.1

This activity intends to provide insights into real life scenarios of consumer rights and responsibilities.

Instructions: Identify at least 10 products such as groceries, clothing and electronics your friends or family members bought and determine problems like unfair price, poor quality, durability and safety issues associated with those products.

Tasks:

1. Discuss consumer rights violated in the above context.
2. Describe how those problems could have been avoided by being a responsible consumer.

5.4 Misleading, False Representation and Unfair Trade Practices

5.4.1 Misleading and false representation

It is a trade practice adopted by supplier, manufacturer and service provider to promote sale or supply of goods and services in the markets through unfair practices or deceptive methods such as:

- Misleading indication of price
- Misleading advertisement and marketing
- Demanding or accepting payment without intending to supply
- Falsely claiming that goods are limited to increase the sale
- Inappropriate product labelling

5.4.2 Unfair trade practices

According to the Consumer Protection Rules and Regulations 2015, a trade practice undertaken by a service provider, manufacturer and supplier shall be deemed unfair, if it:

a. is not professionally diligent; and

b. materially distorts, or is likely to materially distort, the economic behaviour of the consumer.

Some examples of unfair trade practices are:

- False and misleading advertisement and marketing to lure the consumers;
- Claiming that the service provider, supplier or manufacturer is about to cease trading, providing services or move premises when it is not;
- Falsely claiming that a product facilitates winning in games of chance;
- Falsely claiming that a product cures illnesses, dysfunction or malformations;
- Price rigging and collusion by businesses;
- Manufacturer, supplier and service provider unfairly charging exorbitant price, charging different price;
- Displaying inappropriate product labelling to deceive consumers;
- Businesses not complying with safety standards;
- Businesses distributing unsafe products in the market;
- Creating a false impression that after-sales service in relation to a product is available in Bhutan when it is not;
- Selling goods through pyramid schemes; and
- False discounts

Learning Activity 5.2

This activity will help learners to understand consumer responsibilities and legal provisions for consumer protection.

Instructions: Imagine that your sibling was hospitalised due to consumption of contaminated sweets you purchased from a local shop and complete the following tasks.

Tasks:

1. State some of the precautions that you should have taken while purchasing sweets.
2. Discuss how your sibling can be protected under the law in the above context.

5.5 Consumer Grievance Redressal Mechanism

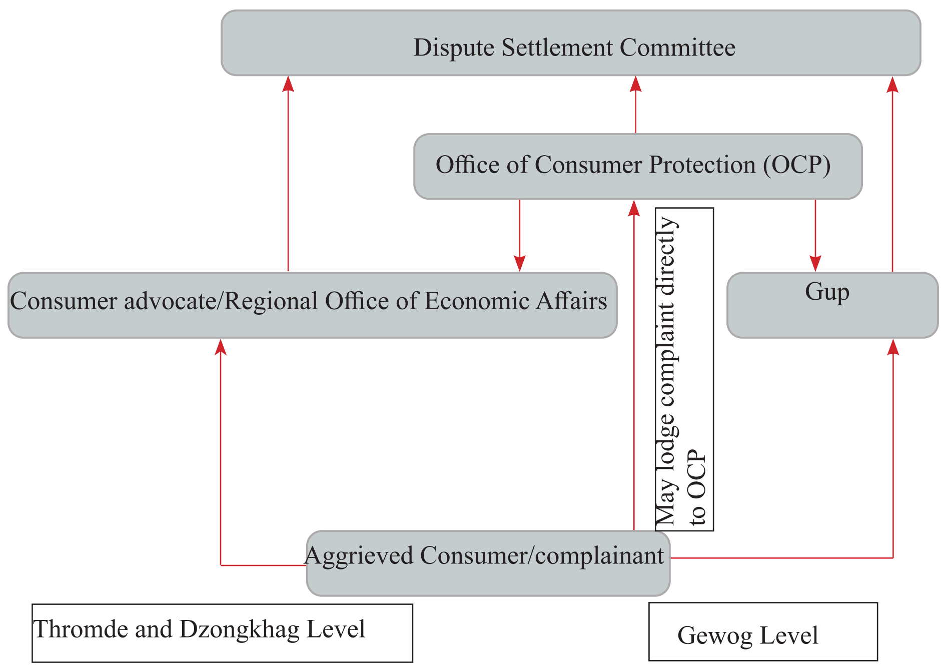


Figure 5.1 Consumer grievances redressal mechanism

An aggrieved consumer seeking remedies or compensation may lodge complaint to gup at gewog level, consumer advocate/Regional Trade and Industry Office at regional, thromde and dzongkhag level or directly to Office of Consumer Protection. The complaint may be lodged as written complaints, via telephone and email or other online facilities available on the official websites of the relevant authorities. The complaint received directly by the OCP may be forwarded to the gup or the Regional Trade and Industry

Office as the case may be, or OCP may initiate mediation to resolve amicably. The Dispute Settlement Committee is the ultimate body for grievances redressal. Settlement of consumer grievances may result in any of the following remedies:

- Rejection of goods and services
- Repairing of goods
- Replacements of goods
- Refund of money
- Compensation
- Revocation of contract

Learning Activity 5.3

This activity will help learners to get acquainted with consumer grievance settlement mechanism.

Instructions: Read the scenario given below and complete the task.

Tshering opened a restaurant to make his livelihood. In order to attract more customers, he decided to install two air conditioners. Since he did not have enough funds to buy branded air conditioner, he bought from a local manufacturer in Phuntsholing for Nu. 15,000 each. Later on, he found that the compressor of one of the air conditioners was defective. Despite many complaints, the defect was not rectified by the seller. He was disappointed about the issue and decided to sue the seller.

Task:

Describe how you would approach for redressal if you were Tshering.

Chapter Review

1. Describe how consumer protection regulations help to protect consumers from exploitation.
2. Discuss the rights and responsibilities of consumers.
3. Highlight the consumer protection measures practised in Bhutan.
4. Explore how consumer protection can be improved in Bhutan.

Chapter 6

6. Business Organisations

Learning objectives:

- Describe different forms of business organisation
- Describe the procedure and documents required for formation of a company
- Evaluate the benefits and drawbacks of multinational companies on the host countries
- Define startups
- Describe the charms and challenges of startups
- Discuss essential entrepreneurial competencies

There are several types of business organisations catering to various social and business requirements. It is very important for aspiring entrepreneurs to decide the type of ownership and organisation they prefer to set up. An entrepreneur should consider various factors such as business goals, capital requirements, managerial skills and abilities and the desired control over business. Consequently, these factors will determine the form of business organisation an entrepreneur sets up.

6.1 Concepts of Business Organisation

Business organisation is an entity aimed at carrying out economic activities by providing goods or services to the customers. It may be owned by an individual or group of individuals. The different forms of business organisations are sole proprietorship, partnership, companies and cooperatives. In the recent years, startups (businesses at the initial stage of operation) have gained popularity.

The forms of business organisation are briefly explained hereunder:

6.1.1 Sole proprietorship

Sole proprietorship is a form of business organisation which is owned, managed and financed by an individual. It is the simplest, oldest and the common form of business organisation. The sole proprietorship is a popular business form due ease of formation, minimal setup cost and simplicity in operation.

Sole proprietor or sole trader is a person who conducts business on his own and is solely responsible for the profits or losses of the business. The liability of the sole trader is always personal and unlimited; the liability can extend even to his private assets. In sole proprietorship, there are minimal legal formalities pertaining to the commencement and dissolution of the business. However, the continuity of sole proprietorship is unstable and uncertain due to resource limitations.

The establishment of sole proprietorship in Bhutan is simple and those who wish to set up sole proprietorship need to obtain trade license from Ministry of Economic Affairs (MoEA). Trade license can be processed online (www.citizenservices.gov.bt) or by visiting Regional Trade and Industry offices under MoEA.

6.1.2 Partnership

The resources and ideas of a sole proprietorship form of business is limited to the extent of individ¬ual capacity. Thus, partnership business provides opportunity to meet the growing needs of the business. Partnership business is formed by two or more persons entering into a contract for gathering the required re¬sources to run the business, shoulder the responsibilities and share profits or losses.

Although Bhutan does not have a partnership act in place, partnership businesses are guided by partnership agreement. Partnership agree¬ment, also called partnership deed, is a contract signed between or amongst the partners which defines the terms and conditions of the partnership business. Partnership business is built upon mutual trust and good faith, and the need of partnership agreement is crucial to avoid conflicts which may arise between or amongst the partners.

6.1.3 Company

Company is a voluntary association of persons formed to carry on a business for profit and registered under Companies Act. In Bhutan, companies are incorporated under Companies Act of Bhutan, 2016. A company form of business organisation is the most popular form of large-scale businesses. It does not come into existence on its own. A company is brought into existence by the efforts of the promoters and involves several legal formalities. The formation of a company involves the following steps:

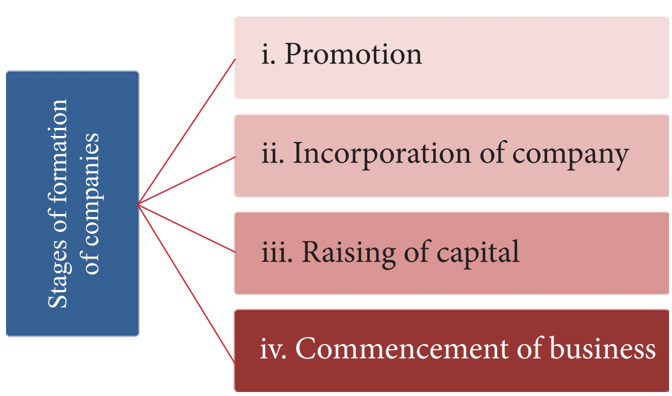


Figure 6.1 Stages in formation of companies

i. Promotion is the initial stage in the formation of a company. It involves discovery of business opportunities, carrying out detailed investigation of proposed project and planning the required finances. A person who takes the initiative of starting a company is called a promoter.

ii. Incorporation of company implies registration of a company. The promoter of a company must file necessary documents with the Registrar of Companies and pay prescribed registration fees as per the Companies Act. If the Registrar is satisfied that all requirements for incorporation have been complied with, a Certificate of Incorporation is issued and the name of the company is registered. A company comes into existence on the receipt of Certificate of Incorporation. A private company can commence its business after completing this stage and obtaining a trade license. However, a public company can commence its business only after raising capital from public.

iii. A public company raises funds from the general public through issue of its shares and other securities. It must undertake the following tasks to raise funds:
   - Issue of a prospectus or a statement in lieu of prospectus
   - Appointment of bankers for underwriting of shares
   - Appointment of brokers to float shares
   - Listing of shares on stock exchange
   - Obtaining approval for issue of prospectus from the MoEA and the Royal Securities Exchange of Bhutan Limited

iv. Commencement of business is the final stage in the formation of a company. A public com-pany can start the business after meeting the minimum subscription of share and obtaining trade license from the MoEA. In case the minimum subscription is not met, the underwriters subscribe the remaining shares to meet the requirements

List of documents required to form a company

The promoter(s) or their legal representative(s) with Power of Attorney must submit the following documents in two original copies:

i. Articles of Incorporation
ii. Company name clearance form
iii. Consent to act as directors of the company form
iv. Declaration of compliance form signed by the company directors
v. Sectoral clearance from the concerned sectors (if applicable)
vi. Name and address of the first Chief Executive Officer of the company

vii. Security Clearance Certificates of company directors

viii. File prospectus or statement in lieu of prospectus in case of public company.

6.1.3.1 Types of companies

Figure 6.2 represents forms of companies on the basis of incorporation, liability, membership, control and nationality.

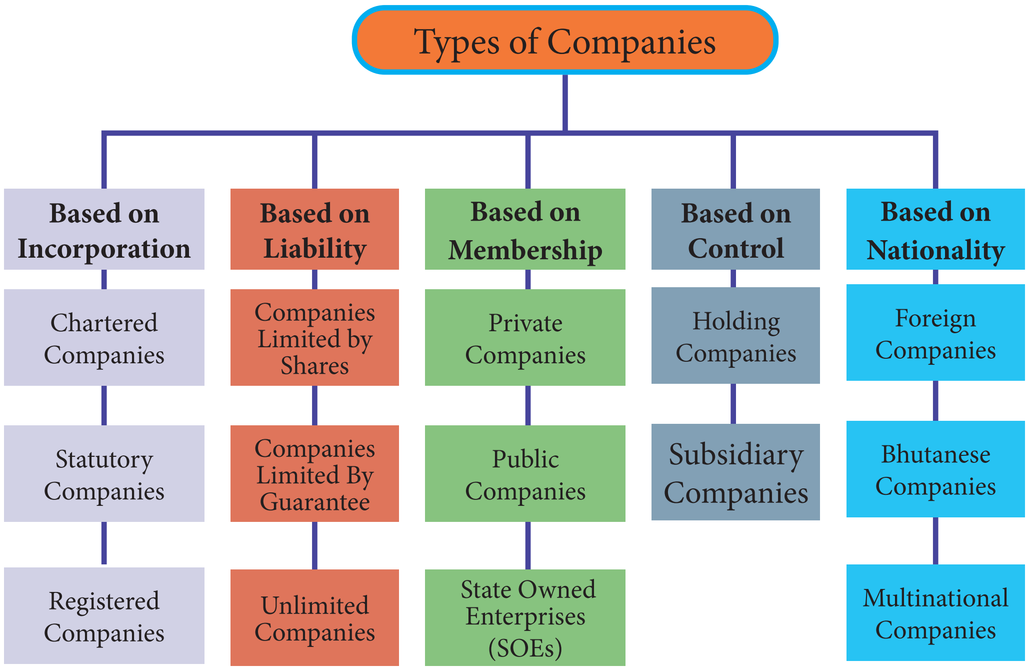


Figure 6.2 Types of Companies

I. Incorporation

On the basis of incorporation, companies are:

a. Chartered companies

This type of companies is created through a Royal Charter. The king or the head of the state grants power and right to these companies to undertake certain commercial activities as well as the authority to close such companies in the event of unlawful operations or violation of the Royal Charter. The Bank of Bhutan Limited, established in 1968, is the first chartered company in Bhutan. Druk Holding and Investments Limited (DHI) is another example of charted company formed in 2007.

b. Statutory Companies

Statutory companies are brought into existence by Special Act of the Parliament or State Legislature to provide public services. These companies are created to serve people rather than aiming to maximise profits. In Bhutan, such companies can be formed under a Special Act passed by the Parliament. State Mining Corporation Limited, Royal Bhutan Helicopter Services Limited and Rural Enterprise Development Corporation Limited are some examples of such companies in Bhutan.

c. Registered Companies

These companies come into existence after having been incorporated under the Companies Act of Bhutan, 2016. Some of the registered companies in Bhutan are Bhutan Power Corporation Limited, Thimphu TechPark Limited, Drukair Corporation Limited and Bhutan Telecom Limited.

II. Liability

On the basis of liability, companies are classified as:

a. Companies limited by shares

These are the companies in which the liability of shareholders is limited to the extent of unpaid value of shares held by them. The liability of shareholders can be enforced either during the existence of the company or at the time of winding up of the company. Most of the companies in Bhutan are limited by shares.

b. Companies limited by guarantee

These are the companies in which the liability of the shareholders is limited to the extent of amount guaranteed to be contributed in the event of winding up the companies. These companies are not as popular as the companies limited by shares.

c. Unlimited companies

In this type of companies, there is no limit on the liabilities of the shareholders. In case of liquidation, the shareholders have to even pay from their personal assets to cover the liabilities of the company. In Bhutan, such company does not exist.

III. Membership

On the basis of membership, companies are categorised as:

a. Private companies

According to the Companies Act of Bhutan 2016, a private company means a company which:

- is not permitted to offer its shares to the public; and
- shall have at least two directors.

The name of a private company shall end with the words 'Private Limited', also abbreviated as 'Pvt. Ltd'.

b. Public companies

The Companies Act of Bhutan 2016 states that a public company is authorised by its articles to offer its shares or other securities to the public.

A public company:

- shall have a minimum allotted share capital of such amount as may be prescribed,
- shall have at least three directors,
- shall have a company secretary,
- if it intends to offer its shares to the public, shall comply with such further requirements as may be imposed by the Regulatory Authority and the Securities Exchange, and
- shall have clear divestment criteria and procedure for the public companies owned by the Government in the rules and regulations prescribed by the Regulatory Authority.

The name of a public company shall end with the word 'Limited', also abbreviated as 'Ltd'.

c. State Owned Enterprises (SOEs)

SOEs are the companies which are owned and controlled by the state. Bhutan Power Corporation Limited, Drukair Corporation Limited and Druk Green Power Corporation Limited are some of the profit oriented SOEs under DHI. In addition, Bhutan Livestock Development Corporation Limited, Farm Machinery Corporation Ltd., and Green Bhutan Corporation Limited are examples of socially oriented SOEs in Bhutan.

IV. Control

Companies are also categorised based on control as follows:

a. Holding companies

Holding company is a company deemed to be a holding company of another by virtue of the latter being its subsidiary company. The holding company does not engage in operations of its subsidiaries. DHI is an example of a holding company of the DHI Owned Companies in Bhutan.

b. Subsidiary Companies

Subsidiary companies are the companies owned and controlled by the holding company. Bank of Bhutan Limited, State Trading Corporation of Bhutan Limited, Dungsam Cement Corporation Limited and Wood Craft Centre Limited are some of the subsidi¬ary companies of Druk Holding and Investments Limited.

V. Nationality

Companies can also be classified based on their origin as:

a. Foreign companies

The companies which are incorporated outside Bhutan but operating in Bhutan through their branches and agencies are called foreign companies. Jaiprakash Associates Limited and Gammon India Limited which are involved in hydro-power constructions are some examples of foreign companies operating in Bhutan.

b. Bhutanese companies

The companies that are incorporated under the Companies Act of Bhutan 2016 are known as Bhutanese Companies. Few examples of Bhutanese companies are Bhutan Power Corporation Limited, Bhutan Telecom Limited and Dungsam Cement Corporation Limited.

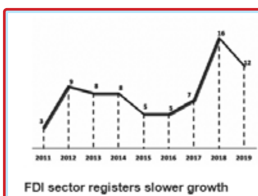
c. Multinational Companies

This type of companies operates in more than one country. They carry out economic activities in many countries. Few examples of multinational companies (MNCs) operating in Bhutan are Coca Cola, Aman Resorts, Le Meridian and Big-Cola. These companies usually operate through Foreign Direct Investments (FDI).

Learning Activity 6.1

This activity aims to facilitate learners in understanding the impacts of FDI to the host nation.

Instructions: Read the article on FDI and complete the given tasks.



Adapted from Kuensel December 9, 2019

FDI Sector Registers Slower Growth (Phub Dem)

The country recorded a slight decline in the number of Foreign Direct Investment (FDI) projects coming in with only 12 projects approved as of November 2019. In 2018, 16 FDI projects were approved. From seven projects in 2017, FDI inflow in terms of numbers increased to 16 last year. The total number of FDI projects in the country stands at 83 projects as of November 2019. Two investors pulled out in 2019. The service sector dominates the FDI inflow with five projects each in the hotel and IT sectors. Thimphu is the preferred destination for FDI in the servicesector – hotel and IT/ Information Technology Enabled Service.

According to the World Investment Report 2019, Bhutan is attracting the least FDI among Asian countries. However, last year, Bhutan attracted around Nu 5.7 billion (B) worth of FDI, contributing its larger share to capital-intensive projects especially hotels. The cash inflow in terms of Indian Rupee increased by 12 times and dollar by 3.4 times, the inflow increased from INR 22.2 million (M) and USD 6.2M in 2017 to INR 267.5M and USD 20.8M last year.

On employment, a total of 5,176 Bhutanese were directly employed by the operating FDI projects as of November

2019. This was an increase of six percent comparing to 5,307 employees in 2018. It was also highlighted that for every expat worker, 19 locals were employed– decreasing the ratio by four locals comparing to 2018. FDI companies employed a total of 240 foreign workers, 5.4 percent of regular employees in the companies. Seven FDI companies employed 63 percent of total regular employees as of December last year. The companies are Mountain Hazelnut Ventures Private Limited, BOBL, BNBL, Bhutan Resorts Private Limited, Bhutan Eco Ventures Private Limited, Scan Cafe Private Limited and Bhutan Ventures Hospitality Private Limited.

The FDI projects have paid Nu 1.748B in tax in 2018, an increase of 11.7 percent from 1.56B in 2017. It was found that the manufacturing sector contributes significantly to the export basket. Eleven FDI projects under the sector had exported goods worth Nu 4.2B, of which Nu 3.8B was exported to India and remaining to other countries.

The share of FDI manufacturing companies to the overall exports, as per the annual Trade Statistics 2018, reveals that FDI exports to India constitute 17.6 percent of the country's total export.

FDI development in the country, as per experts, was limited by a controlled system, and an inadequate policy in the areas of the industrial license, trade, work, and finance. The shortage of skilled labour is also a barrier.

Bhutan restricts FDI in certain sectors in order to avoid competition with local traders. Bhutan is ranked 81 out of 190 countries in the World Bank's Doing Business Report, 2019, and for a landlocked country, the ranking is considered only satisfactory.

Tasks:

1. As of November, 2019, Bhutan has recorded a slight decline in FDI projects comparing to 2018. What are the causes for this decline?
2. Identify and suggest some possible measures to attract FDI projects in Bhutan.
3. Analyse possible impacts of FDI Projects in Bhutan.

6.1.4 Cooperatives

Cooperative is a voluntary association of persons with the primary aim of satisfying the economic needs of its members and their communities. In Bhutan, cooperatives are registered under the Cooperative (Amendment) Act of Bhutan, 2009. According to the Act, cooperatives are categorised into primary cooperatives, federation of cooperatives, union of cooperatives and special types of cooperatives (cooperative banks and insurance cooperative). Lemon Grass Oil Primary Cooperatives in Mongar, Beekeepers' Cooperative of Bhutan in Bumthang, Sonam Yargay Detshen in Wangduephodrang, Sarpang Poultry Cooperative in Sarpang and Youth Business Cooperative in Thimphu are some examples of cooperatives in Bhutan.

Learning Activity 6.2

This activity intends to help learners make comparison amongst the different forms of business organisation.

Instructions: Reflect on the lessons learnt on forms of business organisations and draw distinctions amongst them.

Task: Use the given table to make comparison amongst different forms of business organisation.

Basis	Sole proprietorship	Partnership	Company	Cooperative
Business ownership				
Number of members				
Liability				
Management and control				
Capital contribution				

6.2 Startups

The startups are referred as entrepreneurial ventures which are in the initial stage of operation. The firm in this stage builds and tests its concept or prototype and looks out for investors.

Learning Activity 6.3

This activity intends to facilitate learners to explore the charms and challenges of entrepreneurs.

Instruction: Watch the video titled "Made in Bhutan" by Loden Foundation accessible from *https://www.youtube.com/watch?v=cObq9O48Nng* and complete the given task.

Task: Explore the charms and challenges of being an entrepreneur.

The successful startups are usually the results of a few passionate entrepreneurs having high entrepreneurial competencies such as:

i. Opportunity seeking

Opportunity seeking is an entrepreneurial quality which enables an entrepreneur to find and pursue business opportunities. When ordinary people see problems, entrepreneurs see opportunities in solving them.

ii. Risk-taking

Entrepreneurs embrace opportunities to carry out activities out of their comfort zones. However, they assume calculated risk for deriving the rewards of taking risk.

iii. Persistence

Entrepreneurs continuously strive towards achieving a result even if the success is not guaranteed and do not give up even during the hardest times.

iv. Demand for efficiency and quality

Entrepreneurs always look to uplift the efficiency and quality in all areas. This provides the platform to assure quality products and best services to the customers. It also minimises errors, wastage of time, energy and other resources.

v. Commitment

A successful enterprise depends on how committed the entrepreneur is in the operation of the business. A successful entrepreneur gives much time and attention to the enterprise and considers the enterprise very important.

vi. Information Seeking

An entrepreneur is open to new ideas and technology for the betterment of business. Entrepreneur seeks information through networks and feedback on the performance of the business.

vii. Systematic planning and monitoring

The entrepreneurs adopt a systematic approach of planning and monitoring for making informed decisions.

viii. Persuasion and networking

The entrepreneurs have great persuasion and networking skills enabling development of relationships and achieving business objectives.

ix. Self-confidence

Entrepreneurs have confidence in their ability and judgment exhibiting strength to cope with the risks of operating the business.

x. Goal setting

Goal setting involves the development of an action plan designed to motivate and guide a person or group towards a goal. A good entrepreneur develops and follows the steps in the plans diligently to realise these goals.

Learning Activity 6.4

This activity intends to facilitate learners to assess their own entrepreneurial competencies and make necessary plans for enhancement of their entrepreneurial competencies.

Instructions: Use the Personal Entrepreneurial Competencies Self Rating Questionnaire (PEC SRQ) given in *Annexure 1* to assess individual entrepreneurial competencies and to enhance the entrepreneurial competencies.

Tasks: Using the PEC SRQ, assess your entrepreneurial competencies. Based on the results, prepare developmental plans for improving your competencies.

Chapter Review

1. List and explain different forms of business organisation.
2. What are the documents required for the formation of company? Explain the formation procedure.
3. Discuss the advantages and disadvantages of multinational companies for the host country.
4. Define Startups. Describe the entrepreneurial competencies to do business.

Chapter 7

7. Human Resource Management

Learning objectives:

- Explain the concept of management, its principles and functions
- Define HRM
- Explain the major functions of HRM

Learning Activity 7.1

This activity aims to facilitate learners to gain significant practical exposure to various managerial processes such as planning, forecasting, organising, implementing, controlling, manufacturing, marketing and leadership.

Time: 45 minutes

Requirements:

- 5 learners acting as entrepreneurs and 1 learner as store in-charge.
- A4 size paper to make boat

Instructions:

Let 5 learners act as entrepreneurs and the rest of the class play the role of job seekers. The teacher provides a sample paper boat to each entrepreneur. The entrepreneurs should now employ the jobseekers to reproduce the sample boats. The entrepreneur must specify the number of boats they want to produce. The entrepreneurs have 5 minutes to recruit their employees and gather the resources based on the number of boats they promised to deliver to the teacher, who will also act as a buyer. The store in-charge will provide necessary materials to the entrepreneurs and maintain separate record for each group. The teacher should keep a record of the number of boats the entrepreneurs promised to deliver. The boat making time is 10 minutes.

At the end, the teacher will compare and see if the entrepreneurs met their promises. The teacher will then introduce the chapter to the learners by making an assessment of how different entrepreneurs recruited their employees, how the production was planned, managed and controlled. The teacher will also highlight on the importance of management functions in achieving organisational goals.

Task: Share your reflection on the activity from the perspectives of entrepreneurs, job seekers and store in-charge to the class.

7.1 Concept of Management

Organisations use various resources such as human, finance, technology, land and materials for achieving their vision, mission and objectives (VMOs), which are set by the owners or board of directors (in case of companies). Achieving these requires a proper process and system of employing and managing the resources which is called management. According to George R. Terry, management is a distinct process consisting of planning, organising, activating and controlling; performed to determine and accomplish stated objective through the basic resources like man, machine, material, methods and money.

Mary Parker Follet defines management as "the art of getting things done through the efforts of other people". By this definition, the principles of management answer the question of 'how to get things done through others?'. Thus, the principles of management refer to the activities of planning, organising, staffing, directing, coordinating and controlling the operations of the resources to accomplish the objectives.

The principles of management were first developed by Henri Fayol through the planning-organizing-leading-controlling framework (P-O-L-C). With new developments in the way an organization functions, experts have made changes to this framework but the basic principles remain the same. Hence, the basic functions born out of the principles are as shown in Figure 7.1.

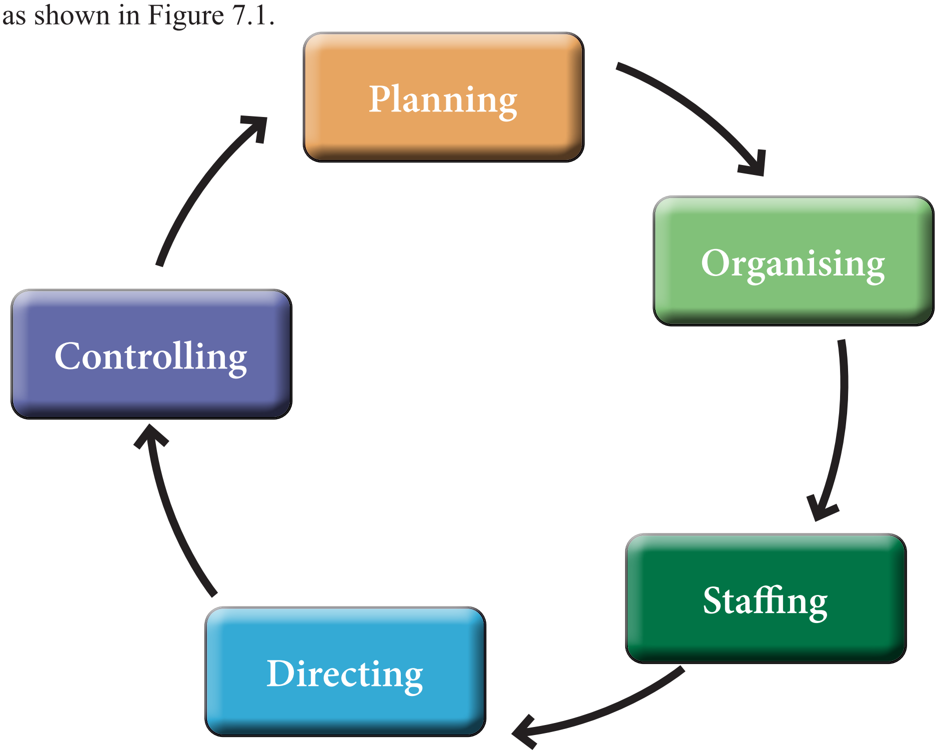


Figure 7.1 Basic functions of management

Responsibilities of any management of organisations relate to implementation of plans and programs for realising the set VMOs. The management discharges their roles and responsibilities through the essential functions such as planning, organising, staffing, directing and controlling for attaining the predetermined goals. The functions of management are discussed below.

- **Planning**

Planning is the fundamental function of management. It pertains to development of a road map for achieving the VMO of the business. It involves decision making about determination of activities business must carry out to achieve the goals, setting a deadline or target by when the goals must be achieved and clearly charting the ways and means of carrying out the activities. Rules and procedures are also developed for achievement of the predetermined goals. Proper planning helps in avoiding or minimising confusion, uncertainties, risks and resource wastage.

- **Organising**

It is the process of mobilising resources such as human, finance, technology, land and materials for carrying out the plans and activities set in planning stage. It also involves development of organisation structure to clearly define duties, communicate the reporting lines and allocate resources for achievement of goals.

- **Staffing**

It involves deciding the type and number of people required in the organization to work towards achievement of the VMOs. Based on that decision, staffing requires the employees to be recruited, selected, trained, compensated and evaluated. These employees use the other resources which have been mobilised to fulfil the organizational goals.

- **Directing**

It is the process of providing direction and guidance to the employees pertaining to their roles and responsibilities in achievement of the set goals. Employees can be motivated, inspired and influenced through directions provided by the leader.

- **Controlling**

In involves making sure that the performance does not deviate from the benchmark. This function involves:

1. Setting performance benchmarks,
2. Evaluating by comparing actual performance with predetermined benchmarks, and
3. Taking corrective action, when necessary. Necessary actions are taken to ensure that the activities undertaken by the employees are consistent with organisational goals, through feedback.

Therefore, the understanding of management concept and its importance are crucial in realising the predetermined goals of an organisation. Figure 7.2 represents the importance of management.

Figure 7.2 Importance of management

Learning Activity 7.2

This activity enables the learners to understand the importance of management.

Instructions: Explore the importance of management by reading relevant materials from internet or book and complete the given tasks.

Tasks: Make a note on importance of management and present to the class.

7.2 Concepts of Human Resource Management (HRM)

The staffing function of management is also referred to as Human Resource Management (HRM). Human resource being key to functioning of any organisations will be discussed in detail.

According to Gary Dessler and Biju Varkkey, "HRM is the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns". It is concerned with ensuring that an organization has the right kind and number of people in a systematic approach to undertake the activities required for achieving the organizational goals.

The major functions of HRM consist of human resource planning, recruitment and selection, training and development, performance management, compensation and separation. Figure 7.3 depicts the human resource management process and functions. Even the smallest organisation/business with one or two employee(s) must recognise the responsibilities of all the functions.

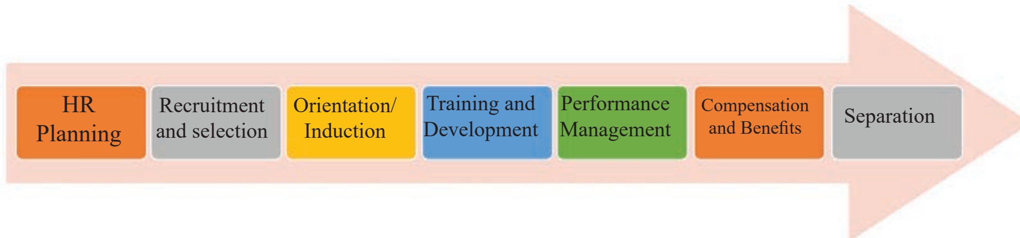


Figure 7.3 Human resource management process and functions

- **Human Resource Planning (HRP)**

This function identifies the current and future human resource needs of an organisation to achieve its goals. It requires proper analysis to determine both the quality and quantity of human resource that will be required in the organisation. Organisational goals are used as the basis to determine what activities will have to be undertaken to achieve those goals. Correspondingly, the type of people, in terms of Knowledge, Skills, Attitudes and Competencies (KSACs) and number of people are determined. These can be determined based on the judgement of the management or using specific quantitative techniques such as trend analysis, Delphi technique, ratio analysis and scatter plot.

- **Recruitment and selection**

Recruitment is the process of searching, stimulating and encouraging the prospective employees to apply for job. It aims at drawing a large pool of applicants who have the required qualification, competencies and attitude or KSACs. Some of the ways through which recruitment takes place are announcements in television, newspapers, websites, word of mouth and employee referrals. The existing employees also become a source of recruitment for higher level jobs within the organisation. When applicants are drawn from outside the organisation, it is known as external recruitment and when drawn from within the organisational, it is known as internal recruitment.

Once recruitment is completed, the selection begins. It involves choosing the best one from amongst the attracted applicants, who will be most suitable for the job position. It aims at ensuring fit between the person and the job. Thus, it aims at selecting the right candidate with necessary knowledge, skills and attitude through a series of activities by using various selection tools. Some of the common selection tools are written test, interviews, medical check-up, background check and group discussions.

- **Orientation or induction**

Once the employees are selected, the employer must orient them to familiarise and integrate with the organisation. Orientation introduces the new employees to the organisation's vision, mission and objectives; different departmental or working groups; their roles and responsibilities; new employees' own duties; policies, rules and regulations of the organisation; stakeholders with whom the organisation work; pay and benefits;

and the resources with which the new employees will work. This process enables the new employee/hire to adjust and settle into the workplace and the job easily and quickly.

- **Training and Development (T&D)**

Training is required for all levels of employee in an organisation. Training for new employees involves providing the skills required to perform their jobs while it implies learning new skills, relearning forgotten skills and upgrading the existing skills for current employees. Training and performance are closely related; training improves existing skills and knowledge which positively impact the performance of the employee. T&D also enables the employees to better understand their career skills and interest and to use these skills and interest more effectively. In the process, it helps in career development of the employees.

- **Performance management**

It aims at cascading the organisational objectives to the employees in the form of their activities and performance targets. Once the performance targets are set for employees as drawn from the organisational objectives, employees start working towards those targets with regular feedback and support from the leaders/management. Upon completion of the term, actual performance is compared with the performance targets set at the beginning. This process is known as performance appraisal. Based on the results, different strategies and programmes are used to reward and motivate the employees to perform even better. The high performers are rewarded and motivated in the form of promotion, bonus, training and development, and other monetary and non-monetary rewards. The low performers are provided support through training and development, mentoring and coaching programmes. The whole phenomena is known as performance management.

- **Compensation and benefits**

Compensation and benefits refer to the monetary and non-monetary emoluments or benefits such as salary, medical and safe working environment provided to the employees by the employers in lieu of the services rendered by the employees. It is a way of compensating the employees for the sacrifice that they have made for the organisation. Compensation and benefits are important to motivate, retain and derive employee satisfaction for better performance. Some of the common forms of compensation and benefits are salary, bonus, pension, medical insurance, commission, safe working environment, recreational facilities and free/subsidised accommodation.

- **Separation**

It refers to the practices adopted when the employees leave the organisation. Departing the organisation mostly happens on the grounds of retirement or superannuation, resignation by the employees voluntarily before the age of retirement and termination for various reasons like poor performance, misconduct on the part of the employees and plans of the organisation to reduce the size of the organisation.

Learning Activity 7.3

This activity aims to facilitate learners to develop an exposure of practising the HRM process.

Instructions: In groups, choose a business idea and complete the given tasks.

Tasks:

1. Plan the human resource requirements for implementing the chosen idea.
2. Describe how you intend to recruit and select the required employee(s).

Chapter Review

1. Describe management and illustrate how the principles of management apply to a business setting with appropriate examples.
2. Explain the concept of HRM. Discuss how is HRM related to staffing function of management.
3. What are the major functions of HRM?

Chapter 8

8. Risk Management and Internal Control System

Learning Objectives:

Risk Management is not just brakes!

What would be your answer if you were asked why cars have brakes? Most would certainly say ‘to stop the car’. The purpose of brakes is not just to stop the car but to enable the driver to drive faster and reach the destination. Why would you need the brakes if you are getting into a car that is already halted? The use of brakes to stop the car in this case becomes irrelevant.

Risk management can be related to this analogy. The purpose of risk management is not to stop the organisation from functioning when faced with risk. It is not about avoiding risk but to identify, evaluate and treat the risks, and take the organisation forward.

When the car is faced with ups and downs, the driver uses clutch to shift gears accordingly. When the road is plain and smooth, accelerator is used to drive faster. Therefore, risk management analogous to brake, clutch and accelerator in a car.

8.1 Concepts of Risk Management

Risk is inevitable in any kind of business activity. Risk is commonly understood as a situation involving exposure to danger. Businesses have objectives set at various levels; anything that obstructs achievement of these objectives can be termed as risk. In order to generate higher returns, businesses may have to assume more risk. Those businesses which fail to take risk tend to fail in generating higher returns. Therefore, risk and return are interlinked.

International Organization for Standardization’s ISO31000:2018 defines risk as an “effect of uncertainty on objectives”. It also states that an effect may be positive, negative or a deviation from the expected, and that risk is often described by an event, a change in circumstances or a consequence.

According to the Institute of Risk Management (IRM), risk is the combination of the probability of an event and its consequence. Consequences can range from positive to negative, meaning that an organisation must consider both probability of an event to occur and the impact of the event if it occurs in order to know the extent of exposure to risk. For instance, a business engaged in foreign trade will be exposed to risk of fluctuations in foreign exchange rate. In order to ascertain risk, the business must consider the probability as well as impact of changes in the foreign exchange rate.

It is also important to understand that risk is generally influenced by the environment in which the business operates. The business environment is bifurcated into internal and external environments. Factors such as changes in the company's own policies, workforce, leadership and product recall are internal to that organisation, and therefore it is more controllable. The factors such as changes in government, government policies, laws, interest rates, inflation and war are examples of factors in external environment. The particular business organisation does not have much influence on such factors and therefore the external environment is said to be uncontrollable.

There are many categories and types of risk defined under each category. However, this chapter highlights only the category depicted in Figure 8.1.

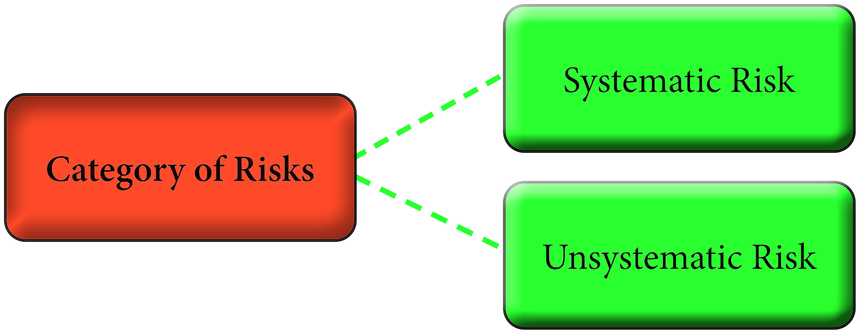


Figure 8.1 Category of risks

a. Systematic risk

This category of risks refers to uncertainties associated with the entire market or segment of the market. It mostly includes risks which arise as a result of factors in the external environment of the business organisation or industry. A few examples of systematic risk are:

- Market risk – risk caused by changes in investor's attitudes and expectations.
- Interest rate risk – risk caused by changes in the rate of interest on deposits and lending by banks.
- Inflation risk – risk caused by changes in the price of goods and services.

b. Unsystematic risk

This category of risks refers to uncertainties that affect a particular organisation or industry. It mostly includes risks which arise as a result of factors within the internal environment of the business organisation or industry. Some examples of unsystematic risk are:

- Business risk – this risk specifically refers to those risks caused by the changes in the internal and external business conditions such as change in leadership, internal policies and political priorities.
- Financial risk – risks caused by changes in the capital structure of the business. A business must maintain optimal level of debt and equity to achieve consistency in earning and growth. Weak capital structure may make business earnings and cashflows inconsistent.
- Operational risk – refers to potential losses that might arise in business operations due to fraud, poor quality production, lack of inputs for production, etc.

Due to the fact that organisations face risk, which can affect the profitability and growth of the business, risk must be managed properly. Risk management is a process of reducing the possibility of adverse consequences of events either by reducing the likelihood of an event or its impact or by converting risk into opportunity. According to the IRM, risk management is a process which aims to help organisations understand, evaluate and take action on all their risks with a view to increase the probability of success by reducing the likelihood of failure.

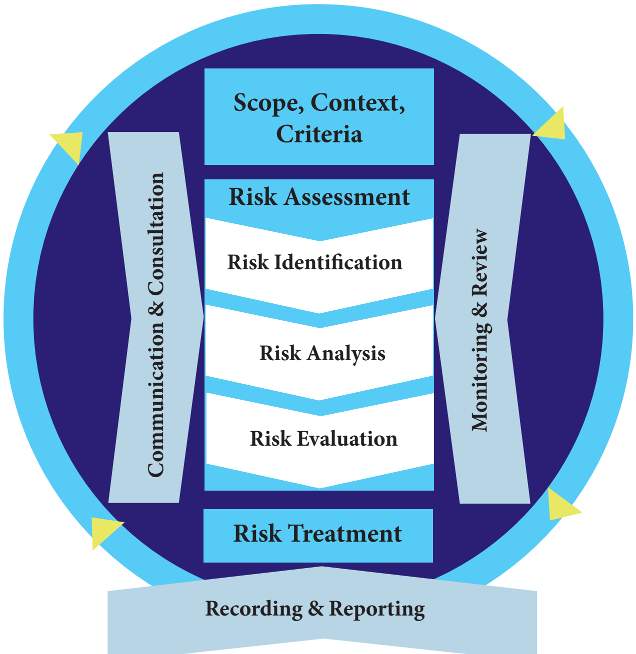
8.2 Process of Risk Management

There are several risk management standards such as ISO31000:2018, Enterprise Risk Management by Committee of Sponsoring Organisations, Standard by Institute of Risk Management and Criteria of Control by Canadian Institute of Chartered Accountants. These standards spell out the framework, principles and processes of risk management. However, the essence of these standards remains same for providing guidance on managing risk. Figure 8.2 represents the process of risk management as depicted in ISO 31000:2018.

Figure 8.2 Risk management process (adopted from ISO 31000:2018)

The risk management process involves the systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing the context and assessing, treating, monitoring, reviewing, recording and reporting risk.

8.2.1 Communication and consultation



There must be clearly established communication and consultation network within the organisation as well as with those outside the organisation. This helps in ensuring clarity of roles and responsibilities of everyone in the organisation and also in building a sense of inclusiveness and ownership among those affected by risk.

8.2.2 Scope, context and criteria

It is important to define the purpose and scope of risk management activities in the organisation. The people concerned with risk management must be familiar with the external and internal environments of the organisation. Further, determining the acceptable type and level of risk that the organisation can assume is important.

8.2.3 Risk assessment

Once the above conditions are well established, assessment of risk must be carried out. Risk assessment here refers to identifying risks; analysing the nature, characteristics, source and consequences of risk; and evaluating the severity of risk. Based on the risk appetite of the organisation, risk must be classified into controllable and uncontrollable risks.

8.2.4 Risk treatment

Treatment of risk denotes determining and applying risk management strategies based on the risk assessment results. General risk treatment options are:

- **Tolerate (Accept)**

Tolerating risk is where no action is taken to mitigate or reduce a risk. This option may be used when the risk mitigation activity is not cost-effective or impacts of the risk are found acceptable to the business. Even when these risks are tolerated, they should be monitored because future conditions may change.

- **Treat (Reduce)**

Treating risk is a method of controlling risk through actions that reduce the likelihood of the risk or minimising its impact prior to its occurrence. Diversification of investment into different products, markets or stocks is a relevant example of risk reduction strategy.

- **Transfer (Share)**

Risk transference can be achieved by using various forms of insurance or payment to third parties who accept to take risk on behalf of the organisation. Subscribing to a motor vehicle insurance scheme with an insurance company to transfer the risks of accidents or vehicular mishaps is an example of risk treatment by transferring it. By so doing, the insurance company will bear the expenses instead of the vehicle owner.

- **Terminate (Avoid)**

Risk termination is the simplest and most often ignored method of dealing with risk. It involves terminating the activity that may involve risk to the organisation.

		IMPACT/CONSEQUENCE	
		LOW	HIGH
PROBABILITY/LIKELIHOOD	HIGH	REDUCE	AVOID
	LOW	ACCEPT	TRANSFER

Figure 8.3 Risk mapping matrix

While deciding on the choice of risk management strategies, it is important to note the gravity of likelihood and consequences of risk. Generally, risk is avoided or terminated when both likelihood of occurrence and impact are found to be high. Risk reduction or treatment option would be advised in case of high probability and low impact. Risk may be accepted in case of low probability and impact, and the same is suggested to be transferred or shared in the event of low probability and high impact.

8.2.5 Monitoring and Review

Monitoring and reviewing the risk management system is an important part of risk management process. The purpose of monitoring and review is to assure and improve the quality and effectiveness of process design, implementation and outcomes of risk management. Ongoing monitoring and periodic review of the risk management process and its outcomes should be a planned part of the risk management process, with responsibilities clearly defined. Monitoring and review should take place in all stages of the process. Monitoring and review includes planning, gathering and analysing information, recording results and providing feedback on the risk management system.

8.2.6 Recording and Reporting

The risk management process and its outcomes should be documented and reported through appropriate mechanisms. Recording and reporting aims to communicate risk management activities and outcomes across the organisation; provide information for decision-making; improve risk management activities; and assist interaction with stakeholders, including those with responsibility and accountability for risk management activities.

Learning Activity 8.1

This learning activity intends to facilitate learners to practice implementation of risk management process.

Instructions: In groups, think about and decide on any business you wish to do together and complete the given tasks.

Tasks:

1. List as many activities as possible that would be involved in the conduct of chosen business.
2. Make a list of likely risk factors associated with each of the activities.
3. Assign rating on the likelihood and impact of the risk factors using the guidelines given below.

Likelihood	Rating	Impact	Rating
Not likely	1	Low	1
Likely	2	Moderate	2
Very likely	3	High	3

4. Use the Risk mapping matrix to plot the ratings of likelihood (y-axis) and impact (x-axis) and decide their control measures as shown in the table.

List of business activities	List of risk factors	Likelihood Rating	Impact Rating	Control Measures

8.3 Internal Control System

Business organisations have vision, mission and objectives which the organisations strive to achieve. Despite the effort put in by the organisations in attainment of stated aims and objectives, risk factors or uncertainties obstruct its achievement. A sound system of internal control is desired for realising operational efficiency and effectiveness, reliability of financial reports and compliance with applicable laws and regulations.

Internal control system refers to any effort put in by the organisation for the purpose of enhancing the likelihood of achieving its objectives. The Committee of Sponsoring Organisation of the Treadway Commission (COSO) in the United States defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. Through this definition, one can understand that internal control aims at achievement of operational efficiency and effectiveness, reliability of financial reports and compliance with applicable laws and regulations. It is also clear that internal control is the responsibility of the board of directors, management and other personnel, and not mere provisions in policies and procedures. Further it emphasises that it only provides reasonable assurance and not absolute assurance as it suffers from limitations such as management overrides and collusion.

Figure 8.4 The COSO cube (Source: COSO)

Elements of effective internal control system can be elaborated with the help of COSO cube given in Figure 8.4. The upper face of the cube represents objectives, side face represents its applicability and front face denotes the essential elements of internal control.

As stated above, the three primary objectives of internal control are to ensure:

- Efficiency and effectiveness in operations – this aims to minimise wastage, misutilisation, theft, etc., in operational activities of the organisation.
- Reliability of financial reporting – this aims to ensure that financial reports are reliable and free from misrepresentation and fraud.
- Compliance with applicable laws and regulations – organisations must adhere to laws and regulations, internal control attempts to make sure that the organisation and its people follow applicable laws and regulations.

The elements represented on the face of the cube helps in achieving these objectives. The elements include: control environment; risk assessment; control activities; information and communication; and monitoring activities. Each of these are briefly explained below:

- **Control environment**

The control environment provides discipline and structure for the achievement of the primary objectives of the system of internal control. In order to build a supportive control environment for implementation of internal control, there must be commitment to integrity and values by directors and management. The board of directors must be independent from management and there must be clearly established communication, reporting lines and distribution of authority and responsibilities for attraction, development and retention of competent workforce. The individual concerned must be held responsible for internal control.

- **Risk assessment**

A prerequisite for risk assessment is establishment of objectives. Without clearly articulated objectives, risk cannot be identified. Having established the objectives, the risks involved in achieving those objectives should be identified, analysed and evaluated. This assessment should form the basis for deciding how the risks should be managed. For developing an effective internal control, risk assessment practices must be thoroughly embedded in the organisation.

- **Control activities**

These are policies and procedures that ensure that the decisions and instructions of management are carried out. Control activities occur at all levels within an organisation, and include organisation control, personnel control, segregation of duties, physical control, authorisation and approval, arithmetic and accounting, supervision and management controls.

Organisation controls refer to the controls such as separation of an organisation's activities and operations into departments with a clear division of responsibilities, delegating authority within the organisation, establishing the reporting lines and co-ordinating the activities of different departments. These controls are provided by the organisational structure or hierarchy.

Personnel control refers to the control implemented in selection, orientation, placement, training and development, retention and separation of HR in the organisation.

Segregation of duties help in implementing control through division of labour and not empowering an individual to complete the entire transaction but making at least few individuals responsible for a particular transaction. For instance, in a purchase transaction, risk of manipulation would be high if an individual alone completes the entire process of transaction. The risk of manipulation could be reduced if the procurement personnel places the order, store personnel receives the supplies, cashier makes payment and accountant keeps the financial records.

Physical controls are measures and procedures to protect physical assets against theft or unauthorised access and use. These include using a safe to hold cash and valuable documents; using secured entry systems to buildings or areas of a building; appointing dual custody of valuable assets, so that two people are needed to obtain access to certain assets; conducting periodic inventory checks; hiring security guards and using closed circuit television cameras, installation of detectors and warning system for probable disasters, etc. Few other control activities suggested are authorisation and approval, arithmetic and accounting, supervision and management controls.

- **Information and communication**

An organisation must gather information and communicate it to the right people so that they can carry out their responsibilities. Managers need both internal and external information to make informed business decisions. The quality of information systems is a key factor in this aspect of internal control.

- **Monitoring activities**

The internal control system must be monitored to ensure its relevancy and adequacy. This element of an internal control system is associated with internal auditing as well as general supervision. It is important that deficiencies in the internal control system be identified and reported up to senior management and the board of directors for necessary actions.

Learning Activity 8.2

This activity intends to make learners understand about internal control system.

Instruction: Read the given case and complete the task.

Internal Control System at DrukPro Ltd.

Mr. Gyalpo Dorji is the newly appointed Chairman of the Board at DrukPro Limited. The company has been facing several issues pertaining to its internal control system. There is less importance being placed on control system by the predecessor board coupled with a lack of commitment to values, ethics and discipline. Risk management is also regarded as an occasional event and it is not embedded into company's operation. The company is also faced with other operational issues such as misutilisation of resources, theft, role ambiguity, fragmented reporting lines, lack of monitoring and oversight functions.

Task:

Suggest the new chairperson a robust system which could improve the internal control functions of his company.

Chapter Review

1. Discuss the need and importance of risk management in a business organisation.
2. Describe how internal control system achieves its objectives related to operations, reporting and compliance.

Chapter 9

9. Bhutanese Financial System and Business Finance

Learning objectives

- Explain Bhutanese financial system
- Explain financial markets and their instruments
- Describe the procedure of listing securities with RSEBL
- Discuss the functions of financial institutions and intermediaries
- Describe the roles of regulators in the financial system
- Describe the concepts of business finance
- Explain factors affecting capital structure of the business
- Conduct project costing and financial projection for the business
- Analyse projected financial statements

Learning Activity 9.1

This activity aims to facilitate learners to understand the contribution of financial sectors to the economic development of the nation.

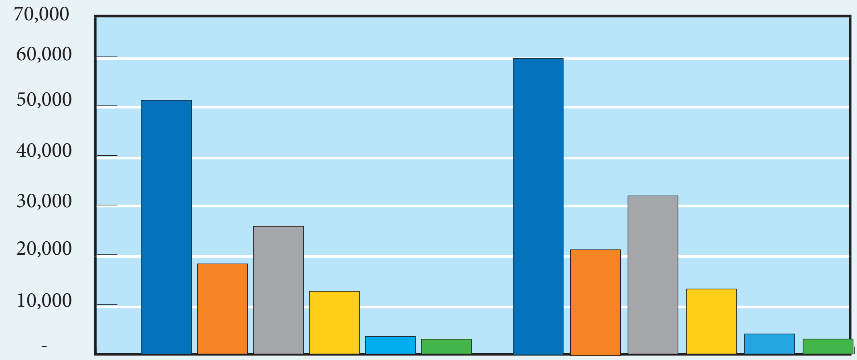
Instructions: Study the extract given on 'Loans to micro, cottage, small, medium and large enterprises (MCSML)' and complete the given task.

Loans to Micro, Cottage, Small, Medium and Large enterprises (MCSML)

Adapted from Financial Sector Performance Report, September 2019 (RMA)

The following graph illustrates the amount of loan granted to MCSML enterprises. Of the total loans of Nu. 133.13 billion provided by the financial sector, 24% (Nu. 31.85 billion) was given to medium enterprises which is the highest, followed by large and small enterprises with 16% (Nu. 21.34 billion) and 10% (Nu. 13.11 billion), respectively. he loan to micro and cottage enterprises comprised of only 5% (Nu. 7.09 billion).

The analysis of the loans to MCSML and non-enterprise (housing, personal, transport, staff loan, education loan, loan against fixed deposits, loans to government and others) reveals that loans are on an increasing trend over the years. The highest hike as of September 2019 was observed in medium enterprise (Nu. 60 billion) as compared to that of September 2018. The increase was mainly attributed to significant increase in loans to service & tourism industry by Nu. 3.5 billion, and trade and commerce by Nu. 2.16 billion.



	Sep-18	Sep-19
Non-Enterprise	51,113.50	59,745.06
Large	18,163.04	21,335.25
Medium	25,736.21	31,852.17
Small	12,649.76	13,110.08
Cottage	3,573.89	4,055.17
Micro	3,014.48	3,033.42

Task:

Considering the increasing trend of lending by financial sector to MCSML enterprises, discuss the possible economic development activities.

9.1 Bhutanese Financial System

The Bhutanese financial system comprises of the central bank, banking institutions, non-banking institutions and capital market.

The Royal Monetary Authority (RMA) is the central bank of the country which regulates, supervises and promotes both banking and non-banking institutions. Its regulations are also applicable to the capital market in addition to the regulations of Royal Securities Exchange of Bhutan Limited (RSEBL). Figure 9.1 depicts Bhutanese financial system.

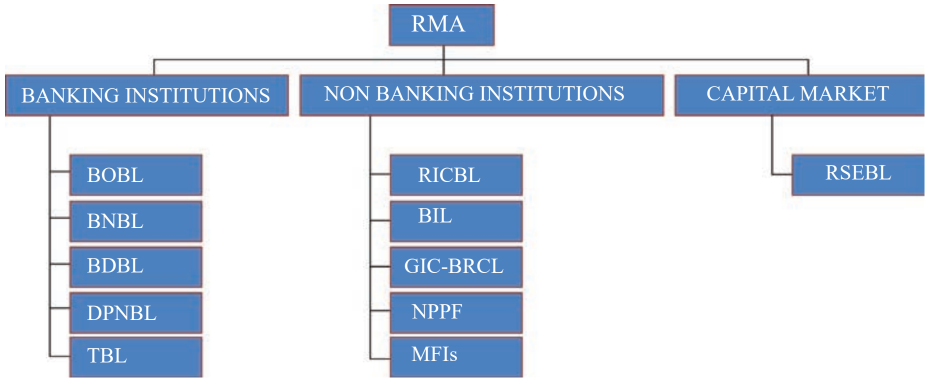


Figure 9.1 Bhutanese financial system

The Bhutanese financial system is broadly categorised into financial markets consisting of money market and capital market. A financial market is a market where financial instruments such as shares, bonds and currencies are traded. Figure 9.2 represents the financial markets and instruments.

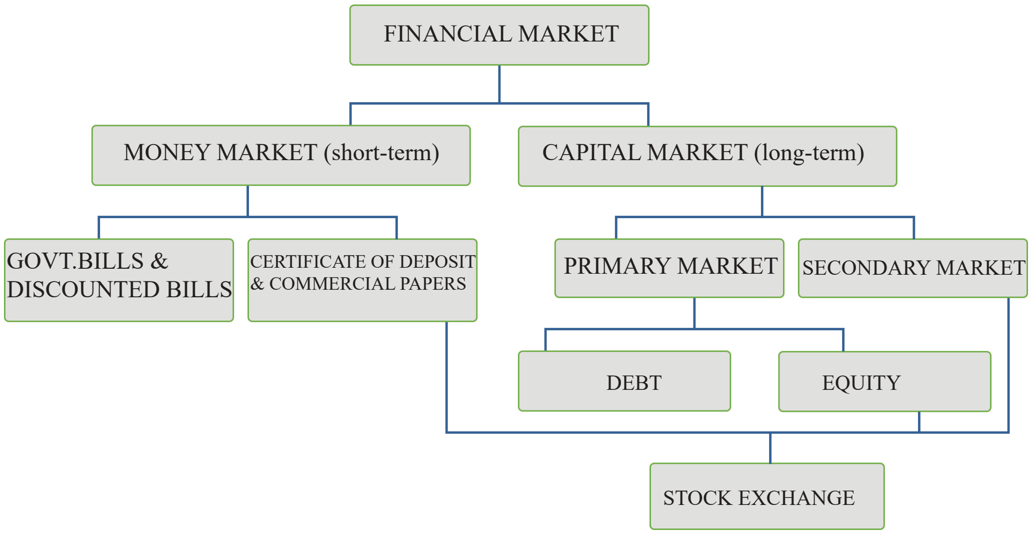


Figure 9.2 Financial markets and instruments

a. Money market

Money market is one of the components of financial market in which financial instruments such as Treasury Bills, Certificate of Deposits and Commercial Papers are traded. These financial instruments are of high liquidity and short maturity in nature which is less than a year.

The instruments traded in money market are briefly explained below.

- Treasury Bill (T-Bill) is a debt instrument used by the government for financing temporary shortfall in the government budget. It is also known as government bills or discounted bills, meaning it is issued below the face value. The maturity period of Treasury Bills varies between 30 to 364 days.
- Certificate of Deposit (CD) is a money market instrument issued by the commercial banks to raise funds from the secondary money market with a maturity less than a year.
- Commercial Paper (CP) is a money market instrument issued for a specified amount and are payable on a fixed date. CPs are issued by the companies incorporated under the Companies Act of Bhutan, 2016 to raise the short-term finance.

b. Capital market

Capital market is a component of financial market where investment instruments such as bonds and equities are traded for long-term financing. In other words, it deals in long term securities. Bonds are long term debt sold to investors by the companies, government and other institutions at fixed interest rate. Equities refer to the stock of companies traded through stock exchange for long-term financing. The equity holders are the owners of the companies who are paid dividend for the number of shares they own.

The Royal Securities Exchange of Bhutan Limited (RSEBL) is the only stock exchange in Bhutan's capital market. Capital market consists of two categories:

- Primary market: It is a part of the capital market in which the companies issue Initial Public Offerings (IPO). IPO refers to the shares issued by the companies to the public or institutions for the first time.
- Secondary market: It is a part of capital market where issued securities are traded after the IPO.

RSEBL operates as a membership organisation comprised of seven brokerage firms which are established under the Companies Act and licensed under the Financial Institutions Act (FIA). As of June 2020, RSEBL has seven brokerage firms namely: BOB Securities, BNB Securities, RICB Securities, BDB Securities, Drukyul Securities Broker Private Limited, Lekpay Dolma Securities Broker Private Limited and Sershing Securities. The buying and selling of securities take place through these brokers.

The companies wishing to trade their shares in stock exchange must list their shares on the stock exchange. The shares are first issued in the primary market and then traded in the secondary market. IPO has to be routed through capital market and the procedures for the IPO are illustrated in Figure 9.3.

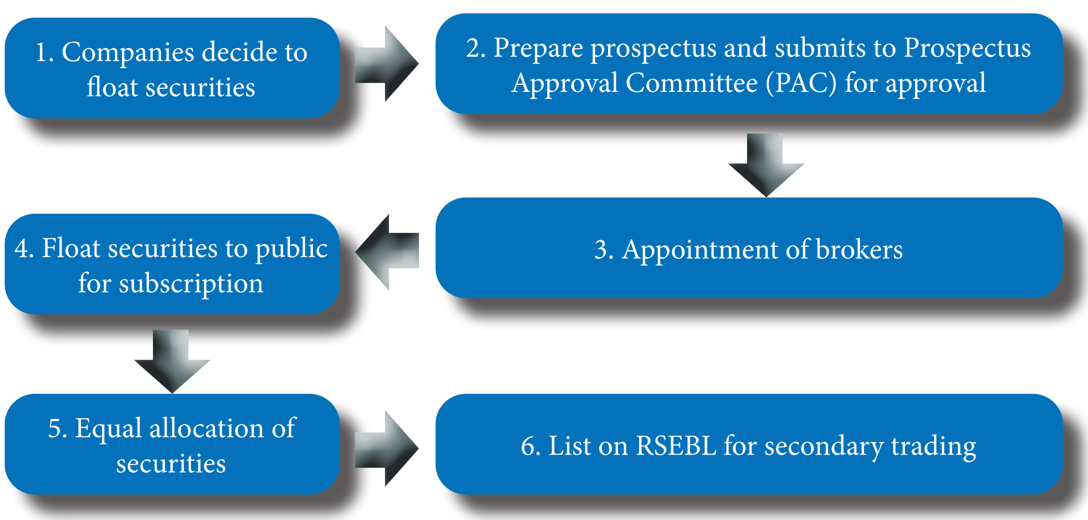


Figure 9.3 Procedures of IPO

Learning Activity 9.2

This activity intends to help learners to explore the qualifications and procedures for listing of securities with RSEBL.

Instructions: Read the provisions related to qualifications and procedures for listing securities with RSEBL from its 'Rules Governing the Official Listing of Securities' which can be downloaded from: https://www.rsebl.org.bt/Rules_and_Regulations

Task:

Describe the qualifications and procedures for listing securities with RSEBL.

9.2 Financial Intermediaries

Financial intermediaries refer to institutions or middlemen that facilitate financial transactions between investors and borrowers. Intermediaries in money market are banks, insurance companies, pension fund managers and microfinance institutions. Brokerage firms, underwriters, clearing and settlement house and depository are some of intermediaries in capital market.

The roles of intermediaries in capital market are highlighted below:

- Intermediaries such as brokerage firms facilitate buying and selling of securities enabling companies to raise capital and provide platform for the investors to make investment in securities.
- Underwriters as an intermediary in the capital market agree to underwrite and assume offered securities if the minimum subscriptions are not met.
- Clearing and settlement house render proper clearing and settling of transactions of securities within the give period of time.
- The central depository maintains electronic record of ownership and transfer of securities.

In principle, clearing and settlement house, and central depository are intermediaries in capital market but in Bhutan these two intermediaries are housed under RSEBL as separate divisions.

9.3 Functions of Financial Institutions

a. Central bank

RMA is the central bank in Bhutan, which is an independent authority tasked with maintaining price stability, management of external reserves and foreign exchange operations, regulating financial institutions and providing economic advice to the government.

b. Banking institutions

Banking institutions are those institutions which provide financial services such as accepting deposits and advancing various types of loans. In addition, these banks offer other services such as cheque clearing, fund transfer and e-financial services. Further, banking institutions also facilitate purchase and sale of securities by being brokerage firm.

c. Non-banking institutions

Non-banking institutions do not have full banking license and do not accept deposits from the public. However, non-banks provide other financial services, such as insurance, medium and long-term loans, securities brokering, securing retirement income, reinsurance and investment.

d. Micro financial institutions (MFIs)

MFIs cater to cottage and small industries, and low-income group of people through services such as deposits, loans, payment services, money transfers and insurance. Two types of micro finance institutions in Bhutan are:

- Microloan Institutions, which provide loan to a micro finance client not exceeding Nu. 500,000. However, the loan is not provided for personal consumption purposes.
- Deposit-taking Micro Finance Institutions take deposits from public and use the fund for advancing microloans and funding other authorised activities.

Some of the registered MFIs in Bhutan are RENEW Microfinance Private Limited, BAOWE-Pelzing, Bhutan Care Credit Limited, Tarayana Microfinance, Microfinance Bhutan Private Limited and Rural Enterprise Development Corporation Limited.

MFIs provide opportunity for a focused group of people to avail microloans. The targeted clients, therefore are able to initiate their own businesses and improve their livelihood. It aims at encouraging saving and further use the deposits to give loans to other clients who invest the money. MFIs also aim to cover risks through micro-insurance schemes. The MFIs through their services and supports promote entrepreneurship amongst the target groups.

Today, the financial institutions provide most of its services through electronic finance, also called e-finance. It refers to the financial services rendered with the help of internet and electronic gadgets. This system offers fast, secured and efficient real-time financial services to the public.

Some of the e-financial services rendered in Bhutan are electronic fund transfer, payment of utility bills, loan repayment, payment of insurance premiums, stock market trading and online loan applications supported through the websites, mobile application of the banks and G2C services. These minimise inconveniences and delays associated with conventional method and makes banking faster and more convenient.

9.4 Roles of Regulators in Bhutanese Financial System

The regulators in Bhutanese Financial System are RMA and RSEBL. Following are some of the important roles performed by the regulators:

a. RMA

RMA as the regulator has the following roles:

- **Regulation of the availability of currency**

The RMA is responsible for exercising control over the amount of banknotes and coins in circulation. Since BTN is pegged with INR at parity, it is necessary for the RMA to ensure that all currency notes and coins issued by it are backed 100 percent by its assets in either Indian rupees or other readily available convertible currencies.

- **Promotion of financial sector development**

RMA ensures smooth functioning of the economy by establishing effective financial system. The authority also strengthens the financial sector by promoting specialised institutions like development banks, microfinance institutions, stock exchange and foreign exchange markets.

- **Promotion of monetary stability**

One of the purposes of RMA is to promote monetary stability or otherwise interpreted as the promotion of price stability. RMA is responsible for controlling inflation (money supply growth) by maintaining the growth of money supply corresponding to the growth of the economy.

- **Supervision of financial institutions**

RMA ensures that the financial institutions conduct their business on a sound prudential basis and according to applicable rules and regulations. It is also the licensing authority for the financial institutions.

- **Serving as the Bank of Issue**

The RMA has the sole right to issue notes and coins in Bhutan. This directly influences the amount of currency circulation outside the banks, thereby providing the economy with sufficient liquidity but not to the extent of inflationary liquidity.

- **Bankers' bank**

As the bankers' bank, RMA has the responsibility to accept deposits from the banks (example: cash reserve) as prudential reserves, discount commercial and government paper on their behalf, and to act as the lender of last resort in case the banks face short-term liquidity problems. It also provides clearing facilities for inter-bank transactions.

- **Government's bank**

RMA serves as the depository and fiscal agent of the government. The RMA may also make temporary advances to the government and with the approval of the government. It may also give advances to government institutions, agencies and local government bodies.

- **Advisor to the government**

The RMA may advise the government on monetary and financial matters. The RMA may also be requested to advise the government on any matter related to its functions, powers and duties, the credit condition in the country or any proposal, measures and transactions relating thereto.

- **Guardian of the country's external reserve**

The RMA is the depository of the official external assets of the country, including gold and foreign currency reserves. Guarding international reserves also implies the responsibility for the exchange rate policy and reserve management.

b. RSEBL

RSEBL as a regulator in the capital market performs the following important roles:

- Helps new companies to raise capital by making their securities available for sale in the market.
- Facilitates trading of issued securities of listed companies and monitors and regulates such trading.
- Supervises and regulates the activities of the brokerage firms.
- Ensures that there is an organised and regulated market for trading of securities.
- Acts as the central depository and clearing and settlement house.

9.5 Concept of Business Finance

Business finance refers to the amount of borrowed and owned capital invested in a business. The borrowed capital is known as debt while owned capital is known as equity. Management of business finance relates to the process of planning, acquiring, utilising, managing and controlling of funds. Businesses require finance for establishing, operating, procuring assets, expanding and diversifying the business. The capital structure and some of the sources of debt and equity are illustrated in Figure 9.4.

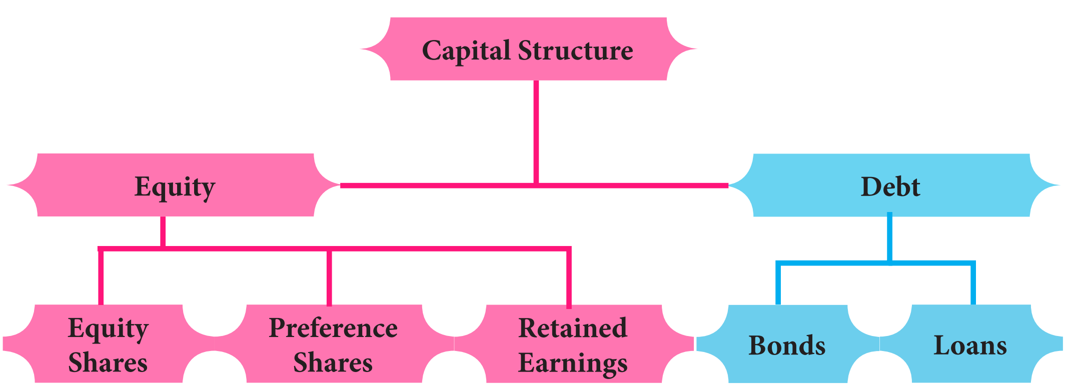


Figure 9.4 Capital structure and sources of debt and equity

Equity shares are the main source of finance for the company and are commonly known as common stocks or ordinary shares. The equity holders or ordinary shareholders are the real owners of the company and have the right to participate in the corporate decision-making by exercising their voting rights in Annual General Meeting.

Preference shares are shares which confer certain preferential rights on preference shareholders in terms of dividends and capital repayments upon winding up of the company over ordinary shareholders. Issue of this type of share is not common.

Retained earnings comprise the total net profit retained in the business after distribution to the shareholders in the form of dividends.

Debt is a popular source of finance due to its low cost of raising. It can be raised through issue of corporate bonds, commercial papers and loan notes. Bonds are long-term debt capital raised by companies, government and other institutions for which interest is paid, usually half yearly and at a fixed rate. It is classified as non-current liability. Bonds are of various types such as secured, unsecured, convertible, non-convertible, redeemable, irredeemable, registered and unregistered.

Learning Activity 9.3

This activity intends to facilitate the learners to identify the long, medium and short-term finances for the businesses, and evaluate how equity is different from debt.

Instructions: Explore different sources of finance and complete the given tasks.

Tasks:

1. Make a list of different sources of finance for a business and classify them into long, medium and short-term finances.
2. Discuss the needs for raising long and short-term finance for a business and evaluate how equity differ from debt finance.

9.6 Factors Affecting Capital Structure

The proportion of debt and equity in the capital of a business is called as capital structure. A properly defined capital structure helps in determining the sources of capital and understanding the risk of ownership and control. The capital structure varies from one business to another. Some of the factors determining capital structure are briefly discussed below:

- **Nature and size of business**

Nature and size of business determine the proportion of debt and equity. For instance, the business with small capital base will rely more on owner's funds and internal earnings. On the other hand, large business has to depend on capital market and need finances from different varieties of securities and instruments.

- **Cost of raising capital**

The cost of capital determines the types of securities to be issued and it differs from securities to securities. Generally, the cost of equity is higher than the cost of debt.

- **Risk**

If a firm's business risk is low then it can raise more capital by issue of debt securities whereas if the firm has high business risk, it depends more on equity.

- **Control of the enterprise**

The management control over the business is one of the major determinants of capital structure decisions. If the owner of the business wishes to retain control, they prefer to issue debt instruments than equity.

- **Flexibility**

Flexibility means the firms' ability to adopt its capital structure to the needs of changing conditions such as growth and liquidity requirement. Thus, business prefers to have more debt than equity in the capital structure to enjoy more flexibility.

- **Stock market condition**

The capital structure decision is influenced by the boom or recession conditions of the market. In times of boom, it would be easier for the business to raise equity because investors take risk to earn more dividend. However, during the downturn of the economy, investors hesitate to take risk and as a result, the business will go for debt financing.

- **Cash flow position**

Capital structure of the business depends upon the ability of business to generate enough cash flow. A business borrows more of debt if company is sure of generating enough cash inflow. On the contrary, if there is inconsistent and deficit cash flow, businesses prefer equity capital.

- **Profitability**

A company aiming for higher profitability and return on equity shares would prefer more debt component in capital structure.

- **Tax consideration**

The dividend payable on equity and preference share capitals are not deductible during tax filing, causing the high cost of equity funds. Interest paid on debt is deductible from income and reduces the cost of debt funds, thereby debt being preferred over equity.

Learning Activity 9.4

This activity aims to provide learners a practical experience of determining capital structure on the basis of business form they choose.

Instructions: Select a form of business organisation and discuss the most preferred capital structure for the chosen business form, in groups.

Task:

Present the proposed capital structure for the chosen business form with justification.

9.7 Project Costing

Project costing is a process of estimating cost for implementing a project plan. It is primarily concerned with the estimation of capital expenditure needs, pre-operating expenses and working capital requirement of the business. Ascertainment of total project cost is very essential for understanding the total amount of money required for establishing and operating a business.

Determination of total project cost is essential for every business in determining cost, making financing decision, price fixation, cost management and in identifying unprofitable activities.

Following are the components of project cost:

a. Capital expenditure

Capital expenditure is the amount of money spent in acquiring and maintaining non-current assets such as land, building and equipment. In other words, all direct costs which are incurred on the acquisition of an item of property, plant and equipment are also called capital expenditures.

b. Pre-operating expenses

Pre-operating expenses refer to the amount of money spent by the business before it commences its operation. The amount spent in business registration, consulting fees, research and development and training of employees are some examples.

c. Working capital

Working capital refers to the amount of money needed to carry out daily business operation. In other words, it is the amount of needed to cover up direct and indirect operating costs involved in a business. Some of the broad costs that constitute working capital are:

i. Prime cost

Prime cost is the sum total of direct materials cost, direct labour cost and direct expenses.

Prime cost = Direct Material Cost + Direct Labour Cost + Direct Expenses

- **Direct material cost**

Direct material cost is the cost of material which can be directly identified and can be allocated to cost unit conveniently. For example, cost of raw materials and insurance, freight inward, taxes and duties.

- **Direct labour cost**

Direct labour cost is the cost associated with the payment made for the labour who are directly engaged in the production process. For example, wages/salaries, provident fund, gratuity, overtime, incentives, bonus, leave encashment, wages for holidays and idle time, etc., for workers.

- **Direct expenses**

A direct expense includes any expenditure other than direct material and direct labour engaged in the production process. Examples: hiring of equipment for a particular job, cost of special layout, design or drawings and fees paid to architects, etc.

ii. Overhead cost

Overhead cost is the aggregate cost of indirect materials, indirect labour and other expenses which cannot be easily charged to specific cost units. Thus, overhead costs are all expenses other than direct expenses. Overheads can be subdivided into:

- Factory overhead,
- Office and administration overhead and
- Selling and distribution overhead.

Each of these overhead costs comprises of indirect materials, indirect labour and indirect expenses.

Overheads = Indirect Material + Indirect Labour + Indirect Expenses

- **Indirect Material**

Materials used in the manufacture of goods which cannot be directly identified in the job or the product. For example, consumable stores, spare parts and lubricants.

- **Indirect labour**

Indirect labour is wages which cannot be conveniently identified with or allocated to cost units. Examples of indirect labour are salaries of staff in the administration and accounts department, salaries of security staff, etc.

- **Indirect expenses**

Indirect expense includes any expenditure other than indirect material and indirect labour which cannot be easily identified and allocated to the cost unit. Examples of indirect expenses are insurance, taxes, duties, etc.

A template for computing project cost is given below.

Template for Project Costing		
A	**Capital Expenditure**	
	Land	xxx
	Building	xxx
	Machinery & equipment	xx
	Transport & other equipment	xx
	Furniture	xx
	Others	xx
	Total Fixed Investment (A)	**XXXX**
B	**Pre-operating Expenses**	
	Business registration	xx
	Cost of training	xx
	Others	xx
	Total Pre-operating Expenses (B)	**XXX**
	Total Investment =A+B	
C	**Working Capital**	
	Direct Operating Cost:	
	Direct material cost	xx
	Direct labour cost	xx
	Factory overheads (excluding depreciation)	xx
	Indirect Operating Cost:	
	Marketing expenses (excluding depreciation)	xx
	Organisation & management expenses (excluding depreciation)	xx
	Debtors (Credit sales)	xxx
	Less: Cash sales	xxx
	Working Capital Required (C)	**XXX**
D	**Total Project Cost = Total Investment + C**	**XXXX**

9.8 Projected Cost Sheet

Projected cost sheet refers to a projected statement that reflects a detailed overview of the estimated cost likely to be incurred in the process of production of goods and services. It is used to determine the cost of a product, services and cost unit.

A pro forma of projected cost sheet is given below:

Particulars	Year 1		Year 2		Year 3	
	Total Cost (Nu.)	Cost per unit (Nu.)	Total Cost (Nu.)	Cost per unit (Nu.)	Total Cost (Nu.)	Cost per unit (Nu.)
Direct Materials	XXX	XXX	XXX	XXX	XXX	XX
Direct Labour	xxx	xxx	xxx	xxx	xxx	xx
Direct (or chargeable) Expenses	xxx	xxx	xxx	xxx	xxx	xx
Prime Cost	XXX	XXX	XXX	XXX	XXX	XXX
Factory Overheads	xxx	xxx	xxx	xxx	xxx	xx
Factory Cost/ Work Cost	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**
Office and Administrative overheads	xxx	xxx	xxx	xxx	xxx	xxx
Cost of Production	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**
Selling and Distribution overheads	xxx	xxx	xxx	xxx	xxx	xxx
Total Cost or Cost of Sales	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**
Profit or Loss	xxx	xxx	xxx	xxx	xxx	xxx
Sales	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**	**XXXX**

9.9 Projected Financial Statements

Projected financial statements refer to projected statement of cash flow, projected statement of comprehensive income and projected statement of financial position. The projected statement of cash flow helps in estimating series of inflow and out flow of cash and cash equivalent of a business. The projected statement of comprehensive income estimates future operating results of the business. The projected statement of financial position estimates future financial position of the business.

The pro forma of projected financial statements are given below:

1. Pro forma of Projected Cash Flow Statement:

Particulars	Year 1	Year 2	Year 3
A. Beginning cash balance	xxx	xxxx	xxxx
Cash In-Flow			
1. Cash Sales	xxx	xxx	xxx
2. Equity contribution	xxx	xxx	xxx
3. CapEx (Capital Expenditure) loan	xxx	xxx	xxx
4. Interest received	xxx	xxx	xxx
5. Working capital loan	xxx	xxx	xxx
B. Total Cash In-Flow	**xxxx**	**xxxx**	**xxxx**
Cash Out-Flow			
1. Capital expenditure	(xxx)	(xxx)	(xxx)
2. Direct operating costs	(xxx)	(xxx)	(xxx)
3. Indirect operating costs	(xxx)	(xxx)	(xxx)
4. Interest paid	(xxx)	(xxx)	(xxx)
5. Repayment of loan	(xxx)	(xxx)	(xxx)
6. Tax	(xxx)	(xxx)	(xxx)
C. Total Cash Out-Flow	**(xxxx)**	**(xxxx)**	**(xxxx)**
D. Net Cash (B-C)	**xxx**	**xxx**	**xxx**
Ending Cash Balance (A+D)	**xx**	**xx**	**xx**

Generally, statement of cash flows comprises of cash inflows from three broad activities which include operating, investing and financing activities, startups will have only few of the items. Therefore, the proforma presented here is a customised version.

2. Pro forma of Projected Income Statement

Particulars	**Year 1**	**Year 2**	**Year 3**
A. SALES	XXXXX	XXXXX	XXXXX
Less: Taxes on sales	(xx)	(xx)	(xx)
A1. Net Sales	XXXX	XXXX	XXXX
B. DIRECT OPERATING COST			
1. Direct materials costs	(xxx)	(xxx)	(xxx)
2. Direct labour costs	(xxx)	(xxx)	(xxx)
3. Factory overheads excluding depreciation	(xxx)	(xxx)	(xxx)
B1. Total Direct Operating Costs/Cost of goods sold	(XXX)	(XXX)	(XXX)
C. GROSS PROFIT (A1-B1)	XXX	XXX	XXX
D. INDIRECT OPERATING COSTS			
1. Marketing expenses excluding depreciation	(xxx)	(xxx)	(xxx)
2. Organisation & management expenses excluding depreciation	(xxx)	(xxx)	(xxx)
TOTAL INDIRECT OPERATING COST BEFORE DEPRECIATION & PRE-OPERATING EXPENSES	(XXX)	(XXX)	(XXX)
3. Depreciation	(xxx)	(xxx)	(xxx)
4. Pre-operating expenses	(xxx)		
E. TOTAL OPERATING COSTS	(XXX)	(XXX)	(XXX)
F. OPERATING PROFIT (C-E)	XXX	XXX	XXX
G. INTEREST	(xxx)	(xxx)	(xxx)
H. NET PROFIT BEFORE TAX (F-G)	XXX	XXX	XXX
I. TAX	(xxx)	(xxx)	(xxx)
K. NET PROFIT AFTER TAX (H-I)	XXX	XXX	XXX

3. Pro forma of Projected Statement of Financial Position

ITEMS	**Year 1**	**Year 2**	**Year 3**
CURRENT ASSETS:			
Cash	xxx	xxx	xxx
Receivables	xxx	xxx	xxx
Inventories	xxx	xxx	xxx
Total Current Assets (A)	**xxx**	**xxx**	**xxx**
NON-CURRENT ASSETS:			
Land	xxx	xxx	xxx
Building	xxx	xxx	xxx
Machinery & Equipment	xxx	xxx	xxx
Office Equipment	xxx	xxx	xxx
Transport Equipment	xxx	xxx	xxx
Others	xxx	xxx	xxx
Total Non-Current Assets	xxx	xxx	xxx
Less: Accumulated Depreciation	xx	xx	xx
Book Value of Non-Current (B)	**xxx**	**xxx**	**xxx**
TOTAL ASSETS (A+B)	**XXXX**	**XXXX**	**XXXX**
2. LIABILITIES			
CURRENT LIABILITIES:			
Account Payable	xxx	xxx	xxx
Working Capital Loan	xxx	xxx	xxx
Total Current Liabilities (D)	**xxx**	**xxx**	**xxx**
NON-CURRENT LIABILITIES:			
Fixed Investment Loan	xxx	xxx	xxx
Retirement benefits obligations	xxx	xxx	xxx
Total Non-Current Liabilities (E)	**xxx**	**xxx**	**xxx**
3. EQUITY			
Owner's Equity	xxx	xxx	xxx
Retained Earnings	xxx	xxx	xxx
Current Profit	xxx	xxx	xxx
Total Equity (F)	**xxx**	**xxx**	**xxx**
TOTAL LIABILITIES & EQUITY (D+E+F)	XXXX	XXXX	XXXX

9.10 Analysis of Projected Financial Statement

The analysis of projected financial statements reveals important information pertaining to the future cash flows, profitability and financial position. Some of the important methods of analysis are Break-Even Analysis, Pay Back Period, Net Present Value and Return on Investment.

a. Break-even Point (BEP) analysis

Break-even analysis refers to determining a point in which total cost and total revenue are equal. It is a point at which the business recovers its project cost through revenue. Calculation of BEP helps the business in understanding the year in which, production volume or sales volume recovers the total project cost.

Revenue in excess of break-even point results in profit while revenue falling below break-even point results in loss. BEP can be obtained using the given formula:

$$\text{BEP} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}}$$

Where, Contribution Margin = Sales – Variable Costs

Figure 9.5 illustrates clear information on break even point.

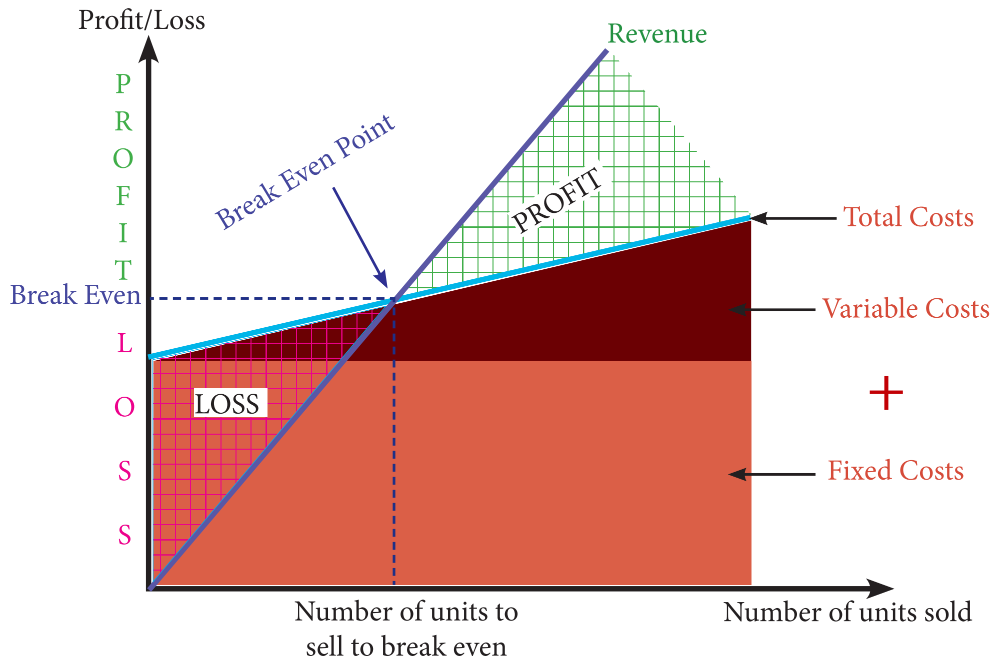


Figure 9.5 Break Even Point.

Example: Nado Enterprise has projected its fixed costs at Nu. 60,000.00, which consist of lease rent, depreciation of assets, executive salaries and property taxes. The variable costs associated with producing the chips are raw material, wages and sales commissions which is estimated at Nu. 0.80 per unit. Selling price is estimated at Nu. 2.00 per unit.

Considering the above information, BEP of Nado Enterprise is calculated as follows:

$$\text{BEP} = \frac{60{,}000}{2 - 0.80}$$

= 50,000 units

Thus, Nado Enterprise is required to sell 50,000 units of chips in order to recover the total expenses. At this level of sales, the company makes no profit no loss.

b. Payback Period (PBP)

Payback period is a capital budgeting technique (method) used to estimate the amount of time taken by an investment to reach its break-even point. It gives a quick judgement of how fast a business recovers its initial investment. Shorter payback periods are desired over longer periods. Similar to the break-even analysis, PBP can indicate the duration of an investment to break-even. Mathematically, the payback period can be calculated by dividing initial investment (cost of investment) by the cash flow per period.

$$PBP = \frac{Cost\ of\ Investment}{Cashflow}$$

Example: Azha Pasa wants to start a dairy farm with 5 jersey cows and the total cost of the cows plus establishment will be Nu. 1,000,000. He expects an annual income of Nu. 200,000 from the sale of dairy products. The PBP of the project is

PBP= 1,000,000/200,000=5 years.

Therefore, Azha Pasa needs to wait at least 5 years to recover his initial outlay (investment) of Nu. 1 million.

c. Net Present Value (NPV)

Net present value (NPV) is the value of all future cash flows over the entire life of an investment discounted to the present value. It is one of the popular methods with which entrepreneurs and investors make investment decision. The projects with NPV equal or greater than zero are considered acceptable while those projects with NPV lesser than zero are considered unacceptable.

$$\mathbf{NPV} = \sum_{i=1}^{n} \frac{C_i}{(1+r)^n} - C_0$$

Where C = cash flow, r = discount rate, n = year of cash flow, C_0 = initial investment

Example: Project Y estimated Nu. 35,000 as initial investment and projected to generate Nu 27,000 per year for two years at 12% discount rate.

$$\text{NPV} = \frac{27{,}000}{(1+0.12)^1} + \frac{27{,}000}{(1+0.12)^2} - 35{,}000$$

=Nu. 10,631

=Nu. 10,631

Thus, NPV of project Y is positive, which is greater than zero and the project is favourable to be pursued.

d. Return on Investment (ROI)

ROI is a method of calculating the profitability of business. It determines how much money can be made on the investment as a percentage of the cost of investment. ROI is calculated by subtracting the cost from the total income and dividing it by the total cost:

$$ROI = \frac{Revenue - Cost}{Cost}$$

Example: Ap Zeko invested Nu. 10,000,000 in constructing a10-unit commercial apartment building. He expects to charge a monthly rental of Nu.10,000 for each unit. The ROI in 20-years after the completion of the building can be calculated as:

$$ROI = \frac{(10 * 10{,}000 * 12 * 20) - 10{,}000{,}000}{10{,}000{,}000}$$

$$= \frac{14{,}000{,}000}{10{,}000{,}000}$$

$$= 1.4 \text{ or } 140\%$$

Chapter Review

1. Describe the need and roles of the regulators in the financial market.
2. Differentiate between debt and equity.
3. Elucidate the importance and methods in capital budgeting.

Chapter 10

10. Marketing and Promotion

Learning Objectives

- Define marketing
- Describe the functions of marketing
- Distinguish between traditional and modern marketing concepts
- Explain marketing mix
- Describe the emerging trends in marketing
- Explain the fundamentals of market research

Learning Activity 10.1

This activity aims to help learners explore how marketing helps in delivering a superior user experience and generating revenue.

Instructions: Read the given article and complete the task.

Steve Jobs and Apple

Apple Inc., an American multinational technology company that designs, produces and sells consumer electronics such as computers, mobile phones, tablets and watches, is one of the world's leading technology companies with market capitalisation over USD 1.3 trillion. Steve Jobs was one of the founders of Apple. Jobs was neither an engineer nor had high academic qualification. Despite this, Jobs succeeded in leading and leaving behind legacies of innovation and wealth. The open secret behind Jobs' success was that he excelled in marketing. Apple's marketing has become a benchmark for other companies that want to reach similar heights of success.

Apple understood that customers and prospects do not need complex marketing campaigns that overwhelm them with information. Thus, making marketing as simple as possible. They took out product feature lists, price, voice-overs and special effects. There is not much of information on where and how to buy Apple's products, instead the ads and other marketing messages are very straightforward, mostly showing the product and letting it speak for itself.

Backed by the budget, the company has done well in getting its devices on television shows and movies. Getting customer reviews also remain as a priority for Apple. An essential part of Apple's marketing strategies is not getting involved in price wars but sticking to its pricing, although it is often much higher than the prices charged by the competitors. This is done by hyping their unique value proposition that no other competitor has been able to emulate. In addition, Apple focuses on providing a great user experience with great features and extensive applications, making the customers feel like paying a higher price. The company does not just make and sell products but creates memorable experience for users, enticing them to purchase repeatedly. Unique user experience is created through product launches that feel like going to a rock concert, movie-style ads, stores and online shops that revolutionise the shopping experience. Apple studies their customers well so that it can communicate to them in their own language, and this creates a deeper bond and boost sales.

Another marketing approach Apple has been using is the creation of mystery about what they are doing next with product launches and announcements, exciting customers to make speculations. Further, Apple's ads show happy people having a great time with their iPads and iPods rather than focusing on features such as memory size and battery life. Furthermore, Apple has been successful in creating a community of fans for its products. These unique marketing efforts and campaigns contribute in making Apple a USD 1.3 trillion company as of 2019.

Tasks:

1. Describe the role of marketing in making Apple a successful company.
2. Explain how Apple differentiated its marketing efforts from the competitors.

10.1 Concepts of Marketing

Marketing is an essential business function which deals with understanding customer needs and preferences, communicating value proposition that business offers and persuading the customers to stick to the value proposition offered by the business. In simple terms, it refers to the activities undertaken by the business to promote sale of its products. Traditionally, these took place at a location called market where buyers and sellers come together for exchanging goods and services. However, owing to globalisation and emergence of information and communication technologies, market today is not limited to a physical place alone. It includes virtual platforms offered by internet, social media and websites, making marketing activities sophisticated, easier and faster.

According to American Marketing Association, marketing is the activity, set of institutions and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large.

Figure 10.1 illustrates the marketing process.

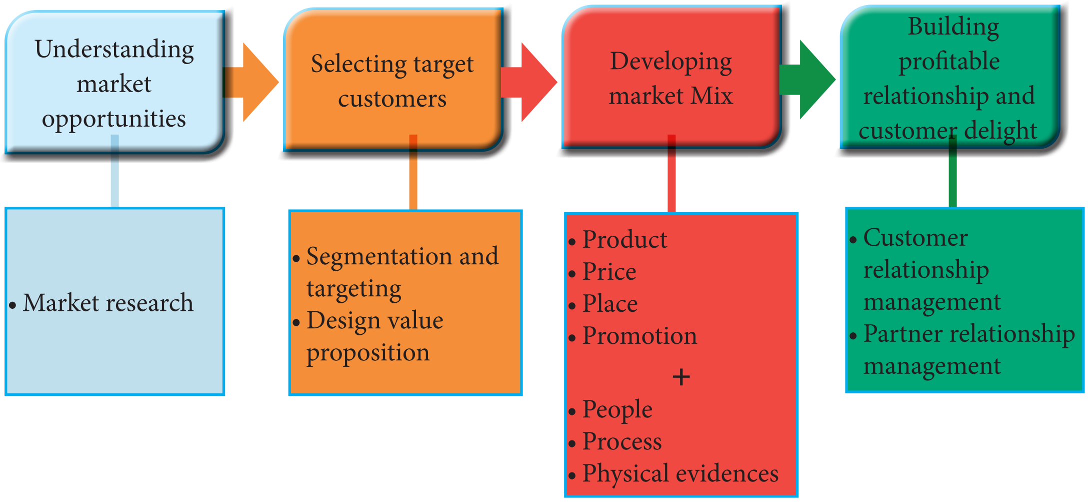


Figure 10.1 Marketing Process

1. Understanding market opportunities

The first step in marketing is to understand the environment of market and the needs and wants of the customers. In understanding these, businesses conduct market research. Market research consist of collecting data, analysing and interpreting information which helps in making decisions to capitalise market opportunities.

2. Selecting target customers

After understanding the market opportunities, segmenting of market and targeting of customers must be completed. Segmentation of potential customers based on similar attributes such as age, gender, income, occupation, location and lifestyle are important as it allows a business to precisely reach consumers with specific needs and wants. Selecting specific target customers from chosen segment is necessary for deciding the value proposition to be offered.

3. Developing marketing mix

This step pertains to delivery of value proposition through marketing mix which consist of product, price, place and promotion, also called as the 4Ps of marketing. In case of service marketing, marketing mix is extended to 7Ps. These are explained in one of the subsequent topics.

4. Building profitable relationship and customer delight

This stage relates to providing customer delight through development and fostering of customer relationship. This is done through customer engagement and relationship management. It also includes development of mutually beneficial relationships with the marketing partners such as marketing agents and distributors.

10.2 Marketing Mix

Figure 10.2 Marketing Process

Marketing Mix is a combination of marketing tools that are used to satisfy customers and the objectives of the business organisation. Following are the components of marketing mix:

- **Product**

It refers to tangible goods produced and intangible services rendered to satisfy the needs of the customers. Businesses must ensure that right type of products are made available to the customer in the market. A product must have distinctive brand, label and package to differentiate it from products of competitors.

- **Price**

It is the monetary value a customer pays for the product. The product must be priced reasonably to match the utility and satisfaction that customers derive from its usage. While developing a pricing strategy, the business needs to consider not only the product's manufacturing cost but also the prices being charged by its competitors, and how change in the selling price is likely to affect demand.

- **Place**

It represents a location where buying and selling of a product takes place. It is also referred as the distribution function of marketing. The purpose of place mix is to make the product available to customers at the right place and at the right time using appropriate distribution channel. The choice of channels of distribution depend on nature of the product, size of the market, cost of channels of distribution, size, weight and price of the product.

- **Promotion**

It is the process of communicating with the customer to inform, remind or persuade them to purchase products by changing their attitude and mindset through medium such as advertisement, public relation, sales promotion and personal selling.

- **People**

People refers to customers available in the target market and the employees in the business. It is important for the business to determine that there are adequate customers to purchase products and capable employees to deliver the products. It is important to hire and train the right people to deliver superior service to the customers.

- **Process**

The systems and processes of the organisation affect the delivery of the products. The systems and processes include the organisation structure, policies, recruitment and selection system, operations system and performance management among others. The process in the organisation must be efficient and cost effective.

- **Physical evidence**

It refers to the visual aspects of an organisation and its products that customers see while interacting with the business. It includes but not limited to the physical environment of the store, design and layout of sales point, brand and packaging of the goods, and dress code and communication manner of employees.

10.3 Elements of Promotion Mix

The integration of all promotion mix elements is necessary to satisfy the information requirements of all target customers. There are five popular elements of a promotional mix namely advertising, personal selling, sales promotion, public relations and direct marketing.

Figure 10.3 Elements of promotional mix

- **Advertising**

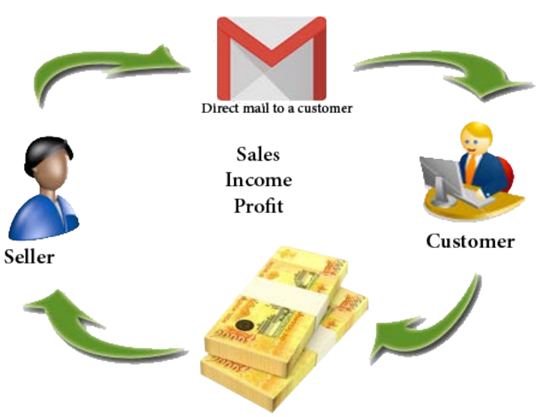
It is an attempt of informing the public about an idea, goods or services through a paid announcement by an identified sponsor to promote sales.

- **Sales promotion**

Sales promotion is one of the marketing strategies that intends to promote sales using short term incentives and ways such as free sample, demonstrations, discount coupon, displays, fairs and exhibitions, trade show and premium.

- **Personal selling**

Personal selling is an art of persuading customers to buy a product by giving detailed information about the goods or service through face-to-face interaction between the customer and the seller. It is also known as salesmanship.



- **Direct marketing**

Direct marketing describes a range of promotional activities that target the customers directly, so that the promotional message is sent straight to the target audience. Direct mail, short message service (SMS), telemarketing and email marketing are useful ways to target the potential customers.

- **Public relation**

Public relation or publicity is also a

way of mass communication. Organisations engage in public relation activities to build and promote a favourable image of its own. It includes delivering public speeches, giving interviews, conducting seminars, giving charitable donations, inaugurating products by celebrities and popular personalities and stage show. These attract media to publish news about the events, the company and its businesses.

Learning Activity 10.2

This learning activity helps learners to understand the differences amongst elements and factors affecting the choice of promotion mix.

Instructions: Recall the lesson on promotion mix to draw distinction amongst its elements and determine the factors affecting the choice of promotion mix.

Tasks:

1. Describe the differences amongst the elements of promotion mix.
2. Discuss what determines the choice of promotion mix.

10.4 Creative Brief

Creative brief is a tool widely used by advertising agencies and marketing personnel while designing or implementing marketing campaigns. It is a communication tool that outlines a project's or campaign's requirements, expectations, goals and resources budgeted for marketing campaigns. It also serves as a road map for advertising agencies to design and roll out marketing campaigns.

Most creative briefs include the following:

- Objective of the campaign
- Customer problem it intends to solve
- Target audience
- Customer insights
- Desired response from customer
- Key messages to the customer
- Why should they believe us?
- Brand positioning statement
- Tone and manner
- Media options
- Mandatories and requirements

Following is a sample creative brief designed for Hush Puppies as a part of educational exercise.

Hush Puppies

HUSH PUPPIES BRIEF
ADT/001/IMC
Group-5(M2)

BRAND STATEMENT

The Hush Puppies is a life style brand that provides shoes, eye-wear, watches and clothing for both men and women.

Brand Statement

PROJECT BACKGROUND

Hush Puppies history is rooted in innovation from inventing the first truly casual shoes to developing technologies that make the shoes more comfortable, lightweight and worry free. The brand strives to consistently evolve Hush Puppies world renowned comfort, bringing customers the most advanced technologies available in footwear today. The project consists in developing an advertising marketing campaign of the Hush Puppies shoes that provide comfort and relaxation just by wearing them, because these characteristics are invaluable and enable them to find one more reason to relax.

Campaign context and background

TARGET AUDIENCE

Males and Females between 20-40 years where the audience should be belonging to ClassA, ClassB and chunk of ClassC whose rate of life requires: comfort, functionality, and style. People wearing these shoes should need to feel natural, relaxed, authentic, with a young spirit, free, simple and healthy.

Audience demographics & Psychographic

ADVERTISING OBJECTIVES

New campaign to increase brand awareness and demand of the Hush Puppies shoes.

Campaign goals

CONSUMER MESSAGE

Shoes made as per your lifestyle and choices,

"Driving ideas"

KEY CONSUMER BENEFIT

Provides comfort, functionality and style that touches the lives and imaginations.

Key Message

BENEFIT SUPPORT

- Whether it is water, stain and scuff resistant *worryFreeSuede,* or the newest exclusive technology, WaveReflex featuring extreme flexibility and technologies like Zero G.Bounce, etc. Hush Puppies strives to provide benefits that enables to find one more reason to relax
- Dual-density foam footbed with contoured arch for better grip and elegant shoe designs.
- Handstiched and Environmental aware products.

Product details

COMPETITION

AllenCooper, LeeCooper, Blanca, Navyfont, Redtape, Adidas, Nike, Puma and others (as well as other premium Bata product lines too is a setback)

Competition

ADVERTISING TONE

Trustworthy, Comfortable, Durable, Modern, Innovative

ADVERTISING MEDIUM

In-store & Outdoor Advertising, Magazines Advertisement and Social Network Advertisments.

Brand voice and communication channels

MANDATORY ELEMENTS

Hush Puppies Logo, Real Product Image, Attention drawing text or TagLines, Price and Technology(s), Values and Benefits, Availability (Retailers, Online & Physical stores), Company website.

Other requirements

Learning Activity 10.3

This learning activity intends to develop learners' competency in writing a creative brief.

Instruction: Choose a business of your preference to prepare a creative brief.

Task:

Design an appropriate creative brief for the chosen business.

10.5 Traditional and Modern Marketing Concepts

As a result of the ever-increasing penetration of smartphone and access to internet, the way businesses market their products have transitioned from a traditional to modern marketing approaches.

a. Traditional marketing

It is a form of marketing that uses conventional mode of marketing that involves reaching out to customers with various conventional ways without using the internet and disruptive technologies. Traditional marketing modes include television, radio, newspaper, magazine, trade shows and mails. Distribution of goods and services depends on the intermediaries such as merchants, agents and distributors.

With an increase in smartphone users, increasing internet penetration, proliferation of e-commerce platforms and emergence of social media and integration of disruptive technologies such as artificial intelligence and machine learning, many businesses have shifted from traditional to modern marketing approaches.

Following are some of the approaches used in traditional marketing.

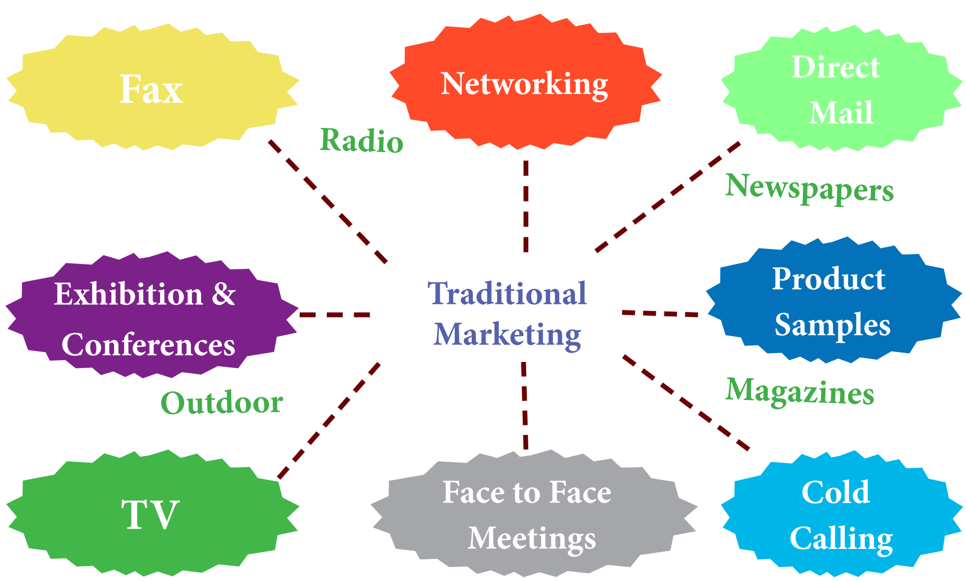


Figure 10.4 Approaches of traditional marketing

b. Modern marketing

Modern marketing refers to marketing of goods and services using internet and disruptive technologies. Few examples of modern marketing techniques include social media marketing, pay-per-click, email marketing, internet ads, product placement, content marketing and display advertising.

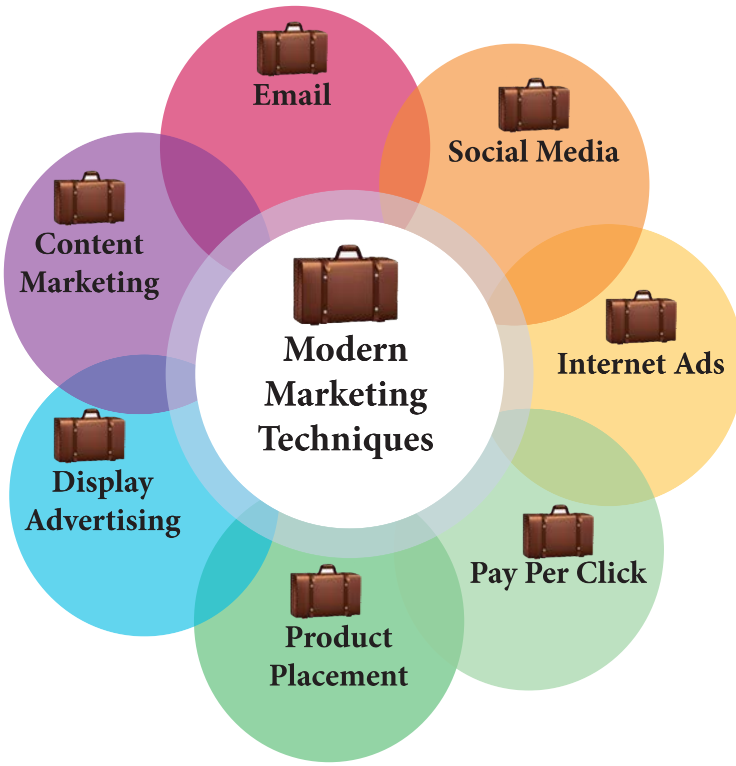


Figure 10.5 Exmples of modern marketing techniques

10.6 Market Research

Market research is a process of determining viability of a new product by understanding customer needs through systematic identification of problem, development of research plan, collection of data, analysis of data and finally interpreting and making informed decisions. It has become a fundamental basis on which businesses take strategic decisions. In absence of proper market research, businesses will not know what customer problems are and thereby producing products which customers do not need, leading to wastage of resources. Figure 10.6 depicts the generally followed process in market research.

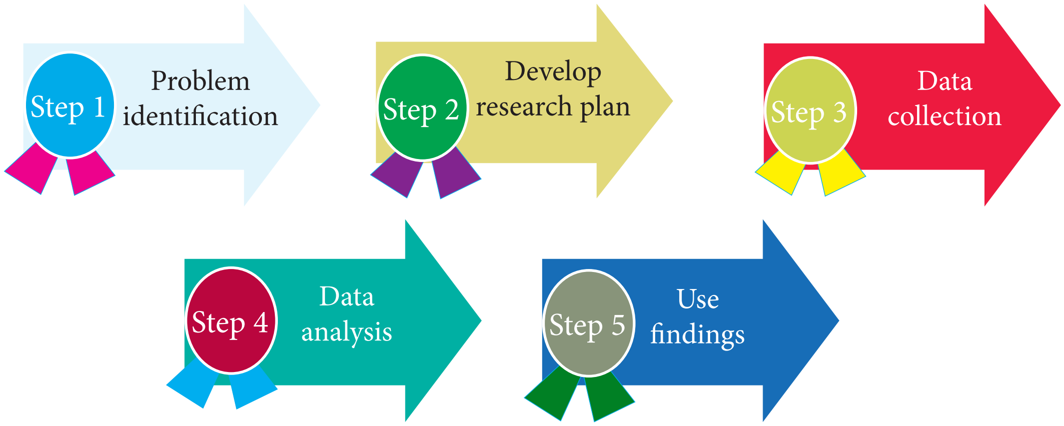


Figure 10.6 Market research process

The first step in market research is identifying the problem. Problems refer to the pains customers presently suffer in the market. Proper identification of problem is very important to understand what products customers need in solving their problems. Defining the problems becomes the basis for determining the information need and appropriateness of data collection method.

After having defined the problems, the second step is to develop a research plan. Development of research plan pertains to understanding and taking decisions on the kind of information required, data collection method, data analysis tool and preparation of research instruments such as questionnaire and interview questions/guides.

Third step involves collection of data through secondary and primary sources. Secondary sources include reports, research articles and books from where ready-made data or information is available. Primary data collection requires the researcher to collect data personally from the field or through enumerators. Few data collection methods are questionnaire, interview and focus group discussion. Today, businesses use several on-line computer-based tools for collecting data.

The analysis of data refers to cleaning, inspecting and transforming data into useful information and insights about the customer needs and wants. The information and insights found through data analysis is called as research findings. Several statistical tools such as Statistical Package for Social Sciences (SPSS), Stata, R and Microsoft Excel can be used to analyse data.

The final step in market research is to make use of the findings for strategic business decisions.

Chapter Review

1. Define marketing and explain the basic process of marketing.
2. How is modern marketing concept different from the traditional approach?
3. Discuss the components of marketing mix.
4. Discuss how emerging trends in marketing changed the way marketing is done.
5. Explicate the process of market research.

Chapter 11

11. Business Communication

Learning objectives:

- Define concepts of business communication
- Elucidate effective business communication skills
- Explain the barriers to effective business communication
- Present different types of business correspondences
- Highlight key etiquettes of effective business communication
- Explain the concepts and process of negotiation

Learning Activity 11.1

This activity aims at creating awareness in learners about the need for effective communication and how to overcome communication barriers.

Instructions: Choose 15 learners from the class comprising of boys and girls and let them stand in a line facing the opposite wall except the first learner who will face the front wall.

The teacher will motion an observable gesture to the first learner in line. The first learner then turns back and demonstrates the gesture to the second learner in line and it continues till the last learner acts out the gesture. Rest of the learners can be engaged as audience.

Task: The participants and audience can share what went right or wrong in the communication process and suggest some ways to overcome the barriers.

11.1 Concepts of Business Communication

Kara Blackburn argued that one can have all the great ideas in the world but if it fails to be communicated, nobody will hear them. Communication in general refers to exchange of information between people through certain means such as sounds, gestures and semiotic signs and symbols to get a desired response from the receiver of information. However, understanding business communication is subtle as it accounts for effective communication beyond human set up into organisational, social and business environment. Thus, business communication refers to exchange of information between or among parties involved in the operation of the business in order to promote business goals, objectives, aims and activities. It also enables to increase the profitability by selling products to the customers. Effective business communication fosters valuable rapport within the organisation and with its stakeholders, resulting in enhanced productivity. On the contrary, a number of unforeseen problems, including disgruntled customers, delayed projects and diminishing productivity can be some of the consequences of poor business communication.

An effective business communication can be fostered using appropriate communication channels which are referred to as communication media.

A communication media refers to a channel through which information is exchanged between internal and external stakeholders of the business. These media are basically classified into written, oral and electronic, and they can be formal, informal or unofficial. Figure 11.1 represents the broad classification of channels used in business communication.

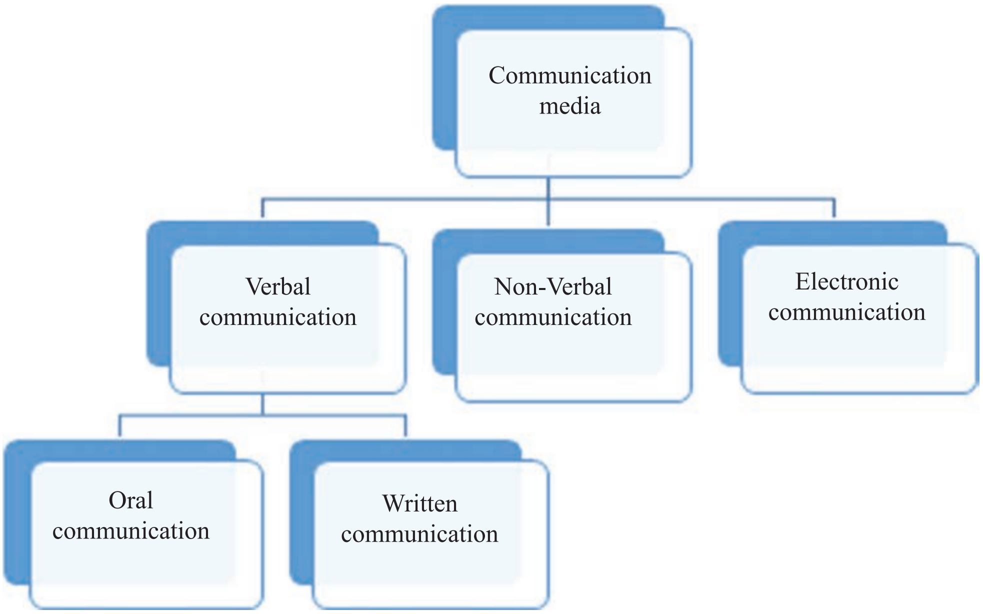


Figure 11.1 Modes of business communication

a. Oral communication

It refers to conveying of message through spoken words such as face-to-face conversation, video conferences, group presentations, telephonic conversations, speeches and lectures. It proves useful when the business wants to introduce a key official information or an idea or change a long-standing policy or following up on written business correspondences.

b. Written communication

It refers to conveying information using written words. It includes texts, memos, letters, documents, reports, newsletters, spreadsheets and electronic texts such as e-mails and SMS (short message service) which are digital version of written communication. The context and comprehensibility of written communication must be clear. The receiver must seek clarification in case of any ambiguity in the written communication. Written messages are effective in transmitting large information at a time since human brain cannot absorb a substantial amount of classified information at one go. Formal business communications such as job offer letters, contracts and budget proposals should always be in the written form. Both oral and written communications fall under the category of Verbal Communication.

c. Non-verbal or gestural communication

It refers to conveying information without using words. The information or the message is conveyed with the help of facial expressions, posture or body movements or other visual or auditory signs and symbols such as colours and music. The major forms of non-verbal communication include sign, action and para languages. Charlie Chaplin (Charles Spencer Chaplin) and Mr. Bean (Rowan Atkinson) are the two best known characters for their non-verbal communication skills. Even the 'Tom and Jerry' cartoon series demonstrate the use of various non-verbal communications.

d. Electronic or multimedia communication

It refers to dissemination and reception of business information through television and radio broadcasts, internet and web-based channels such as social media, interactive blogs and intranet. Electronic communications allow dissemination of business messages instantaneously and globally besides enabling people to talk face-to-face across long distances in the virtual world. Through the emergence of interactive and disruptive technologies, marketing and selling of products to relevant customer segments and business units have proliferated beyond imagination. It has also facilitated the firms to advise customers and manage product recalls resulting from manufacturing defects and security issues. Electronic and multimedia communications are based on the modern technology. Today, almost all the businesses use these channels to advertise and sell their products and services beside using them for formal communications.

Learning Activity 11.2

This activity intends to make learners explore the significance of various channels of business communication and identify key challenges in fostering effective business communication.

Instructions: Learners are required to explore ideas from different information sources and discuss these ideas to carry out the given tasks.

Tasks:

1. Which channel of business communication would be most suitable for a startup entrepreneur in your locality to market the business? Discuss and present your answer to the class.
2. List some of the challenges in fostering effective business communication in the situation mentioned in Task 1 and suggest if electronic and multi-media

channels would help to solve some of the challenges.

11.2 Principles of Effective Business Communication

Principles of effective business communication provide guidelines aimed at fostering effectiveness of communication. The principles are:

- ***Principle of clarity:*** The sole responsibility of an effective communication rests on the sender of the message. The communicator must be clear about the subject matter that is to be communicated.
- ***Principle of brevity:*** To have effective communication in the business organisation, all messages must be accurate, consistent and precise.
- ***Principle of compassion:*** In order to make the communication effective, the communicator must understand the need, background and the intelligence level of the receiver.
- ***Principle of completeness:*** An effective communication should be adequately comprehensive and complete in all respects. If some information is missed out, the receiver is bound to make assumptions which might lead to misinformation.
- ***Principle of timelines:*** In order to get the desired result, the messages should reach the receiver on time or else the communication might become meaningless.
- ***Principle of attention:*** Listening to the verbal messages carefully implies an active process in effective communication. The communicator must grab the individual attention of the receiver and should make sure that the message does not hurt the sentiments of the receiver.
- ***Principle of feedback:*** Feedback refers to actual response or reply of the receiver to the communicator. There should always be a follow-up action to ensure that the message is rightly understood.
- ***Principle of integrity:*** The message sent must be consistent with the objectives, policies, rules anwd regulations of the organisation. The provisions of the policies, rules and regulations related to communication must be adhered by both sender and receiver.

11.3 Effective Business Communication Skills

Communication is key in every aspect of life, but it is especially crucial in the workplace. Specific business communication skills are essential for success of the business and career progression. However, the communication process encounters several barriers which reduces the effectiveness of communication.

Barriers to effective business communication are the obstacles or blockages which create confusion and misunderstanding, and may lead to the breakdown of the communication process leading to business inefficiency and dwindling productivity. These communication barriers are broadly classified into external barriers, organisational barriers and personal barriers as represented in Figure 11.2.

BARRIERS TO BUSINESS COMMUNICATION

A. External Barriers

1. Semantic Barriers
2. Emotional or Psychological Barriers

i. Inattention
ii. Perceptual Barriers
iii. Transmission Loss
iv. Premature Evaluation
v. Reliance on Written Words
vi. Distrust
vii. Failure to Communicate

B. Organisational Barriers

i. Organisational Policy
ii. Status Relationship
iii. Rules & Regulations
iv. Complexity in Structure
v. Organisational Facilities
vi. Information Overload

C. Personal Barriers

1. Barriers in Superiors

i. Attitude
ii. Fear of Challenge to Authority
iii. Lack of Confidence in Subordinates
iv. Lack of Time
v. Lack of Awareness
vi. Ignoring Communication

2. Barriers in Subordinates

i. Unwillingness
ii. Lack of Proper Incentive

Figure 11.2 Barriers to communication

Nevertheless, the barriers are often overcome by developing essential communication skills. Broad classifications of business communication skills are depicted in Figure 11.3.

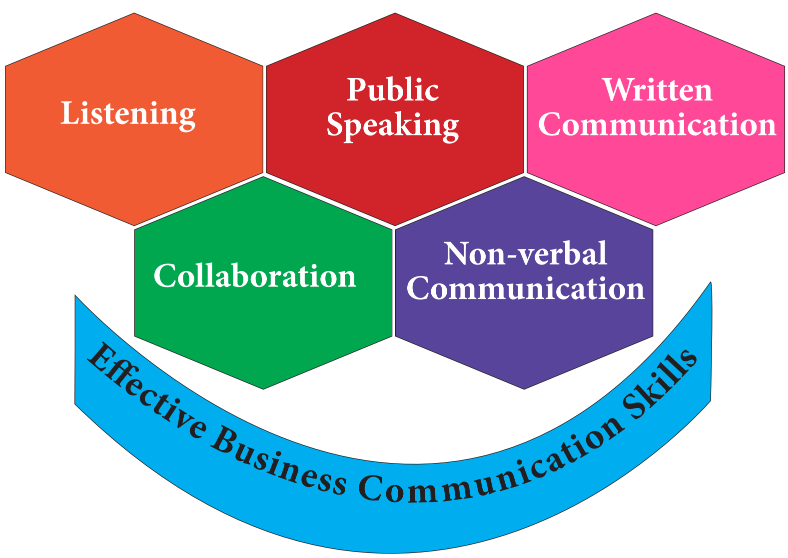


Figure 11.3 Effective business communication skills

Learning Activity 11.3

This activity stimulates learners to explore the barriers to communication and understand how these barriers could be managed in the business organisation.

Instructions: Learners need to study Figure 11.2 and complete the following tasks.

Tasks:

1. Select any three barriers to business communication and discuss how they would impact the efficiency of the business.
2. Recommend some ways to overcome these barriers and explain to the class.

11.4 Business Correspondences

Business correspondences refer to written communication used for business purposes. The correspondences are used for communicating, transacting and documenting business transactions and may be classified under internal or external correspondences. It ranges from brief email messages to complex legal agreements. Some documents are prepared by employees and business owners, while others are prepared by external professionals such as auditors and lawyers. Some of the key business correspondences include business letters, reports, memorandums, etc. The most commonly used correspondences include the following:

- **Emails**

Electronic mail or e-mail is a system of electronic correspondence by which users send and receive message over a network of computers and telecommunication links. The message may consist of short notes and greetings, or extensive text files plus graphics and photographic images, video clips or sound files. It lets people communicate even if the receiver at the other end is at the furthest. It enables to send e-mail message at any time or whenever desired. The person, to whom the email is sent, can read the same whenever desired. Thus, the sender and the receiver do not have to connect themselves at the same time to communicate for that particular message.

- **Memorandums**

A memorandum refers to a short piece of writing used by an officer of an organisation to communicate within the organisation. It is used for internal communication between executives and subordinates. It identifies the sender and recipient, contains a subject line and the text is formatted in one or more paragraphs. Since a memo moves from one department to another or from one employee to another within an organisation, it is essential to write the name of the person sending the memo and the name of the recipient and the designation or department of both the persons. It must be dated and contain a reference number.

Druk Pizza Pvt. Ltd

Head Office Phuntsholing

Office Memo

Taste Matters

Date : September 30, 2020

Ref. No.: DPPL/Memo/05/2020/36

To : Departmental Heads and Supervisors

From : Chief Executive Officer

Subject : *Quarterly Sales Report Meeting*

The quarterly sales meeting will be held on October 5, 2020 in the head office conference hall. All the departmental heads and unit supervisors are required to attend without fail with sales report for the quarter. You are also required to prepare a presentation for five minutes covering all the activities executed during three months (July-September).

Please confirm your attendance by October 4 through a phone call or email to office assistant.

CC:

1. Company president for kind information
2. Board of directors
3. Departmental heads
4. Unit Supervisors

Figure 11.4 Example of a memo

- **Office order**

Office order refers to a written order containing directions or instructions which are complied with by the person receiving the order. It is an example of downward communication and carries a stamp or seal of authority and people working at lower levels are bound to accept this. It is used to communicate matters concerning posting, promotion, transfer, suspension, etc.

Druk Pizza Pvt. Ltd
Head Office Phuntsholing

Taste Matters

Ref/DIR/OO(10)/2020/45 July 1, 2020

Office Order

As per the decisions of the 10th Board Meeting held on June 30, 2020, any report on issue pertaining to company must be routed through the departmental heads. If the reports are submitted without adhering to the board decisions will not be recorded and addressed. All the departmental heads are hereby requested to brief the staff under the respective unit about the change in reporting procedure.

This is issued for strict compliance and necessary action by all the staff.

Thanking you,

Karma Jigme
Director
CC:
1. Company president for kind information
2. Board of directors
3. All departments and units
4. Notice board

Figure 11.5 Example of a office order

- **Note sheets**

Note sheet refers to documents written for a requisition of budget appropriation or allocation for purchases or for delivering services. It mentions the nature of the activity, the budget required and the reason for seeking the budget. It is an example of an upward communication.

Druk Pizza Pvt. Ltd
Head Office: Phuntsholing

Taste Matters

Ref/DIR/NS(12)/2020/30

Note Sheet

This is to apprise sir that, shelfs in the store have become totally unusable and many are in dire need of maintenance. This has resulted in damage of goods and work space problem in the store. The issue was presented to 10th board meeting and resolved to replace those totally unusable and maintain those requiring maintenance.

The cost of maintenance and replacement is estimated at Nu.150,000 (labour charges for maintenance Nu.60,000 and Nu.90,000 for replacement).

The budget for the same has been booked from the budget code 3.44, the procurement and maintenance of furniture. Kindly, approve the same for timely purchase and maintenance.

Pema Dorji
Procurement officer

Rinzin Dorji
Finance officer

Karma Jigme
Director

Figure 11.6 An example of a note sheet

- **Minutes of meeting**

It refers to the written resolutions unanimously agreed on the agendas discussed during the business meetings. Minutes are documented for compliance and subsequent actions, official records and future references. It is the duty of an authorised person to record all such discussions, deliberations and decisions in writing and produce them when required by the business or stakeholders.

Druk Pizza Pvt. Ltd
Head Office: Phuntsholing

Minutes of Meeting

Attendance: All present
Date: 25th January, 2021
Time: 9am - 11am
Venue: Conference hall, head office
Agenda:
1. Review sales report for 2020
2. Review target markets

1. Review sales report for 2020

It is observed that the sales for year has increased by 20% as compared to 2019's sales. However, the total cost also has increased by 19% which has reduced profit margin to negligible amount. To improve sales further and to reduce cost, following decisions have been taken and must be implemented immediately.

Decisions:

1. No additional recruitment of employees.
2. Staff will be served free lunch only three times a week. Other days staff must bring lunch.
3. Meeting will be served only tea and snacks. Meals serving will be discontinued.

Minuted by:...................   Endorsed by:.................

Figure 11.7 Example of minutes of meeting

- **Employment application letter**

Employment applications are letters written by applicants either in response to an advertisement of a vacant post or upon the self-initiation of the applicant seeking a job. If letters of application are written in response to an advertisement, it is known as solicited letters and if it is written on the personal initiation of the sender, it is referred as unsolicited letters. The job application letter can be also called a cover letter.

Position Applied for:			
Name (In Block Letters).:			
CID No:			
Sex (tick option)	Male	Female	
Date of Birth (dd/mm/yy)			
Present Address:			
Permanent Address:			
Village:		Gewog:	
Dzongkhag:		Thram No.:	House No.:
P.O Box No.:			
Contact No.:			
Email Address:			
Qualification			
Name of College/School	Class & Course	Aggregate	year

Work Experience

Name of Company/Office	Place	Designation	Year (dd/mm/yy)		Salary (Nu)
			From	To	

Social Media User ID (e.g facebook/twitter/instagram/linkedIn
1. ....
2. ....

I hereby confirm that the above facts provided in this application are true to my knowledge and belief.

Please attach the following documents with this application form:
1. Curriculum Vitae (for in-service applicant only)
2. Copy Citizenship ID Card;
3. Copy of Security Clearance Certificate;
4. Copy of Medical Certificate;
5. Copy of All Academic Transcripts and Course Completion Certificates;
6. Copy of previous Work Experience Certificate (if applicable)
7. Copy of RAA audit clearance (for in-service or previously employed applicant only

Please note that your application form and copies of relevant documents once submitted will be the property of organisation and shall not be returned.
I hereby also confirm that I have neither been convicted in any court of law nor terminated by any of my previous organisation. If any facts stated have been found to be false, I shall be liable for termination and other legal actions.

Signature: Date:

Figure 11.8 Sample of employment application form

- **Curriculum vitae or resume**

A resume refers to a written summary of a person's backgrounds, employments, qualifications, credentials and intended career objectives. It is generally written and attached along with the employment application (cover letter) with the purpose of easing the employer's screening process and to provide an up-to-date contact information. While resume is short and precise, curriculum vitae is an in-depth document with detailed qualification and career organized chronologically.

CURRICULUM VITAE

I. Personal Details

a. Name :
b. CID Number :
c. Email Address :
d. Phone No. :

II. Post applied for

III. Details of Academic Qualification

Sl.No.	Qualification	Major Subjects Studies	Institute	Country	Duration	
					From	To
1						
2						
3						

IV. Details of Key Trainings, Meetings & Workshops Attended

Sl.No.	Theme	Institute & Country	Duration		How did you contribute to your organisation after attending it?
			From	To	
1					
2					
3					

V. Professional Experience & its major achievements

Sl.No.	Designation	Duration		Responsibility	Major Achievement
		From	To		
1				1.......................... 2.......................... 3..........................	1.......................... 2.......................... 3..........................

VI. List your relevant skills for the applied post

VII. Briefly explain *(point-wise)* what you intend from your applied course and how will it help to achieve your goals

VIII. Briefly mention *(point-wise)* your special achievements or contribution (personal/professional) if any that did not include above

Figure 11.9 Template for CV

- **Tender**

It refers to a written invitation by an organisation through newspaper or other mainstream media inviting potential and interested suppliers to submit their written offer (bid) for supplying goods or services the organisation needs such as machineries, software, equipment, stationeries and furniture.

Druk Pizza Pvt. Ltd

Head Office: Phuntsholing

Taste Matters

Ref/DIR/PRO(1)/2020/05

<u>Invitation for Quotation (IFQ)</u>

Project Title: Office Supply

Source of Funding: Company

Contract Ref: DPPL/Pro/55

To:

....

....

Dear Sir/Madam,

1. You are invited to submit your price bid for the supply of the following items;

    i. Supply of stationeries, computers, laptop, equipment and furniture for the Financial Year 2017-2018.

    ii. Supply of Spare Parts and Maintenance & Supply of Tyres & Tubes for the Financial Year 2017-2018.

    iii. Catering Services for the Financial Year 2017-2018.

    [Information on technical specifications and required quantities are attached]

2. The bidder(s) may quote for any or all items under invitation. Each items shall be evaluated and contact awarded separately to the firm(s) offering the lowest evaluated price for each item.

3. The bidder(s) shall submit one original of the [rice quotation with the Form of Bid and clearly marked ORIGINAL. In addition, the bidder(s) should also submit one copy marked as COPY. The quotation including all documents in the attached format should be sealed in an envelope and address to and delivered at the following address *[insert address of receipt of bids]*

Figure 11.10 Example of a tender

- **Quotation**

It refers to a business correspondence prepared by the suppliers of goods or services listing the specification of products offered including prices, quantities, modes of payment and product warranty. Quotation is a response by the suppliers to the organisation's tender.

Schedule of Items and Price Quotation (bid form)

[describe below the items, unit and quantity of the goods required]

Sl	Item	Description & Details (minimum specifications of goods to be supplied)	Unit	Qty	Rate (Nu.)	Total Amount (Nu.)
1						
2						
3						
4						
5						
6						
7						
8						
		Sub-Total for supply of Goods				
		Total Amount for supply of Goods to Purchaser (including all types of cost) Goods to be supplied to [Destination of Goods]				

Total Amount in Nu. (in words)	*[insert the Total Amount for Supply of Goods including all related cost]*
Delivery period	*Number of days from the date of issue of the Purchase Order by the Purchaser*
Warranty Provided	*Months from date of supply or commissioning of the Goods*

Signature of Supplier	Supplier's Official Stamp
Name of Supplier	
Date	

[The supplier may attach copies of relevant brochures/catalogue for the goods to be supplied which give sufficient information to carry out effective evaluation]

Figure 11.11 Example of quotation

Learning Activity 11.3

This activity helps learners understand the process of procurement in the business.

Instructions: Imagining yourself as the General Manager of Machinery and Equipment Suppliers' Limited, discuss how to prepare a bill of quotation for the supply of items listed in the tender form presented in Figure 11.10.

Tasks:

1. Prepare the bill of quotation for the supply of items as tendered in Figure 11.10 and present your answer to the class.
2. Explain how business correspondence helps in fostering effective operation of the business.

11.5 Etiquette in Business Communication

Etiquettes or manners refer to social rules that are expected in any society to show respect to others and ourselves. In business communication, etiquette refers to an acceptable social and professional conduct amongst stakeholders of the business for attaining mutual goals. People feel better about their jobs when they feel respected and that translates into better customer relationships. Lack of etiquettes in business communication impairs the message and creates wrong impression affecting the business adversely. Business etiquette is not only about speaking politely to a person but also includes the body gestures, facial expressions, pitch and tone of voice, respecting cross-cultural differences and professional standards besides communicating through written business correspondences and documents thereto. Some of the valuable tips to foster business etiquette is given in the Figure 11.12.

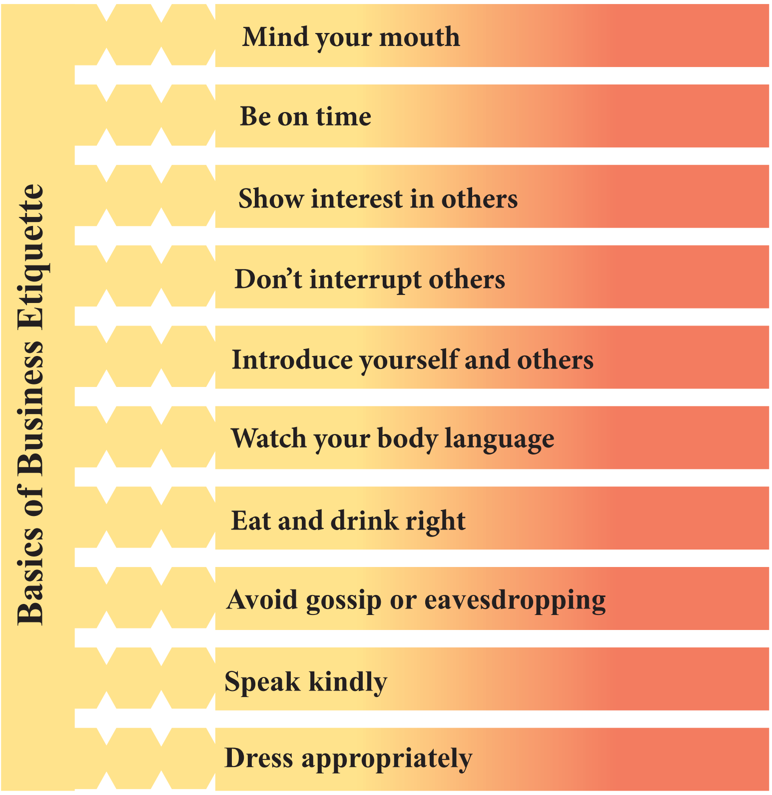


Figure 11.12 Basics of business etiquette

11.6 Concepts of Negotiation

Negotiation is the process of discussion between two or more parties seeking to discover a common ground and reach an agreement for settling business concerns based on mutual benefits over distinctive preferences of the individual parties involved. Negotiation is all about mutual gains and achieving win-win outcome for the negotiating parties.

Negotiation holds an important place in business due to the differing claims and expectations of the stakeholders engaged in business. Businesses achieve their objectives through collaborative efforts of the stakeholders. The stakeholders such as government, suppliers, investors, employees and distributors have their own objectives of collaborating with the businesses which may differ from the objectives of business. Therefore, skills of effective negotiation are essential for business executives and leaders for reaching consensus on mutually beneficial goals and objectives, agreeing to terms of contracts and settlement of differing views.

Learning how to negotiate effectively is crucial for long-term success of the business. In business, negotiation skills are important in both informal interactions and formal transactions such as negotiating conditions of sale, lease, service delivery and other legal contracts. Good negotiation contributes significantly to business success as it helps to build better relationships, deliver sustainable and quality solutions rather than poor short-term solutions that do not satisfy the needs of either party, and helps to avoid future problems and conflicts.

Various literatures have indicated generic principles and traits of negotiation which are discussed as follows:

- **Nerve**

Nerve means accepting mentally to face any demanding situation. It involves remaining calm and not getting offended during negotiation. A negotiator must exercise patience and remain calm when the pressure is on. Anyone operating under pressure is reliant on controlling their nerves as part of being able to perform.

- **Self-Discipline**

Self-discipline refers to the ability to control the feelings and overcoming the weaknesses. It is a useful inner power which enables one to persevere and not give up despite failure and setbacks during negotiations. It grants its possessor self-command, the power to resist temptations and distractions that tend to stand on the way of attaining aims and goals of the negotiation.

- **Tenacity**

Tenacity is about having the courage and convictions when faced with challenges. Instead of giving up while facing a difficult challenge, it is important to examine the challenges from different perspectives to find out what other conditions or circumstances could be introduced as a part of maintaining control and managing the expectations. Tenacity helps negotiators to work on deals rather than being driven to close them and conclude negotiation prematurely.

- **Assertiveness**

A skilled negotiator is firm and is in control of situation, not hateful or disrespectful but simply able to say what is necessary in a calm and authoritative manner. This is not about being commanding in the communication but simply being confident in the assertions. Being in control of the negotiation primarily comes from being proactive and demonstrating confidence from being prepared and having a well-defined strategy.

- **Instinct**

It is the ability to read any situation by judging the responses and reply with counter proposals. Instinct usually comes from experience and knowledge, as well as subconscious observations. The instant evaluation and judgment most people make when they first meet someone are based on subtle assessments of nonverbal communication and language. A skilled negotiator has the ability to make these assessments consciously as they analyse the behaviours of the other party.

- **Caution**

During critical exchanges of proposals and counter proposals, there is a high level of mental energy and work rate taking place inside the mind of two teams of negotiators. Hasty negotiators may miss an implication that could carry more risk in the long term. This is when patience is needed and time should be taken to calculate what has changed.

- **Curiosity**

Collecting information prior to negotiation and effective questioning during the negotiation is the ultimate way of gaining advantage during negotiation. It is not an interrogation but being better informed as negotiation without insights of the situation will lead to disadvantaged deals.

- **Numerical reasoning**

Numerical reasoning helps to calculate options or consequences and be ready to respond with possible alternatives.

- **Creativity**

Successful negotiation requires a great deal of creativity and problem-solving competencies. Creativity is an ability to imagine and come up with approaches or solutions to the issues or differences during negotiation.

- **Humility**

Humility removes the need for ego to feature and demonstrate the intention of working with the other party to create a mutually beneficial relationship.

11.7 Negotiation Process

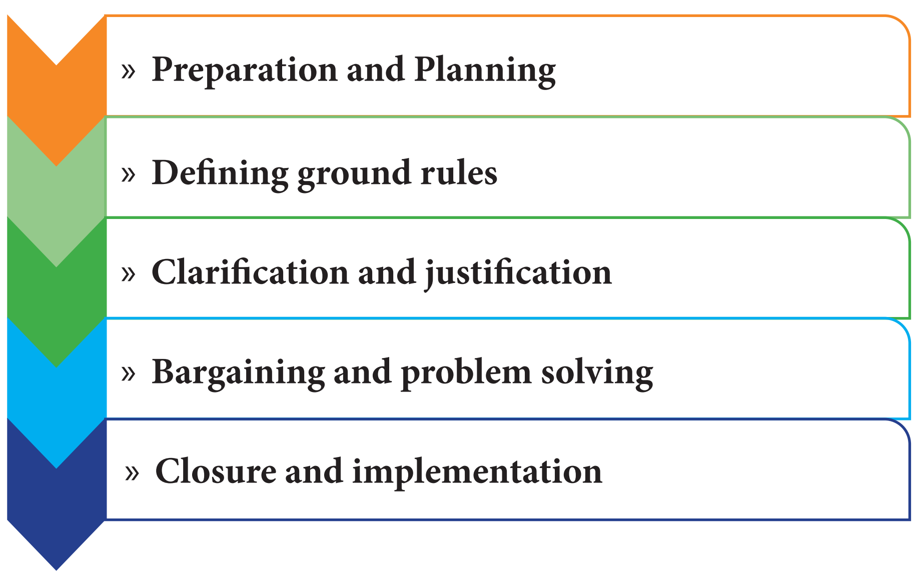


Figure 11.13 Negotiation process

- **Preparation and planning**

In the first stage of negotiation process both the parties will organise and gather the information essential to have an effective negotiation in the business. Before negotiation begins, one must be aware of the disagreement, the history leading to negotiations between the people involved and their perception of the conflict and the expectations of the negotiations.

- **Defining ground rules**

In this step, the set of rules and regulation are framed for the planned negotiation such as the venue, time, issues and other terms. The business and party involved in the negotiation must exchange their initial proposal or demand.

- **Clarification and justification**

With the rules and regulation in place both parties will get a chance to explain, justify and support their initial proposal. The negotiation should not be argumentative rather it should provide a platform to educate and inform on the proposal or issue as to why they are important for the parties involved.

- **Bargaining and problem solving**

In this phase, the actual terms and conditions of the subject matter of negotiation are discussed. Here, the parties involved explain and justify appropriateness of their proposals and then persuade each other for consensus. Generally adopted strategies of negotiation are: Win-Win; Win-Lose; Compromise; Lose-Win; and Lose-Lose.

- **Closure and implementation**

The final step in the negotiation process is a formalisation of the agreement that has been worked out and developing the procedures that are necessary for implementation and monitoring. The closing phase of a negotiation represents the opportunity to capitalise on all the works done in the earlier process.

11.8 Effective Cross-cultural Negotiation

As the world become interconnected due to globalisation and international business relation, cross cultural aspects have assumed high importance in business negotiation. In the process of negotiation, it is very important to consider the cross-cultural aspects such as beliefs, values, norms, and languages of parties involved in negotiation. For example, MacDonald's in India do not sell beef or pork and there are separate kitchens for cooking vegetarian and non-vegetarian food. They have menu items catering to local tastes such as Maharaja Mac made with chicken patties instead of beef.

The basic requirements for a successful negotiation involving global parties to consider diversity in culture, differences in managerial styles, differences in negotiating style, decision making style and language differences among others.

Learning Activity 11.4

This activity aims to facilitate learners to inculcate the basic skills of negotiation and enhance business communication.

Instructions: You are running a hardware shop in Thimphu. With the growing market and increasing competition, there is a need for diversification of the products to attract more customers. Owing to the booming construction activities, you got the idea to deal with ceramic floor tiles. You have contacted a well-established tiles manufacturer in Siliguri (India) known for impressive patterns, unique designs and impeccable finish. The price offered by the manufacturer ranges from Rs. 1,000 to Rs. 1,500 per piece whereas the same tiles were sold in Thimphu for Nu. 1,600 to Nu.1,700 per piece by other distributors. Your profit margin will be low if you buy at the same price range and sell at the similar price range. This is further aggravated by the high logistic cost. Contact the manufacturer to negotiate the price.

Tasks:

1. In pairs, enact a scene using the strategies of negotiation and perform it to the class.
2. Present your views on the significance of business negotiation

Chapter Review

1. Explain Business Communication in your own words. What makes business communications effective?
2. What are the barriers to communication? Discuss.
3. Briefly explain following business correspondences: minutes of meeting, office order, memorandum, note sheet, tender and quotation, Curriculum Vitae and Resume.
4. Discuss the significance of negotiation in business. Elucidate negotiation process.

Annexure I

12. Personal Entrepreneurial Competencies

Self Rating Questionnaire

Instructions:

This questionnaire consists of 55 brief statements. Read each statement and decide how well it describes you. Be honest about yourself. Remember, no one does anything very well, nor is it even good to do everything very well. Besides that, your rating of the individual questions remains your secret and you may take this questionnaire home.

Select one of the numbers below to indicate how well the statement describes you:

5 - Always
4 - Usually
3 - Sometimes
2 - Rarely
1 - Never

Write the number you select on the line to the right of each statement. Here is an example:

I remain calm in stressful situations <u>2</u>

The person who responded to the question above wrote a "2" to indicate that the statement describes him /her rarely. Some statements may be similar but no two are exactly alike. Please answer all the questions.

SL #	Statements	Rating
1	I look for things that need to be done.	
2	When faced with a difficult problem I spend a lot of time trying to find a solution.	
3	I complete my work on time.	
4	It bothers me when things are not done very well.	
5	I prefer situations in which I can control the outcomes as much as possible.	
6	I like to think about the future.	
7	When starting a new task or project, I gather a great deal of information before going ahead.	
8	I plan a large project by breaking it down into smaller tasks.	
9	I get others to support my recommendations.	
10	I feel confident that I will succeed at whatever I try to do.	
11	No matter whom I'm talking to, I'm a good listener.	
12	I do things that need to be done before being asked to do so by others.	
13	I try several times to get people to do what I would like them to do.	
14	I keep the promise I make.	

15	My own work is better than that of other people I work with.	
16	I don't try something new without making sure I will succeed.	
17	It's a waste of time to worry about what to do with your life.	
18	I seek the advice of people who know a lot about the tasks I'm working on.	
19	I think about the advantages and disadvantages or different ways of accomplishing things.	
20	I do not spend much time thinking about how to influence others.	
21	I change my mind if others disagree strongly with me.	
22	I feel resentful when I don't get my way.	
23	I like challenges and new opportunities.	
24	When someone gets in the way of what I'm trying to do, I keep on trying to accomplish what I want.	
25	I am happy to do someone else's work if necessary, to get the job done on time.	
26	It bothers me when my time is wasted.	
27	I weigh my chances of succeeding or failing before, I decide to do something.	
28	The more specific I can be about what I want out of life, the more chance I have to succeed.	
29	I take action without wasting time gathering information.	
30	I try to think of all the problems I may encounter and plan what to do if each problem occurs.	
31	I get important people to help me accomplish my goals.	
32	When trying something difficult or challenging, I feel confident that I will succeed.	
33	In the past I have had failures.	
34	I prefer activities that I know well and with which I am comfortable.	
35	When faced with major difficulties, I quickly go on to other things.	
36	When I'm doing a job for someone, I make a special effort to make sure that the person is happy with my work.	
37	I'm never entirely happy with the way in which things are done, I always think there must be a better way.	
38	I do things that are risky.	
39	I have a very clear plan for my life.	
40	When working for a project for someone, I ask many questions to be sure I understand what the person wants.	

41	I deal with problems as they arise rather than spend time to anticipate them.	
42	In order to reach my goals, I think of solutions that benefit everyone involved in the problem.	
43	I do very good work	
44	There have been occasions when I have taken advantage of someone.	
45	I try things that are very new and different from what I have done before.	
46	I try several ways to overcome things that get in the way of reaching my goals.	
47	My family and personal life are more important to me than work deadlines I set for myself.	
48	I do not find ways to complete tasks faster at work and at home.	
49	I do things that others consider risky.	
50	I am as concerned about meeting my weekly goals as I am for my yearly goals.	
51	I go to several different sources to get information to help with tasks or projects.	
52	If one approach to a problem does not work, I think of another approach.	
53	I am able to get people who have strong opinions or ideas to change their minds.	
54	I stick with my decisions even if others disagree strongly with me.	
55	When I don’t know something, I don’t mind admitting it.	

PEC SELF-RATING QUESTIONNAIRE
SCORING SHEET

Instructions

1. Enter the ratings from the completed questionnaire on the lines above the question numbers within parenthesis. Notice that the question numbers in each column are consecutive, item No. 2 is below item No.1 and so forth.
2. Do the addition and subtraction in each row to compute each PEC score
3. Add all the PEC scores to compute the total score.

Rating of Statements											Score	PEC
___ (1)	+	___ (12)	+	___ (23)	-	___ (34)	+	___ (45)	+	6 =	__	Opportunity Seeking
___ (2)	+	___ (13)	+	___ (24)	-	___ (35)	+	___ (46)	+	6 =	__	Persistence
___ (3)	+	___ (14)	+	___ (25)	+	___ (36)	-	___ (47)	+	6 =	__	Commitment to Work Contract
___ (4)	+	___ (15)	+	___ (26)	+	___ (37)	-	___ (48)	+	6 =	__	Demand for Quality and Efficiency
___ (5)	-	___ (16)	+	___ (27)	+	___ (38)	+	___ (49)	+	6 =	__	Risk Taking
___ (6)	-	___ (17)	+	___ (28)	+	___ (39)	+	___ (50)	+	6 =	__	Goal Setting
___ (7)	+	___ (18)	-	___ (29)	+	___ (40)	+	___ (51)	+	6 =	__	Information Seeking
___ (8)	+	___ (19)	+	___ (30)	-	___ (41)	+	___ (52)	+	6 =	__	Systematic Planning and Monitoring
___ (9)	-	___ (20)	+	___ (31)	+	___ (42)	+	___ (53)	+	6 =	__	Persuasion and Networking
___ (10)	-	___ (21)	+	___ (32)	+	___ (43)	+	___ (54)	+	6 =	__	Self Confidence
___ (11)	-	___ (22)	-	___ (33)	-	___ (44)	+	___ (55)	+	18 =	__	Correction Factor

PEC Self-Rating Questionnaire

Corrected Scoring Sheet

Instructions

The correction factor (the total of items 11, 22, 33, 44, and 55) is used to determine whether or not a person tries a very favorable image of himself/herself. If the total score on this factor is 20 or greater, then the total score on the ten PECs must be corrected to provide a more accurate assessment of the strengths of the PEC score for that individual.

1. Use the following numbers when figuring the corrected score:

If the correction factor is:	Subtract the following number from each PEC score (Correction Factor)
25 or more	7
22 - 24	5
20 or 21	3
19 or less	0

2. Use the next page to correct each PEC score before using the Profile Sheet.

PEC SELF RATING QUESTIONNAIRE

Corrected Score Sheet

PEC	Original Score	Correction Factor	Corrected Score
Opportunity Seeking	__________	__________	__________
Persistence	__________	__________	__________
Commitment to Work Contract	__________	__________	__________
Demand for Quality and Efficiency	__________	__________	__________
Risk Taking	__________	__________	__________
Goal Setting	__________	__________	__________
Information Seeking	__________	__________	__________
Systematic Planning and Monitoring	__________	__________	__________
Persuasion and Networking	__________	__________	__________
Self Confidence			
	Total Corrected Score		

PEC SELF RATING QUESTIONNAIRE

PEC Profile Sheet

	0	5	10	15	20	25
Opportunity Seeking						
Persistence						
Commitment to Work Contract						
Demand for Quality and						
Efficiency						
Risk Taking						
Goal Setting						
Information Seeking						
Systematic Planning and Monitoring						
Persuasion and Networking						
Self Confidence						

Mark the corrected scores per PEC on each line and join the dots to get your profile. The more the dots are on the right side, the more you avail of the respective entrepreneurial characteristic.

Regarding those more on the left side (below 12) sit back and reflect why these scores are so low, and try to figure out what you can do about it.

If you have individual scores below 8, then you should think twice if you are fit to start / maintain a business. You have a severe need of improving your record on that PEC!

Instructions

Complete the boxes in the attached form as accurately and as detailed as possible. Your Current Score is based on your earlier score from the Self-Rating Questionnaires. Your Desired Score represents your goal within the next six months with respect to the competency. Try to be realistic as much as possible. Competency development does not happen overnight.

Under Personal Assessment, write clear and specific behavioral descriptions about yourself in as far as the competency is concerned. For example, under self-confidence, one might say that he/she gets nervous when talking to people with authority.

Under Planned Improvement Measures, write specific activities designed towards improving the competency. Following up on the self-confidence competency example, one might think of enrolling within the next two weeks in a self-confidence building course conducted by a reputable institution.

Under Possible Obstacles and How to Overcome Them, anticipate what might prevent you from carrying out the planned activities. List these anticipated blocks and think of measures to counter or overcome them.

Finally, under Measures to Take to Monitor and Assess Progress, describe the activities you plan to undertake that will provide you the feedback needed to measure the results. This will allow you to assess your progress and the plans implemented. One example is identifying a very trusted person and discussing your plan with him or her. Ask the person to assist you in monitoring your progress and give you concrete feedback.

Focus on all entrepreneurial competencies, namely:

- Opportunity seeking and seizing
- Persistence
- Commitment to work contract
- Demand for quality and efficiency
- Risk taking
- Goal setting
- Information seeking
- Systematic planning and monitoring
- Persuasion and networking
- Self confidence

SAMPLE PEC IMPROVEMENT SHEET

COPETENCY: ………………………………..	
Current Score (based on PECS – SRQ):	Desired Score After 6 Months:
Personal Assessment:	
Planned Improvement Measures 1. 2. 3.	
Possible Obstacles and How to Overcome Them 1. 2. 3.	

Actions to Monitor and Assess Progress (Cite simple ways of checking if planned measures were undertaken and if the competency changed for the better.) 1. 2. 3.

Annexure II

13. Assessment

Business and Entrepreneurship Assessment Matrix

	Continuous Formative Assessment (CFA)			Continuous Summative Assessment (CFA)			Summative Assessment (SA)	
Definition	It is a continuous process of assessing learner's problems and learning needs; provide feedbacks and to identify the needs for the remedial measures to improve learner's learning. It also enables teachers to understand what teaching methods and materials work best.			It is a continuous process of grading learner's performances and achievements. Based on their performance, teachers provide feedbacks for improvement. It also enables teachers to understand what teaching methods and materials work best.			Assesses learner's cumulative performances and achievements at the end of each term.	
Domains	Content knowledge (CK) (Cognitive)	Application of Concepts(AC) (Psychomotor)	Business Values and Attitudes (BVA) (Affective)	Content knowledge (CK) (Cognitive)	Application of Concepts(AC) (Psychomotor)	Business Values and Attitudes (BVA) (Affective)	CK, AC & BVA	CK, AC & BVA
Techniques	Quiz & debate, self & peer assessment, class presentation, homework, class work and assignment	Class work, home work, assignments, case studies and presentations	Observation of learner's conduct, team work, field trip, excursion, and self & peer assessment	Home work – twice in each term, and class test- twice in each term.	Project work: Business proposal writing	Business idea competition	Term exam	Term exam
Assessment Tools	Q&A, rubrics, checklist and anecdotal records.	Checklist and anecdotal records.	Checklist, Q&A, rubrics and anecdotal records.	Rubrics (HW) and Q&A.	Rubrics	Rubrics	Paper pencil test with: MCQ, Short answer questions and extended response questions.	Paper pencil test with: MCQ, Short answer questions and extended response questions.

Frequency	Check lists and anecdotal records must be maintained for each topic throughout the academic year.	Home work, class test and activities twice in each term	Once in a year	Once in a year.	Once in a term.	Once in a year.
Weighting %		T1= Class Activity (2.5) Assignment (5) Presentation (2.5) T2=Class Activity (2.5) Project Work (5) Presentation (2.5)			T1 = 40%	T2 = 40%
N.B	1. Same mode of assessment will be followed in Mid Term and Trail Examination for class 12. 2. The Question paper for the BHSEC examinations for class 12 will be tested out of 100 and converted to 80 [PART I (50): [MCQ (20), Fill in Blanks (5), Matching (5), True or False (5), SAQ (15)], [PART II: EAQ (50)]					

Assessment Tools and Techniques

The following section describes the suggestive techniques and tools that are to be used to assess learner's performance and achievement.

Sample rubrics for assessing assignment and homework

Criteria	4	3	2	1
Completion	All the assigned tasks are completed	Most of the assigned tasks are completed	Some or part of the tasks are incomplete	Major part of the tasks are incomplete
Timeliness	Submitted on due date	Submitted one day late	Submitted two days late	Submitted three days late and beyond
Accuracy	All of the answers are correct	Most of the answers are correct	Some of the answers are correct	Few answers are correct and requires to redo the task
Neatness	All the answers are presented orderly manners and neatly	Most of the answers are presented in orderly and neatly	Answers are not presented orderly and lack neatness	Answers are presented haphazardly and no neatness at all

Sample rubrics for assessing classwork

Grade	Descriptors
A	Demonstrated clear understanding of all the concepts studied and 100% of the work is complete and are correct.
B	Most of the concepts are understood clearly and 90% - 80% of the work is completed and are correct.
C	Some concepts are not understood properly and 80% - 70% of the works are completed and some are not correct.
D	Most of the answers are incorrect and only 70% to 60% of the works are only completed.
Redo	Concepts are not understood properly and less than 50% of the works are only completed. Required to redo the task.

Sample rubrics for assessing Business Idea Competition

Criteria	4	3	2	1
Statement of problem	Well defined problem, indicative of lucrative business	Well defined problem, less indicative of lucrative business	Wake problem statement with less chances of lucrative business	No substances and not possible for business
Market and Customer segment	Well identified customer segment and has scope for market expansion	Well identified customer segment and has limited scope for market expansion	Have issue in identifying customers	Not able to identify customer segment
Revenue model	Indicative of consistent revenue generation	Indicative of most likely consistent revenue generation	Indicative of revenue generation but consistency is unclear	Not clear about the revenue generation and unclear about the future
Competitive advantage	Have advantage over use of technology, product quality and price	Have advantage over the use of technology and product quality but prices are higher than the competitors	Have advantage over the use of technology and price but the products are of inferior quality	Use of technology, product quality and prices are similar to that of the competitor
Business Sustainability	There is indication that the business can sustain with future scope of expansion	Most likely that the business can sustain with future scope of expansion	Business may sustain and very less opportunity for future expansion	Sustainability of the business is not guaranteed

Sample rubrics for assessing Field trip/Educational excursion

Sample Check list

Pre-departure preparedness: Tick (√) if the learners have the required material and cross (X) if not.

Class ………….. Date……… Contact nos. of Field Staff:

Sl. No.	Name	Pen/Pencil	Note book	Questionnaire	Camera	Other materials
1	Sonam Tashi					

Sample rubric for field trip

Indicators	4	3	2	1
Punctuality/ Timeliness	Arrives before time	Arrives just on time	Arrives late	Arrives very late
Behaviour	Showed exemplary behaviour to the group	Behaved well most of the times	Needs several reminders while on trip	Does not follow instructions
Participation	Actively participated (very interactive, takes note, inquisitive)	Participated all times and interacted with members and others but did not make notes.	Participated few times but did not take notes.	Refuses to participate or to take notes. Mere observer.

Sample Rubrics for assessing case studies

Standards	Outstanding (4)	Very good (3)	Good (2)	Satisfactory (1)
Identification of the issues/ problems	Identifies and understands all of the main issues in the case study.	Identifies and understands most of the main issues in the case study	Identifies and understands some of the issues in the case study.	Identifies and understands few of the issues in the case study.

Analysis of the issues	Insightful and thorough analysis of all the issues.	Analysis of all the issues without thoughtful analysis.	Analysis of two or three issues.	Imperfect and incomplete analysis of the issues.
Comments on effective solutions/ strategies (The solution may be in the case already or proposed by you)	Well documented, reasoned and appropriate comments on solutions, or proposals for solutions, to all issues in the case study.	Appropriate with few thought out comments about solutions, or proposals for solutions, to some issues in the case study.	Artificial and inappropriate solutions to most of the issues in the case study.	Little or no action suggested and in appropriate solutions to all of the issues in the case study.
Research / Reference	Excellent research into issues and clearly documented reasons or arguments.	Good research into issues with some clearly documented links to material read.	Limited research and few documented links to readings.	Incomplete research and links to any readings.
Delivery/ flow and enthusiasm	Very clear and concise flow of ideas. Demonstrates passionate interest in the topic.	Clear flow of ideas. Demonstrates interest in the topic.	Most ideas have a flow but focus is lost at times. Limited evidence of interest in the topic.	Hard to follow the flow of ideas. Lack of enthusiasm and interest.
Visuals	Visuals augmentation and extended conception of issues in unique ways.	Use of visuals related to the material.	Limited use of visuals loosely related to the material.	No use of visuals.

Sample rubrics for assessing project work

Assessment Tool: Rubric

	4	3	2	1	Total
Content	Content is new, relevant.	Content is not new but relevant.	Content is not new and not so relevant.	Content is not new and relevant.	
Presentation and format	Excellent presentation. Correct format is followed and report is free of errors	Only one area of format is not correct. Report has a few errors.	Only two aspect of format is not correct. Report has some errors	Three or more aspect of format is incorrect. Report has many errors.	
Finding	Finding is supported by the facts and figures. Explanation is made on each facts and figures.	Finding is supported by the facts and figures. Insufficient explanation on each facts and figures.	Finding is not supported by enough facts and figures.	Finding is not supported by facts and figures.	
Research	Research done on the topic and all ideas are clear and explained.	Research done on the topic and most ideas are clear and explained.	Research done and a few ideas are clear and explained.	Research not done and ideas are not clear and not explained.	
Reference	Five or more references are cited.	Three or four references are cited.	One or two references are cited.	No references.	

Project Work shall include the following components:

- Project file.
- Title of the project work.
- Acknowledgment.
- Table of content.

- Introduction.
- Content/theory.
- Case study.
- Findings.
- Conclusion.
- Bibliography/references.

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Weighting for the Chapters

Sl.No.	Chapters	Weighting %
1	Introduction to Business	5
2	Operations and Supply Chain Management	10
3	Business Model	10
4	Business Ecosystem	8
5	Consumer Protection	5
6	Business Organisations	7
7	Human Resource Management	5
8	Risk Management and Internal Control System	15
9	Bhutanese Financial System and Business Finance	15
10	Marketing and Promotion	10
11	Business Communication	10
Total		**100**
Continuous Assessment		**20**
Grand Total		**120**
Note: *Written test conducted out of 100 will be converted to 80%*		