



**COURSE
GUIDE**

ENT701 ENTREPRENEURSHIP DEVELOPMENT

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ENT701: ENTREPRENEURSHIP DEVELOPMENT

1.0 INTRODUCTION

ENT701: Entrepreneurship Development is a first semester year four, three credit and 700 level core course. It will be available for all students offering undergraduate programme in PGD. Entrepreneurship of Department Entrepreneurial Studies, Faculty of Management Sciences. This course introduces learners to the history of entrepreneurship in Nigeria, defines entrepreneurship, the role and functions/values of entrepreneurship, entrepreneurship tasks, risks and hazards, role of entrepreneurship in a national economy. It will also examine the role of banks and financial institutions in enterprise creation, contribution of government agencies towards sourcing of information, identification of financial institutions involved in entrepreneurship development as well as government policy on financing small and medium scale industries.

2.0 COURSE GUIDE

The course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through the study materials. It suggests some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully.

It also gives you some guidance on your tutor-marked assignments, which will be made available to you at the Study Centre. There are regular tutorial classes that are linked to the course. You are advised to attend these sessions.

3.0 WHAT YOU WILL LEARN IN THIS COURSE

The course ENT701 consists of 20 units. Specifically, the course discusses the following:

- History of entrepreneurship in Nigeria
- Definition of entrepreneurship
- Role and functions/values of entrepreneurship
- Entrepreneurship tasks, risks and hazards
- Role of entrepreneurship in a national economy.
- Role of banks and financial institutions in enterprise creation
- Contribution of government agencies towards sourcing of information
- Identification of financial institutions involved in entrepreneurship development as well as government policy on financing small and medium scale industries.
- The function of support agencies (such as NEPC, NERF, DFRRI, RMRDC, IDC) in the promotion and development of entrepreneurship.
- Product selection (evaluation of entrepreneur and idea, idea generation, product selection criteria and factors associated with it, steps involved in preliminary screening, steps in preparation of pre-feasibility study, relevant technology available for selected products, sources of raw materials for selected products, effect of government policy and regulations on product selection legal aspect of business in product selection).
- Industrial activities (roles of national association of small scale industries (NASSI) in entrepreneurship, contributions of NACCIMA to the development of entrepreneurship, support given by MAN to small and medium scale industrialists.

4.0 COURSE AIMS

The aim of the course can be summarised as follows:

This course aims to give you an understanding of the history of entrepreneurship development in Nigeria, need scope and characteristics as well as various sources of information for entrepreneurship development; comprehend the roles commercial and development banks play in small and medium scale industrial development; enumerate and explain the functions of various support agencies in small scale industrial development and the activities of some industrial association as well as the methodology of product selection.

5.0 COURSE OBJECTIVES

To achieve the aims set out, the course sets overall objectives. Each unit also has specific objectives. The unit objectives are always specified at the beginning of a unit; you should read them before you start working through the unit. You may want to refer to them during your study of the unit to check your progress.

You should always look at the unit objectives after completing a unit. When you do that, you will ensure that you have followed the instructions in the unit.

Below are the overall objectives of the course. By meeting these objectives, you should have achieved the aims of the course as a whole. On successful completion of the course, you should be able to:

- Understand the history of entrepreneurship development in Nigeria, the scope, characteristics and various sources of information for entrepreneurship development;
- Know the roles commercial and development banks play in small scale industrial development;
- Know the functions of various support agencies in small scale industrial development and the activities of some industrial associations;
- Understand the methodology of product selection.

6.0 WORKING THROUGH THIS COURSE

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). Each unit contains self-assessment exercises, and at a point in this course, you are required to submit assignments for assessment purposes. At the end of the course, there will be a final examination. The course should take you a total of 21– 22 weeks to complete.

Below, you will find listed all the components of the course. What you have to do and how you should allocate your time to each unit in order to complete the course successfully on time. The list of all the components of the course is as presented.

7.0 COURSE MATERIALS

Major components of the course are:

- Course Guide
- Study Units
- Textbooks
- Assignment
- Presentation Schedule.

8.0 STUDY UNITS

The study units in this course are as follows:

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

Unit 1: Definitions, Roles and Functions/Values of Entrepreneurship

Unit 2: History of Entrepreneurship

Unit 3: Role of Entrepreneurship in the National Economy

Unit 4: Functions of an Entrepreneur

Unit 5: Entrepreneurship and Forms of Business Ownership

MODULE 2: SOURCES OF INFORMATION AND CREDIT CREATION FOR ENTREPRENEURSHIP DEVELOPMENT

Unit 1: Sources of Information for Entrepreneurship Development

Unit 2: Role of Money and Capital Markets in Entrepreneurial Development

Unit 3: Foreign Exchange and Stock Exchange Markets

MODULE 3: STARTING A NEW BUSINESS AND BUYING AN EXISTING BUSINESS

Unit 1: Starting a New Business

Unit 2: Buying an Existing Business

Unit 3: New Product Development

Unit 4: Business Growth and the Entrepreneur

Unit 5: Law and its Relevance to Business Operations

MODULE 4: ROLE OF SUPPORT INSTITUTIONS AND NATIONAL ASSOCIATIONS TO ENTREPRENEURSHIP DEVELOPMENT AND SMALL AND MEDIUM SCALE INDUSTRIALISTS

Unit 1: Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea) – I NEPC, NERF AND NDE

Unit 2: Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea) – II RMRDC AND IDC

Unit 3: Contributions of National Associations to Entrepreneurship, Small and Medium Scale Industrialists – I NASSI, MAN AND NACCIMA

Unit 4: Government Policy on Financing and Small and Medium Scale Industries

9.0 ASSIGNMENT FILES

A number of self assessment exercises and fifteen assignments have been prepared to help you succeed in this course. The exercises will guide you to have understanding and good grasp of the course.

10.0 PRESENTATION SCHEDULE

The presentation schedule included in your course materials also have important dates of the year for the completion of tutor-marked assignments (TMAs) and your attending to tutorials.

Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

11.0 ASSESSMENTS

There are two aspects to the assessment of the course: first are self-assessment exercises, second are the tutor-marked assignments; and third, there is also a written examination. In tackling the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the *Presentation Schedule* and the

Assignment File. The work you submitted to your tutor will count for 30% of your total course mark.

At the end of the course, you will need to sit for a final written examination of ‘three hours’ duration. This examination will also count for 70% of your total course mark.

12.0 TUTOR-MARKED ASSIGNMENT (TMAs)

Each of the units in the course material has a tutor-marked assignment (TMAs) in this course. You only need to submit five of the eight assignments. You are to answer all the TMAs and compare your answers with those of your course mates. However, you should ensure that you collect four (4) TMAs from the Study Centre. It is compulsory for you to answer 4 TMAs and submit them for marking at the Study Centre. Each TMA is allocated a total of 10 marks. However, the best three of the four marks shall be used as your continuous assessment score. You will be able to complete your assignment from the information and materials contained in your reading, references and study units. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

13.0 FINAL EXAMINATION AND GRADING

The final examination for ENT 407 will not be more than three hours’ duration and has a value of 70% of the total course grade. The examination will consist of questions, which reflect the types of self-testing, practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed.

Use the time between finishing the last unit and sitting for the examination to revise the entire course. You may find it useful to review your self-tests, tutor-marked assignments and comments on them before the examination. The final examination covers information from all parts of the course.

14.0 COURSE MARKING SCHEME

Total Course Marking Scheme:

Table 1: Course Marking Scheme

ASSESSMENT MARKS

Assignment 4 (TMAs) Best three marks of the 4 TMAs @ 10 marks = 30 marks of course = 30%
Final Examination 70% of overall course marks **Total 100% of course marks**

15.0 COURSE OVERVIEW

This table brings together the units and the number of weeks you should spread to complete them and the assignment that follow them are taken into account.

Unit Title of work Weeks activity Assessment (end of unit)
Module I

1 Definitions, Roles and Functions/Values of Entrepreneurship

1 Assignment 1

2 History of Entrepreneurship 1 Assignment 2

3 Role of Entrepreneurship in the National Economy

4 Functions of an Entrepreneur 1 Assignment 3

5 Entrepreneurship and Forms of Business Ownership

Module II

1 Sources of Information for Entrepreneurship

Development

1 Assignment 4

2 Role of Money and Capital Markets in Entrepreneurial Development

3 Foreign Exchange and Stock Exchange Markets Assignment 5

Module III

Starting a New Business 1

2 Buying an Existing Business 1 Assignment 7

3 New Product Development 1

4 Business Growth and the Entrepreneur 1

5 Law and its Relevance to Business Operations 1 Assignment 8

Module IV

1 Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea)
– I NEPC, NERF AND NDE Assignment 9

2 Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea)
– II RMRDC AND IDC

3 Contributions of National Associations to Entrepreneurship, Small and Medium Scale Industrialists – I NASSI, MAN AND NACCIMA

4 Government Policy on Financing and Small and Medium Scale Industries Assignment 10

Revision 1 Total 17

16.0 HOW TO GET THE MOST FROM THIS COURSE

In distance learning, the study units are to replace the university lecturer. This is one of the great advantages of distance learning. You can read and work through the specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as you read the lecture and that a lecturer might set you some readings to do. The study unit will tell you when to read your other materials. Just as a lecturer might give you an in-class exercise, your study units also provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is related with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from **Reading Section** or some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examinations.

You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. When you need help, don't hesitate to call and ask your tutor to provide it.

In summary,

(1) Read this course guide.

(2) Organise a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the unit.

Important information e.g. details of your tutorials, and the date of the first day of the semester is available. You need to gather together all information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

(3) Once you have created your own study schedule, do everything you can to stick to it.

The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your facilitator know before it is too late for help.

(4) Turn to unit 1 and read the introduction and the objectives for the unit.

(5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your set books, on your desk at the same time.

(6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

(7) Well before the relevant due dates (about 4 weeks before the dates) access the Assignment file on the Web CT OLE and download your next required assignment.

Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the examination. Submit all assignments not later than the due dates.

(8) Review the objectives for each study unit confirms that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.

(9) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.

(10) When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your facilitator's comments. Consult your tutor as soon as possible if you have any questions or problems.

(11) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

17.0 TUTORS AND TUTORIALS

There are eight (8) hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter as they would provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary.

Contact your tutor if:

- you do not understand any part of the study units or the assigned readings.
- you have difficulty with the self-tests or exercises.

- you have a question or problem with an assignment with your tutor's comment on an assignment or with the grading of an assignment.

You should try your possible best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

18.0 SUMMARY

As earlier stated, the course ENT701: Entrepreneurship Development is designed to introduce you to various techniques, guides, principles, practices etc. relating to development of entrepreneurship in Nigeria.

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN). We wish you every success in the future.



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UNIT 1: DEFINITION OF ENTREPRENEURSHIP AS A BUSINESS ACTIVITY

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1.0 INTRODUCTION

You are welcome to a new course; ENT701 (Entrepreneurship Development) is a first semester year four, three credit and 700 level core course. This is the first unit of the first module in this course.

In this unit, we shall define the terms ‘entrepreneurship, development and entrepreneurship development, discuss entrepreneurship as a business activity, describe an entrepreneur as an investor, and explain certain key concepts as they relate to entrepreneurship development and how entrepreneurship contributes to GDP and GNP.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the terms: entrepreneur, entrepreneurship, development and entrepreneurship development;
- describe entrepreneurship as a business activity;
- discuss entrepreneur as an investor;
- discuss certain key concepts as they relate to entrepreneurship development and how entrepreneurship development contributes to the national economy.

3.0 MAIN CONTENT

You would have learned and acquired basics knowledge in ENT101, Introduction to entrepreneurship for those study BSc Entrepreneurship in NOUN, BHM now ECO 101, principles of economics also GST301 and GST302 Entrepreneurship Studies that there are four factors of production, namely: land, labour, capital and entrepreneur.

For ease of reference, we would define land as the surface of earth that is not sea and all natural resources or endowments, labour as the human beings (skilled and unskilled) workforce that would help work on the machines, equipment, etc. to transform the raw materials into finished products for consumption by the consumer. The entrepreneur is fourth and the most important of

all the factors. This is because the entrepreneur harness all the human and material resources, provides the finance required, takes risk, initiate the ideas to transform into consumable product.

3.1 Definition of Terms

We shall define the terms ‘entrepreneurship’, ‘entrepreneur’, ‘development’, and ‘entrepreneurship development’ under separate sub-heads below.

3.1.1 Definition of Entrepreneur

The word entrepreneur originated from the French word, “entreprendre” which means “to undertake” (Akanni, 2010). In business context, it means to start a business, identify a business opportunity, organise resources, manage and assume the risk of a business or an enterprise. It is also used to describe those who (took charge) lead a project, which would deliver valuable benefits and bring it to completion. In other words, those who can manage uncertainty and bring success in the face of daunting challenges that would destroy a less well-managed venture.

Drucker (1995, quoted in Jimngang, 2004) defined an entrepreneur as someone who shifts economic resources out of an area of lower and into an area of higher productivity and greater yield. This definition has two aspects that deserve to be underlined. First, there are resources that undergo manipulation; second, the activity seeks to attain “higher productivity” and “greater yield”.

Hornby (2006) defined an entrepreneur as a person who makes money by starting or running businesses, especially when this involves taking financial risks.

UNDP (2010) defined entrepreneurship as the process of using private initiative to transform a business concept into a new venture or to grow and diversify an existing venture or enterprise with high growth potential. Entrepreneurs identify an innovation to seize an opportunity, mobilize money and management skills, and take calculated risks to open markets for new products, processes and services. You will observe that entrepreneurship is a derivative word from entrepreneur. To Shane (2010), entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finances and displays business acumen in an effort to transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity.

The concept of entrepreneurship has a wide range of meanings. It was first used in the early 18th century by an Irish man by name Richard Cantillon who was then living in France. On the extreme, it is a term used broadly in connection within the innovation of modern industrial business leader, which describe an originator of a profitable business idea (Akanni, 2010).

Garba (2010) asserted that the term entrepreneurship means different things to different people and with varying conceptual perspectives. He stated that in spite of these differences, there are some common aspects such as risk taking, creativity, independence and rewards.

According to Joseph Schumpeter, an Australian economist, the single function which constitute entrepreneurship concept is innovation, such as: new products, new production method, new market and new forms of organisation. Wealth is created when such innovation results in new demand. Entrepreneurship is therefore a process which involves the creation of an innovative economic organisation for the purpose of gain or growth under condition of risk and uncertainty (Dollinger, 2001 quoted in Akanni, 2010).

Vanderwerf and Brush (1989 quoted in Akanni, 2010), after reviewing twenty-five definitions, concluded that entrepreneurship is a business activity consisting of some intersections of the following behaviours: creativity, innovation, general management, risk bearing and intention to realise high levels of growth.

The most obvious form of entrepreneurship is that of starting new businesses (referred to as Startup Company); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization, it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations.

The entrepreneurs acts in a different way. The entrepreneur brings to light a differentiator,

something unique, which represents *value* in the eyes of the buyer or consumer. The idea is that the person at the helm should consider the organisation as operating under a process designed to provide “value” to the consumer. When all aspects of the business are geared towards achieving this goal – that is, value to the customer or a perception of it – then, such an organisation is entrepreneurial or represents entrepreneurship.

The American human psychologist, Abraham Maslow, sees the entrepreneur as someone who can “discern change, enjoy it and improvise without being forewarned”. According to him, the entrepreneur is a “here-now” creator, an improviser, who is not afraid of being viewed as operating in dissonance with general practice and belief (Stephens, 2000). To say it in another way, the entrepreneur is someone who perceives or senses opportunity where others fear rejection; he will not talk of obstacles but challenges. His mindset is tuned to success, and failure though he is aware of the possibility, does not preoccupy him.

3.1.2 Definition of Entrepreneurship

Shane (2010), entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finances and displays business acumen in an effort to transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity.

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3.1.3 Definition of Development

Abianga (2010) defined development as the act or process of growth, progress and improvement within a physical setting. Hornby (2006) similarly defined development as the gradual growth of something so that it becomes more advanced and stronger.

3.1.4 Definition of Entrepreneurship Development (ED)

A worldwide consensus on the critical role of competitive markets and entrepreneurs in economic development has emerged in the last decade. In developing countries, the primary barrier to economic growth is often not so much with a scarcity of capital, labour or land, but it is the scarcity of both the dynamic entrepreneurs that can bring these together and the markets and mechanisms that can facilitate them in this task.

Relating all the earlier three definitions of an entrepreneur, entrepreneurship and development, UNDP (2010) then defined entrepreneurship development as referring to the process of enhancing entrepreneurial skills and knowledge through structured training and institution building programmes. According to UNDP, ED aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development. Entrepreneurship development focuses on the *individual* who wishes to start or expand a business. Furthermore, entrepreneurship development concentrates more on growth potential and innovation.

The Federal Government of Nigeria recognized the role entrepreneurship could play in Jump starting the growth and development of the economy decided on two things in 2009, one, that entrepreneurship education should be made a general studies course for all undergraduates of the tertiary institutions. The second was that a centre for entrepreneurial development be established in each of the tertiary institutions where different skills would be taught. At the end of their programme of study, graduates of the tertiary institutions would be able to set up their own businesses with a view to contributing to the economy.

3.1.5 Characteristics of an Entrepreneur

Brown and Clow (1997, quoted in Koce, 2009) see an entrepreneur as a person who recognizes a business opportunity and who organizes, manages, and assumes the risk of a business enterprise focusing on that business opportunity.

According to the authors, an entrepreneur has the following characteristics:

- Desire for independence;
- Self confidence;
- Willingness to take risk;
- Ability to recognize opportunity.

Desire for Independence – One of the consistent characteristics of an entrepreneur is his desire for independence. What it means is that an entrepreneur would want to work for himself/herself rather than work for others. They want to take decisions on their own. There is that believe that when you are fired from your former organization, you are likely to become a better entrepreneur. Because of this, you are in a better position to take decision. A lot of people have resigned their position in organizations, to set up their own business. What they mostly tell you is that ‘I can wake at anytime to go to work’. It means that it is independence they require.

Self Confidence – There are two characteristic of an entrepreneur that leads him into having self confidence.

(a) Self Motivation – Entrepreneur set their own goals rather than having them set by their bosses. Since these goals are set by entrepreneurs, it means that they will be motivated to achieve those goals.

(b) Self Discipline – Every entrepreneur has self discipline, if not, the business will fail, Brown (1997) say. “They correct errors and improve on their own performance without any prompting from some one else. These are confident people who believe in what they are doing and believe that the job is worth doing.

Willingness to Take Risk – Any entrepreneur is a risk taker; they take calculated risks whether formally or informally. Mostly they take risk informally because they make calculation within their brain on what to buy, keep and sell latter. They equally try to figure out the probability of success of their business once they are convince that it is high, they will go into such business,

which means they take risk. Marketing research is undertaken by entrepreneur consciously and unconsciously. If this research is carried out, they venture into such businesses. Entrepreneurs are not tired of trying. If they invest in a business and they fail, they still try another business so that they can succeed. Brown 1997 say: an entrepreneur has what he call calculating risks.

- (i) Is the goal worth the risk?
- (ii) How can I maximize the risk?
- (iii) What information do I need before I take the risk?
- (iv) Why is this risk important?
- (v) Am I willing to try my best to achieve the goal?
- (vi) What preparation do I need to make before I take the risk?
- (vii) What are the biggest obstacles to achieving my goal?

Ability to Recognize Opportunity – Brown (1997) says entrepreneurs try their hand on opportunities that are by-pass by others; these opportunities may include:

- Meeting the demand that is not currently met.
- Pushing up a product that is much better than what is currently in the market.
- Solving a problem or annoyance that consumers have.

Entrepreneurs recognize opportunities where they are and they utilize them by producing product or services that will fill the vacuum identified.

Self Assessment Exercise 1.1

1. Briefly define the terms ‘entrepreneur’, ‘entrepreneurship’ and ‘entrepreneurship development’.
2. If you are to be an entrepreneur, state about five reasons that will engineer you into it.

3.2 Entrepreneurship as a Business Activity

We had earlier on described entrepreneurship as the activities of the entrepreneur geared towards identifying an innovative idea, to seize an opportunity, mobilize money and management skills, and take calculated risks to open markets for new products, processes and services. Brown et al (1997, quoted in Koce, 2009) state that business is all of the activities of an individual or group of individuals in producing and distributing goods and services to customers.

According to them, an entrepreneur or a business wants to identify the needs, wants, goals, values etc. of the potential and prospective buyer or consumer with a view to developing a product or service that would be tailored to satisfying these needs, wants, goals, values etc. The business of an entrepreneur therefore involves the following activities.

3.2.1 Producing Goods and Services

Business provides goods and services to you. In today’s business goods and services are many. Examples of goods are: handset, cloth, computer, radio, house etc. The examples of services include education, offering consultancy in a clinic or hospital, serving as travel agency, or providing accommodation and a hotel or guest house.

3.2.2 Activities that Add Value to the Goods and Services

A lot of activities happen before goods and services get to your door step. A product is not just made in a day and finds its way to the store. These are some of the activities that are performed by business. They include organizing, managing, producing and marketing.

Organizing – within a company someone will be in charge to organize human and material resources to provide products.

Manage – if there is no one to manage finance, human resources and production, the company can’t go on smoothly.

Production – it is the responsibility of a business to produce those physical item you are using i.e. radio, wrist watches etc.

Marketing – business is involved in advertising, distributing and selling those products produced.

3.2.3 Resources Used by the Business

Companies use resources to be able to perform those functions listed above. These resources that business will use include:

1. **Human Resources** – salesmen, accountants, manager.
2. **Materials** – building offices, stores, raw materials for production. Business decides on choices of how to combine their resources and many more everyday at what cost to achieve their aim.

3.2.4 Characteristics of Business

Business has some or all of these characteristics:

1. Exchange sale or transfer of goods and services. For every business there must be exchange of goods and services for money.
2. Profit motive. For every business activities undertaken, it is for profit making motive. However, profitable organizations and some corporations are established to provide services.
3. Dealing in goods and services. For every organization that is business oriented, it must produce goods and services.
4. Uncertainty and risk bearing. Every business undertaking must take risk and there is always uncertainty. Uncertainty may arise as a result of competition, wrong decisions unethical.
5. Continuity and regularity. A business undertaking must always be in business and not on and off.

3.2.5 Objectives of Business

The objectives of a business are as follows:

1. Profit –The aim of an organization is to make profit;
2. Survival – Every business must have as a goal to continue to survive or exist;
3. Growth – A business must not only survive, but it must have as goal to be the biggest;
4. Market share – Every business concern must be able to carry out its market share to control in terms of market coverage and patronage of its products and services;
5. Productivity – It must continue to produce;
6. Innovation – Business must try to see that it's the first and best to bring up new ideas;
7. Employee's welfare – Business must maximally want to take care of its workers;
8. Service to consumer – Consumers are well satisfy as another objective of any business concern; and
9. Social responsibility. Apart from doing 1-8 it must do to other things that people around the business must benefit.

Brown et al (1997, quoted in Koce, 2009) concluded that business plays an important role in your life today and will play an increasingly important role in the future. Likewise, you affect what business does now and will do in the future. Its important to know business tricks and how you can relate to the business world. Businesses owners are proud to be there own owners of business i.e. there is satisfaction of being their own boss. Income comes into the business owner's hands. There is equally an opportunity to grow.

Self Assessment Exercise 1.2

1. List five characteristics of a business
2. List five objectives or goals of a business.

3.3 Entrepreneur as an Investor

Hornby (2006) defines an investor as someone who spends his energy, time, efforts, financial resources, etc. on something he considers to be good or useful in anticipation that it will yield benefits.

Finance is a fundamental issue in the development of an entrepreneurship. An entrepreneur relies heavily personal savings, contributions from friends, relations and business partners as well as loan from the banks. Ejiofor (1989, quoted in Babalola, 1999) states that modern businesses derive their finances from two sources which include owned capital and loan capital.

3.3.1 Owned Capital

The owned capital available to an entrepreneur is made up of the personal savings, contributions from family, friends and relations. It also includes support from business partners.

(i) **Personal Savings** – Many individuals during their working life he decided to save and that is the money he used in setting up his business. We have a lot of sole traders who got money from this method to setup their business.

(ii) **Borrowing particularly from Friends and Relatives** – It is common, among the Igbo business traders that once their brothers are willing to do business, they give him a helping hand by borrowing him some amount of money to start his business, when he starts making profit, he will pay. This borrowing is not limited to brothers alone; friends and relatives equally help out in this situation for people to start up a one man business.

(iii) **Credit Purchase from Manufactures or Wholesalers** – Sole traders get financed through credit buying from the manufactures or a wholesaler by selling goods to sole traders at credit the wholesalers are financing a sole trader.

(iv) **Donations from Friends and Relatives** – Friends and relatives can dash you money purposely to help you continue with your business.

Advantages:

1. It requires small capital. Can be established quickly and easily with small cash, there are no organization fees and the services of lawyers to draw up terms are not generally required. It is the commonest and the cheapest form of business organization.
2. Easy to establish: This is because it requires no formalities and legal processes attached to establishing the business and is subject to very few government regulations as no business of balance sheet to the registrar of companies is required.
3. Ownership of all profit: The sole trader does not share profit of the business with any one.
4. Quick decision-making: The sole trader can take quick decisions since he has no parties to consult or a boss whose permission he must get. He takes action as soon as circumstances arise or as soon as he conceives an idea, such flexibility could be very vital to his success.
5. Easy to withdraw his assets: Proprietorship can be liquidated as easily as it is begun. All what he needs to do is to stop doing business. All his assets, liabilities and receivable are still his.
6. Single handedly formulates all policies: He determines the firms' policies and goals that guides the business internally and externally and works towards them. He enjoys the advantage of independence of actions and personal freedom in directing their own affairs.
7. Boss: He is free and literally his own boss but at the same time continues to satisfy his own customers.
8. It is flexible: The owner can combine two or more types of occupation as a result of the flexibility of his business e.g. a barber can also be selling mineral and musical records.
9. Personal Satisfaction: There is a great joy in knowing that a person is his own master. The sole trader has a great deal of that. He also knew that the success and failure of the business completely lies with him. This gives him the incentive to make his business as efficient as possible.
10. Cordial Relationship, with workers and customers: Because the sole trader is usually small, the owner can have a very close relationship with his workers to the extent that domestic/personal issues can be discussed and addressed. He also knows first hand from customers what their wants are. It also enables him to know which of the customer's credits are worthy. This kind of relationship is usually beneficial to all the parties.
11. Tax saving: Unlike in companies the profits of the sole trader are not taxed, the owner only pays his income tax.
12. Privacy: The sole trader is not under any legal obligation to publish his accounts for public consumption as in joint stock companies.

3.3.2 Short-term Loan Capital

Loan capitals otherwise called borrowed facility consist of loan from the commercial bank, government agencies set up to provide needed support to the entrepreneurs. Its advantages are that it is a source of capital required for take off, provides guaranteed funds for the entrepreneurship business and it is instrumental to business growth and expansion. However, bank loan attracts high rates of interest and has tough and stringent conditionalities attached to it. Loans from commercial banks are short term in nature

3.3.3 Long-term Loan Capital

Long-term loan is usually made available to limited liability companies (whether private or public) from the following sources:

- New issues of equity shares, preference shares, loans stock or bonds;
- Retained profits;
- Medium term borrowing from banks.

These sources of finance are for long term period and gives adequate gestation period to enable the business to effectively put same to use in the business for profitability.

3.4 Key Concepts in Entrepreneurship

We shall briefly discuss the following key concepts as they relate to entrepreneurship.

3.5 Psychological prerequisites of an Entrepreneur

Jimngang (2004) describes the entrepreneur as one who can move an idea into a viable and profitable commercial deal – new product, new market, or new industry. In order to achieve this, he needs the right frame of mind and the ensuing success starts building up from this mindset. He states further that, for an entrepreneur, getting to the state of mental preparedness requires the following psychological traits:

3.5.1 Think Positively

There is uncertainty at the core of all human activities; nevertheless, we should not be discouraged. To be successful as an entrepreneur, we need to think success. Success starts forming long before it is achieved. As humans, we need to wear the conviction that we are capable of getting to heights and places. The first step to success lies in conceiving it deep within self by inwardly envisioning self, dreaming it. We should not be afraid or negatively affected when our close friends and relatives call us dreamers because we have an “unattainable” plan. It should be noted that great spirits have always encountered violent opposition from mediocre minds, hence, the need to have belief and while in action; the mind, the brain, and the surrounding circumstances interact in ways and means that usually and surprisingly convert dreams to realities.

We should therefore think positively, have self-confidence and be ready not to relent any effort required before attaining our goal.

3.5.2 Be Ambitious

By ambition, we refer to a long-term plan. It is stratified, thus stretching through midway between ambitions or objectives. These midway objectives are like a stairway up to the top floor of a tall building ever stated. To that extent, for a deed or achievement to be worthwhile or significant, it must not necessarily be grand in volume or colossal in amount. It may even be intangible, but still very valuable.

Below is a hierarchy of ambitions as postulated by Jimngang (2004) from which you discover that ambitions could obey the following classification: *survival, security, bourgeoisie, aristocracy, and charity.*

Charity
Aristocracy
Bourgeoisie
Security
Survival

Figure 2.1 Jimngang Hierarchy of Ambitions

Source: Jimngang, G.Y. (2004). *The Culture of Entrepreneurship*. Douala: Treasure Books Company Limited, Cameroon, pg. 38.

“Survival” ambition – This level of ambition is basic. The things, acts and income that result can barely afford the basics to spare one’s life and the lives of those under one’s care and charge. Ambition is, here, limited to a battle to exist as a creature or an animal. Food, water, shelter, clothing, and a few other things necessary for living constitute the ultimate acquisitions of this level of ambition. This level corresponds to the “gatherer/hunter/fighter” age in history.

Another example of this ambition was that of a woman who ran a home-based restaurant selling a local, but coveted meal – “amala”. She prepared it so well that there were jams at her home during lunchtime. Regularly customers would stand and wait outside her home for seats to be liberated in her sitting room that had a very small capacity. When customers counseled her to expand the business, she retorted that she would abandon the trade the moment she got a husband. She was clearly unenthusiastic and did the selling just to have enough to make afforded to make ends meet. The truth was that it was not a trade for her but a pastime and not even a favourite one.

Around the same period, she trained another lady, who later set up shop in another area of the town. This second lady modernized the whole cooking and selling process – she represented entrepreneurship. It did not take long for her to be a household name in town. Even though the second lady was more expensive than the first, the second lady’s business witnessed growth in staff, logistics, income and profits. In short, she converted a local staple meal into a sought-after delicacy. Within a short period, her restaurant became an outing and a tourist attraction.

From the story of the two women just narrated, there are many remarks that can be drawn. These remarks relate to the credentials of the entrepreneur and the situation where there is competition.

“Security” Ambition

This level of ambition is, of course, higher than survival in that the elements are more, in quality and quantity. Life seems brighter and more hopeful. The great majority of workers in both the public and private sectors fall within this category. The items mentioned above at the level of “survival” ambition are affordable, and even in decent quality. However, the income earned at this level leaves the earner with nothing or very little as savings; such savings ought to serve to upset the heavy bills of old age.

Upon retirement, the income at the disposal of the then worker, even if insurance and mutual fund benefits were to be added, does not permit the worker to settle, conveniently, the increasing flow of bills. Inflation alone that has built up within the years eats up a good portion of the book value of any benefits or savings. Worse off, institutions such as banks and insurance firms, where the hard-earned deposits and premiums were kept, could have the awkward predicament of going into liquidation before the beneficiaries mature to claim or receive the sweat of their labour.

The recommendation, here, is to strive to attain an even higher level of ambition.

“Bourgeoisie” Ambition

This level of ambition consolidates the elements of the level of “security” ambition, which already incorporates those of the “survival” ambition. Furthermore, there are extra aspects and acquisitions that permit the individual to lead an enjoyable lifestyle. These aspects and acquisitions include the ownership of a good home, a car, and other amenities. Some other pleasures that could be afforded are holiday abroad, weekend picnics, cell phones, parties, outdoor dining, and others. Actually, there is comfort, both psychological and material, in and around such individuals. Some of the items at this level, however, may be acquired through a mortgage or higher purchase or some other form of credit facility. In some cases, there could be some savings and insurance policies to cater for some contingencies. Nonetheless, there is a big limitation with regard to ownership and pleasures. The fine valuables of life are not affordable. Many things can exemplify this limitation: a good house located outside the prime residential haven of town; a car with just the regular features; flying economy class; acts of generosity and charity are in bits and pieces.

“Aristocracy” Ambition

It is a level with wealth in abundance. Acquisitions pile up, immensely. The money that was initially sought after has grown and is now working for the master. Real estates, securities (shares, stocks and bonds) and other acquisitions such as banks and insurance companies constitute some of the items aboard the bandwagon of portfolios. Spending, do not be shocked, often poses a problem. Acquisition of items of lifestyle tends towards products of the high top end of the market, which symbolizes “arrival” and distinction. The car is not anything with a motor, but a mark with a prestigious name; the home is not just a house, but a castle singularly perched; the clothes are unique, hand-made or custom-made by famous designers. These items are generally intended to convey a myth in the eyes of the public or on-lookers. Just add that parties, travels, concerts, positions, during social gathers and titles are part of the paraphernalia for the spicing of the intended image.

“Charity” Ambition

This is the peak of the hierarchy. At this level, there is no doubt that the wealth is vast, with the addition or alternative of being fulfilling. This awareness urges the owner to take pity on the less endowed in the society. In the process, he wants to leave a mark as a real generous person. In reality, many motives lie behind such acts of generosity. Nonetheless, the undertakings of generosity evoked here are not intended to yield any monetary or material rewards to the donor. Rather the donor wants, primarily, to be recognized, even stand out, and to be remembered as a charitable or philanthropic personality. Such acts of donation may fall in one or more of the following areas: education, health, famine, poverty alleviation, peace brokerage, or other acts in line with the promotion of human dignity. Leading figures in this example are, George Soros (a Hungarian-born American), Henry Ford, John Rockefeller, computer whiz, Bill Gates etc. Back home in Nigeria, we can mention the likes of Aliko Dangote, Mike Adenuga, Mobolaji Bank-Antony (of blessed memory), etc.

In conclusion, in order to get to the top of the ambition so designed, we need unshakable attachment to our ambition as well as boldness to master fear.

3.5.3 Be of Strong Consistency

In every aspect of life, be it sports, politics, or research as in business, we need to show full determination. There is need to resolve not to relent until the point of victory, this being the ultimate objective. This desire to forge ahead must be strong, recurrent, resolute, ardent and unbending. It must also be long lasting, that is staying power, because the road is generally long, narrow and dreary; yet at the end of it all lie happiness, joy, fame, self-satisfaction, glory and honour, and even the possibility to be charitable to society.

It is noteworthy that there are trials and temptations along the way. Some situations are difficult and complex that we are or may be tempted to give up. Oftentimes, there will be a way out provided we are patient and perseverant. We need effort to progress and usually the effort required is highly demanding and strenuous. We need to think, to work hard, to go out, and to

meet people, to be ready to face humiliation, and somehow, like a miracle, find a solution. Time can itself be the solution, so waiting should be considered.

One could learn from the popular Chinese saying that: “Lack of patience can disrupt even the best plan”. The highly admired wartime British Prime Minister, Winston Churchill, had this to say about success: “Success is the ability to go from one failure to another with no loss of enthusiasm”. It will interest you to note that life is like a wave moment of ups and downs. Sometimes, it is very jerky, sometimes it is very calm. Therefore, keep on fighting and struggling. Expect in all circumstances to have troubles and disturbances of all sorts resulting from emotional feelings and physical pains incurred through the various efforts to break through.

3.5.4 Fear

Mariz Arza (quoted in Giovagnoli, 1998) expressed that “courage is not about doing something without fear, but about taking any strength you have – even if it is just a grain of courage – and channeling to strike out ... when you know what you’re doing is morally and ethically right”. Fear is horrific and, if allowed, can act like a cankerworm that gnaws at the fruits of human plan and endeavour. It is that anxious feeling that manifests in us because of our awareness of the risk of failure of an operation. This sign is normal and an indication that our mental faculty is functionally normally. As a human being, it is natural to have the sense of fear. This sense has to be understood, domesticated, controlled, and well channeled. Fear should not be so strong as to overcome our other senses. It should not be exaggerated to the point of making us cancel a well-planned project or cherished ambition.

Such a reaction to fear would be unfortunate weakness. Learn to dominate fear. Everybody fears. Chu Chin-Ning (1994, quoted in Jimngang, 2004) says: “The bravest, strongest are also the greatest cowards. The winner takes courage to dominate fear and gets victory over the opponent psychologically first, and then physically”.

Fear is not intended to be bad or destructive. It arouses the emotions that help guide the ambitious. In this way, it helps guide the ambitious in shaping and reshaping, moulding and remoulding the ways and means of getting through to success. In reality, one cannot be afraid nor have fear until one knows the danger or the imminence of danger. Even though the consequences of failure could be catastrophic or disastrous, one should still show courage and be spurred more by the potential gains and benefits of success.

The recommendation is that one should practice to balance, one the one hand, the wisdom of Chu Chin-Ning that “an ignored guest often departs unannounced”, and, on the other hand, the realism by Mark Twain that courage is “resistance to fear, mastery of fear – not absence of fear”.

3.6 Concepts of Innovation and Entrepreneurship Process

Esiomo (2010) states that, fundamentally, innovation has to do with changes leading to improvement in the quality and quantity of products as well as techniques of doing things. Innovation is dynamic and creates new things out of existing ones. Through innovation, the entrepreneur introduces new production techniques, new commodities, improve on existing ones, open up new markets, explore new source of raw materials and design new techniques of management. Research and Development Programs are formal avenues of introducing or inculcating innovative skills in the entrepreneur. These skills are what the entrepreneur translates into business establishment and development.

The process of entrepreneurship starts from the generation of business idea, through implementation to the realization of output and profit.

(a) Business ideas

Business ideas and opportunities come from a variety of ways according to Hisrich and Peters (2002). These include:

i. **Consumers:** Opinions, information and complaints of consumers can be useful source of information as to what the consumer wants. The entrepreneur can obtain this from market survey of preferences, discussion, age, socio-cultural background, biological and wealth status of the

consumers etc. The entrepreneur can map out critical areas of consumer's need, deficiency and inefficiency and exploit it.

ii. **Existing business:** Entrepreneurs and intrapreneurs can get business clues by constantly monitoring and evaluating market performance of products and services of existing businesses.

iii. **Research and development:** The entrepreneur as an agent of change, should constantly explore and gets involved in research to develop new products, improving on existing ones or establish new ways of production.

iv. **Distributive channels:** Distributive trade both at local and international levels provide opportunities for ancillary industries to spring up.

v. **Governmental activities:** Governmental activities such as registration of business, patent right and government agencies provide opportunity for business. Also government programmes of economic, social and community development provides opportunities for business/entrepreneur.

vi. **Adverts:** Advertisement in News print and radios/TV, bill boards are a source of new line of business to the entrepreneur.

vii. **Sundry activities:** The entrepreneur can learn about things needed by the consumers but which are not supplied from activities such as marketing, seminars/symposia, marriages, burial ceremonies, picnic centers, traveling, sporting activities, catalogues etc.

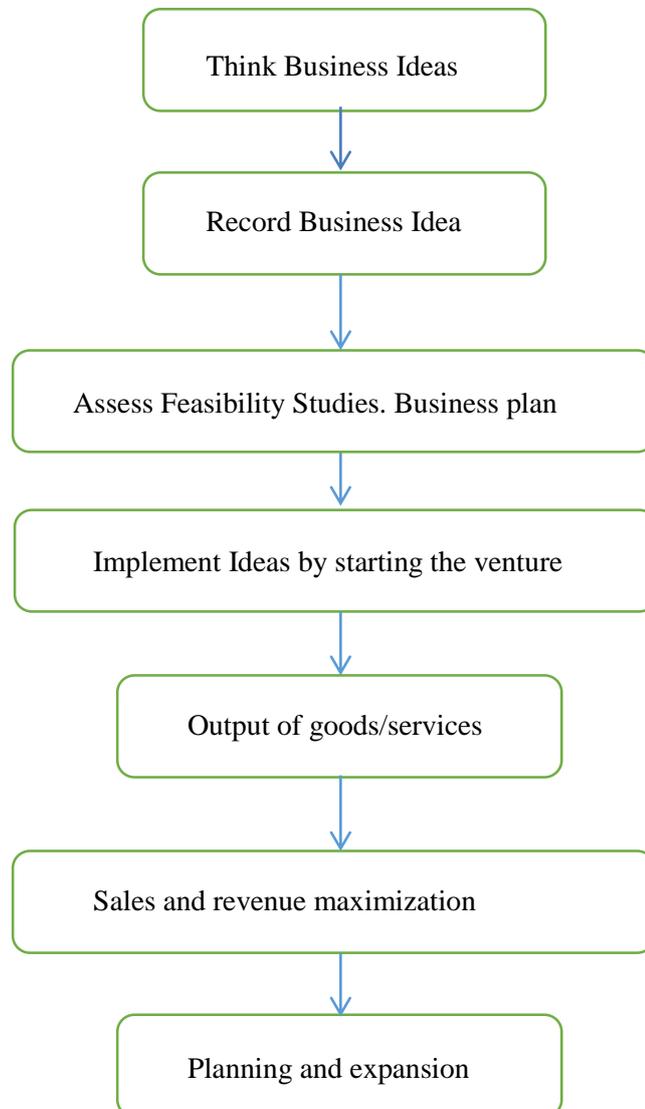


Figure 1: Flow of business Process

Source: Esiomo, S.S. (2010). Eshiobo, S.S. (2010). Entrepreneurship in Innovation, Phenomena Growth of Enterprises and Industrial Organisations in Nigeria.

(b) Developing a Business Idea

The translation of business idea into a business venture takes the following process. When a business idea struck an entrepreneur, the first thing is to *write it down* to avoid forgetting. The various ideas that have been so recorded are then screened and the feasible or plausible and more profit-oriented ones selected for implementation. A good feasibility or *business plan* must be systematic and integrates market, finance, production and human resources. It should have (Esiomo, 2010):

(1) A clear *mission statement* of the business line to be involved.

Think Business ideas
Record Business Idea
Assess Feasibility
Studies. Business Plan
Implement Ideas by
starting the venture
Output of goods/services
Sales and revenue
maximization
Planning and expansion

(2) A design of *production, process, detail logistic and operational activity plan* of a complete business circle.

(3) A detail *marketing and sales plan*. Forecasting sales and identifying Consumers problems with existing products.

(4) An *organizational plan of administrative relations*, legal relations, duty schedule, customer service etc.

(5) A detail *financial record plan* projected for a 3-year period, explaining income, expenses and profit.

(6) *Evaluation* of business operations and objectives.

(7) Provision for *minimizing risk and uncertainty* e.g. starting a business that the entrepreneur is familiar with or that has been tested in that environment of operation.

(c) Converting Business Dream to Reality

Just as it could be difficult choosing the best business to pursue, so also is the difficulty to get it started! It may take many years to get off the ground a business plan. The entrepreneur needs to struggle to obtain the basic and necessary facilities to get the new business off the ground. He should not spend the whole time planning but review his initial plan, jump in and get started. He should stop talking about the business instead of starting it up because action speaks louder than voice.

Execute your business with excellence focusing on customers' needs/satisfaction. Try to avoid mistakes and when you make one quickly correct it. Do not jump into cut throat competition especially with older successful entrepreneurs or business persons but instead involve in a life time friendship and a possible franchise.

Explore and access government's policies and infrastructural supports that will help you translate your innovative dreams into reality so as not to remain a mere dreamer. Constantly search for new, competitive and innovative ideas to remain relevant in your business and do not go into huge debt to start a business.

4.0 CONCLUSION

We have defined the definitions of terms such as entrepreneur, entrepreneurship, development as well as entrepreneurship development. We briefly discussed the traits of an entrepreneur to include desire for independence, self-confidence, willingness to take risk and ability to recognize opportunity. We described entrepreneurship as a business activity, the various activities involved in by an entrepreneur and the role of an entrepreneur as an investor. Furthermore, we defined and

explained key concepts which relate to entrepreneurship development. Finally, we listed and described the psychological pre-requisite of an entrepreneur.

5.0 SUMMARY

In this unit, we have:

- defined the terms: entrepreneur, entrepreneurship, development and entrepreneurship development;
- described entrepreneurship as a business activity;
- discussed entrepreneur as an investor;
- discussed certain key concepts as they relate to entrepreneurship development and how entrepreneurship development contributed to national economy;
- listed and discussed the psychological pre-requisite of an entrepreneur.

In the next unit, we shall examine the history of entrepreneurship globally in general and in Nigeria in particular.

6.0 TUTOR MARKED ASSIGNMENT

1. What the key concepts of entrepreneurship development and how has ED contributed to national economy?
2. What are the psychological pre-requisites of an entrepreneur? List and discuss them.
3. Is an entrepreneur an investor? Discuss the role of an entrepreneur.
4. Discuss briefly the concept of innovation and entrepreneurial process. What are the flows of business process? With the aid of a diagram, list and explain them.

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UNIT 2 HISTORY OF ENTREPRENEURSHIP IN NIGERIA

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1.0 INTRODUCTION

In the last unit, we defined the terms: entrepreneur, entrepreneurship, development and entrepreneurship development, described entrepreneurship as a business activity, discussed entrepreneur as an investor, discussed certain key concepts as they relate to entrepreneurship development and how entrepreneurship development contributed to the national economy. In this unit, we shall be looking at the history of entrepreneurship globally in general and in Nigeria in particular. This will lead to discussion of the various trends recorded in the evolution of entrepreneurship until the present day.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- trace the history of entrepreneurship;
- list and explain the role of authors and practitioners in the evolution of entrepreneurship; and
- trace the different stages of the history of entrepreneurship in Nigeria;
- discuss entrepreneurship and leadership in Nigeria especially as it affects youth empowerment.

3.0 MAIN CONTENT

3.1 History of Entrepreneurship

Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high value" entrepreneurial ventures seek venture capital or angel funding (seed money) in order to raise capital to build the business. Many kinds of organizations now exist to support would-be entrepreneurs including specialized government agencies, business incubators, science parks, and some NGOs. In more recent times, the term entrepreneurship has been extended to include elements not related necessarily to business formation activity such as conceptualizations of entrepreneurship as a specific mindset (see also entrepreneurial mindset) resulting in entrepreneurial initiatives e.g. in the form of social entrepreneurship, political entrepreneurship, or knowledge entrepreneurship have emerged.

The entrepreneur is a factor in microeconomics, and the study of entrepreneurship dates back to the work of Richard Cantillon and Adam Smith in the late 17th and early 18th centuries, but was largely ignored theoretically until the late 19th and early 20th centuries and empirically until a profound resurgence in business and economics in the last 40 years.

In the 20th century, the understanding of entrepreneurship owes much to the work of economist Joseph Schumpeter in the 1930s and other Austrian economists such as Carl Menger, Ludwig von Mises and Friedrich von Hayek. In Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation.^[4] Entrepreneurship employs what Schumpeter called "the gale of creative destruction" to replace in whole or in part inferior

innovations across markets and industries, simultaneously creating new products including new business models. In this way, creative destruction is largely responsible for the dynamism of industries and long-run economic growth. The supposition that entrepreneurship leads to economic growth is an interpretation of the residual in endogenous growth theory and as such is hotly debated in academic economics. An alternate description posited by Israel Kirzner suggests that the majority of innovations may be much more incremental improvements such as the replacement of paper with plastic in the construction of a drinking straw.

For Schumpeter, entrepreneurship resulted in new industries but also in new combinations of currently existing inputs. Schumpeter's initial example of this was the combination of a steam engine and then current wagon making technologies to produce the horseless carriage. In this case the innovation, the car, was transformational but did not require the development of a new technology, merely the application of existing technologies in a novel manner. It did not immediately replace the horse drawn carriage, but in time, incremental improvements which reduced the cost and improved the technology led to the complete practical replacement of beast drawn vehicles in modern transportation. Despite Schumpeter's early 20th-century contributions, traditional microeconomic theory did not formally consider the entrepreneur in its theoretical frameworks (instead assuming that resources would find each other through a price system). In this treatment the entrepreneur was an implied but unspecified actor, but it is consistent with the concept of the entrepreneur being the agent of x-efficiency.

Different scholars have described entrepreneurs as, among other things, bearing risk. For Schumpeter, the entrepreneur did not bear risk: the capitalist did.

3.1.1 Authors and Practitioners in Entrepreneurship

Listed below are some notable persons and their works in entrepreneurship history:

For Frank H. Knight (1921) and Peter Drucker (1970) entrepreneurship is about taking risk. The behavior of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture. Knight classified three types of uncertainty.

- Risk, which is measurable statistically (such as the probability of drawing a red color ball from a jar containing 5 red balls and 5 white balls).
- Ambiguity, which is hard to measure statistically (such as the probability of drawing a red ball from a jar containing 5 red balls but with an unknown number of white balls).
- True Uncertainty or Knightian Uncertainty, which is impossible to estimate or predict statistically (such as the probability of drawing a red ball from a jar whose number of red balls is unknown as well as the number of other colored balls).

The acts of entrepreneurship are often associated with true uncertainty, particularly when it involves bringing something really novel to the world, whose market never exists. However, even if a market already exists, there is no guarantee that a market exists for a particular new player in the cola category.

The place of the disharmony-creating and idiosyncratic entrepreneur in traditional economic theory (which describes many efficiency-based ratios assuming uniform outputs) presents theoretic quandaries. William Baumol has added greatly to this area of economic theory and was recently honored for it at the 2006 annual meeting of the American Economic Association.^[6]

The entrepreneur is widely regarded as an integral player in the business culture of American life, and particularly as an engine for job creation and economic growth. Robert Sobel published *The Entrepreneurs: Explorations Within the American Business Tradition* in 1974. Zoltan Acs and David Audretsch have produced an edited volume surveying Entrepreneurship as an academic field of research,^[7] and more than a hundred scholars around the world track entrepreneurial activity, policy and social influences as part of the Global Entrepreneurship Monitor (GEM)^[8] and its associated reports.

3.1.2 Concept

It has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and it is a pathway to prosper. Entrepreneurship is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. It is the process of planning, organising, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as an ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

3.1.3 Promotion

Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risktaking, and national campaigns.

3.2 How Entrepreneurship all started in Nigeria.

The history of entrepreneurship in Nigeria can be classified under the following stages:

- (1) early stage; and
- (2) modern stage.

3.2.1 The Early Stage

Entrepreneurship started when people produced more products than they needed, as such, they had to exchange these surpluses. For instance, if a blacksmith produced more hoes than he needed, he exchanges the surplus he had with what he had not but needed; maybe he needed some yams or goat etc, he would look for someone who needed his products to exchange with. By this way, producers came to realize that they can concentrate in their areas of production to produce more and then exchange with what they needed.

So through this exchange of products, entrepreneurship started. A typical Nigerian entrepreneur is a self made man who might be said to have strong will to succeed, he might engage the services of others like; friends, mates, in-laws etc to help him in his work or production. Through this way, Nigerians in the olden days were engaged in entrepreneurship. Early entrepreneurship is characterized with production or manufacturing in which case the producer most often started with a small capital, most of it from his own savings. Early entrepreneurship started with trade by barter even before the advent of any form of money.

3.2.2 The Modern Stage

Modern entrepreneurship in Nigeria started with the coming of the colonial masters, who brought in their wears and made Nigerians their middle men. In this way, modern entrepreneurship was conceived. Most of the modern entrepreneurs were engaged in retail trade or sole proprietorship. One of the major factors that have in many ways discouraged this flow of entrepreneurship development in Nigeria is the value system brought about by formal education. For many decades, formal education has been the preserve of the privilege. With formal education people had the opportunity of being employed in the civil service, because in those days the economy was large enough to absorb into the prestigious occupation all Nigerians their goods. As such, the system made Nigerians to be dependent on the colonial masters.

Again the contrast between Nigerian and foreign entrepreneurs during the colonial era was very detrimental and the competitive business strategy of the foreign entrepreneurs was ruinous and against moral standards established by society. They did not adhere to the theory of "live and let's live". For instance, the United African Company (UAC) that was responsible for a substantial percentage of the import and export trade of Nigeria, had the policy of dealing directly with producers and refused to make use of the services of Nigerian entrepreneurs. The

refusal of the expatriates to utilize the services of local businessmen inhibited their expansion and acquisition of necessary skills and attitude. Because of this, many eventually folded up. Those that folded up built up resentment against business which became very demoralizing to other prospective entrepreneurs. As a result, the flow of entrepreneurship in the country was slowed down. But, with more people being educated and the fact that government could no longer employ most school leavers, economic programs to encourage individuals to go into private business and be self reliant were initiated.

Such economic policy programs that are geared towards self reliance for individuals are programs as Open Apprenticeship Scheme, Graduate Employment Programs etc and other policies that encourage or make it easy for entrepreneurs to acquire the needed funds e.g.; Peoples Bank of Nigeria, Funds for Small-Scale Industries(FUSSI), co-operative societies etc were established to assist entrepreneurs in Nigeria.

3.3 Entrepreneurial Development in Nigeria

While these statistics bide well for the country's economic prospects, they also serve to reaffirm the vital importance of entrepreneurial development in achieving that potential.

3.3.1 Past Entrepreneurship Developments

According to Osalor (2008), people of the Ibo community in Nigeria are considered one of the oldest entrepreneurs in history, their expertise stretching back to times before modern currency and trade models had developed elsewhere on the planet. In the more recent past, Nigerians adapted their natural talents to evolve traditional businesses and crafts that have sustained most of the country's rural and urban poor for the better part of the last half century. While the oil boom of the '70s brought in billions of petrodollars, most of the country's population remained untouched by the new-found prosperity, thanks to widespread political corruption and catastrophic economic mismanagement. Because of these and other factors, the World Bank estimates that 80% of oil revenues benefited just 1% of the population.

Most of Nigeria's current woes trace back to a historic overdependence on oil to the negligence of all other sectors, including customary trades and agriculture. Decades of non-inclusive policies alienated the vast majority of Nigerians, plunging the country into a miasma of extreme poverty and ravaging civil and political strife. The climate of economic stagnation spawned a mammoth informal economy that continues to sustain the bulk of Nigeria's 148 million people. It is a measure of Nigeria's inherent entrepreneurial capacity that this informal, unorganised sector presently accounts for 65% of Gross National Product and accounts for 90% of all new jobs. All these factors have tremendous relevance for Nigeria's future prospects, even more so considering the extent of official neglect and lack of assistance and infrastructure that the country's indigenous entrepreneurs have had to overcome. Harnessing the informal economy and leveraging its full potential is a prerequisite for Nigeria to emerge from the shackles of its Third World legacy.

3.3.2 The Future of Entrepreneurial Development in Nigeria

It is not as if Nigeria's hopes of economic superiority rest on individual optimism and enterprise alone. Right after the reinstatement of democracy in 1999, the government of former president O Obasanjo unveiled ambitious plans to take the sub-Saharan nation to the top 20 world economies by 2020. Abuja is also a signatory to the UN Millennium Declaration of 2000 for the achievement of universal basic human rights - relating to health, education, shelter and security - in a time bound manner by 2015. Both objectives present mammoth challenges for Nigeria in terms of reversing past trends and evolving innovative strategy for sustainable and inclusive growth.

The primary focus of Obasanjo's policies centred on accelerated development through entrepreneurial education (which he made mandatory for college students of all disciplines) and the creation of conditions favourable to a new business regime built on innovation and adaptability. The federal government has since initiated successive programmes aimed at

promoting enterprises through widespread use of technology and socially relevant business models. The extent of success of these and other measures, however, is still a matter of debate. According to the 2007 Gallup poll, 69% of respondents planning new businesses had no intention of registering their operations, indicating they would still prefer to be part of the informal economy. In light of Nigeria's long-term goals, this is certainly bad news.

3.3.3 Obstacles to Enterprise Development

Osolor (2008) states that disinterest in the formal economy reflects the status of Nigeria's policies and tax regime, which have long been deemed detrimental to the growth of viable enterprises. Even more disturbing is the fact that this continues to be the case despite the energetic reforms process initiated after the return of democracy. It is more than evident that piecemeal measures are unequal to meeting the challenges that Nigeria has set itself up to.

The following are the most important obstacles facing rapid entrepreneurial development:

- Absence of a pro-active regulatory environment that encourages innovative enterprise development at the grassroots level.
- Significant infrastructural deficits (especially with regards to roads and electricity) and systemic irregularities inimical to small businesses.
- The presence of administrative and trade barriers that curtail capacity building and inhibit access to technical support.
- Absence of regulatory mechanisms for effective oversight of enterprise development initiatives, especially those in the MSME space.
- Poor access to vocational and skills-development training for rural and urban youths involved in the informal economy.
- Rampant political and bureaucratic corruption, together with the absence of social consensus on important macroeconomic policy issues.

More than 73% of Nigerians featuring in the Gallup survey conceded access to finance was the single-most important hurdle in the way to setting up successful enterprises. More telling is the 40

fact that about 60% of respondents claimed that current policies, despite the government's focus on enterprise development, do not make it easy to start a business in Nigeria.

3.3.4 Some Additional Factors to Consider

Forbes Magazine recently sat down with Lagos Business School's Peter Bamkole to discuss the current obstacles facing aspiring Nigerian entrepreneurs. The interview outlines three major problems:

- Constrained access to local and international markets that stunt entrepreneurial expansion and proliferation.
- Severe infrastructure deficits (mainly of power and electricity) that hamstring both new and existing businesses.
- Inadequate access to finance and the absence of a credit policy that addresses the specific needs of enterprises.

The road to Nigeria's emergence as an economic superpower is muddy and treacherous. More than just optimism, it calls for clever economic maneuvering that will help turn the country's fortunes around for good.

3.4 Entrepreneurship and Leadership

Onwubiko (2011) states that Nigeria is a country with numerous business and investment potentials due to the abundant, vibrant and dynamic human and natural resources it possesses. According to her, tapping these abundant and valuable resources require the ability to identify potentially useful and economically viable fields of endeavors. Nigerians are an enterprising people and citizens have made their mark in diverse fields such as science, technology, academics, business and entertainment.

Following a series of policy initiatives in the financial sectors of the economy Nigerians believe that the future indeed looks bright. As good as the foregoing sounds, Nigeria continues to experience its share of social, economic and political upheavals which have often stunted its growth and development into the regional economic power that it strives to attain. Nigeria has a relative high rate of violent crimes. The Niger Delta which produces over ninety per cent of the nation's oil has become a nightmare in the last one year due to incessant kidnappings by militants demanding for a fairer share of the resources derived from oil exploitation. Armed robbery is on the increase due to unavailability of jobs. Power supply is almost non-existent thereby putting a sizeable number of enterprises out of business.

The political landscape is often volatile. A general election held in the month of April, 2011 is still causing apprehension due to the massive irregularities attested to by both local and foreign observers. Above all, there is a high incident of corruption in government which has affected the level of development of the country. But the story is not all bad as the country enjoys a level of respect for human rights and a virile judiciary which has always stood up in upholding the rule of law and defending democracy which was won after a long period of military dictatorship spanning over three decades.

Although Nigeria is endowed with human and natural resources, it is still one of the poorest countries in the world primarily due to corruption in government. Today, the education sector is in shambles, with the government doing little to address the problems of decaying facilities, student cultism and teachers' strikes. The health sector has faced its greatest challenge in the last few years with unchecked flight of personnel due to inadequate working environment and incentives as well as deteriorating infrastructures. In spite of this sad and deplorable situation, the government has done little to reduce the misery and frustrations of the citizenry as shown in the just concluded elections where the results did not portray the desires of the people. This has foisted a state of hopelessness on majority of young people who have resorted to any means including vice to succeed in life. For instance, youth in the Niger Delta have resorted to kidnapping of foreigners who have to pay heavy ransom to effect their release. This has worsened the security situation in the very volatile Niger Delta as illegal arms are amassed by these militants in their fight for justice. The downside of their activities is that the Nigerian economy suffers the more as oil output is disrupted by blown installations while scarce resources is deployed for security operations in the area.

3.5.1 Nigeria, Youth and Entrepreneurship

The development process of any country is determined by the way the production forces in and around the economy is organized (Onwubiko, 2011). For most countries, the development of industry had depended a great deal on the role of the private sector. Entrepreneurship has played a major role in this regard. Entrepreneurship is known as the capacity and attitude of a person or group of persons to undertake ventures with the probability of success or failures.

Entrepreneurship demands that the individual should be prepared to assume a reasonable degree of risks, be a good leader in addition to being highly innovative. Since entrepreneurship has to deal with leadership, leadership ability always determines a person's level of effectiveness. The personal and organizational effectiveness is proportionate to the strength of leadership and there is no success in any entrepreneurship venture without leadership.

Entrepreneurship in business management is regarded as the "prime mover" of a successful enterprise just as a leader in any organization must be the environmental change agents. Many young Nigerians aspire to be successful entrepreneurs. But due to certain constraints, the ability of many prospective youth to find avenues to utilize their opportunities and skills has proved futile. Entrepreneurship in Nigeria is perceived as a major avenue to increase the rate of economic growth, create job opportunities, reduce import of manufactured goods and decrease the trade deficits that result from such imports. Two approaches have been used for entrepreneurship development in Nigeria. One of the approaches is concerned with the provision of generous credit facilities for small – scale industrialist. The aim of this scheme was to give the

entrepreneur seed money. The second approach was the establishment of the training centre known as Industrial Development Centre (IDC). The idea of this Centre was to provide facilities for on-the-job training of entrepreneurs especially those in the informal sector which include petty traders, artisans, peasant farmers, etc, and to train them in various aspects of industrial management. Unfortunately due to certain factors which shall be explained under, these and some other initiatives did not achieve the desired results.

3.5.2 Hindrances to Youth Empowerment

Irrespective of the benefits associated with entrepreneurship, there are a lot of barriers that have prevented youth from fully realizing their potentials and assuming leadership position in the society. Due to the interrelationship between these factors, we shall discuss the major barriers identified under the following heads (Onwubiko, 2011):

(i) *Absence of Infrastructural Facilities* - It is a universal belief that certain basic infrastructural facilities aid the development of the mind and body and assist productivity in any environment. These facilities have been identified as good roads, good water supply, constant power, access to information and communication technology and other tools of trade. A case where these are lacking in a country, the growth of the economy will be adversely affected. In Nigeria, these basic work tools as well as the enabling environment is lacking. This state of affairs has frustrated a lot of young people with bright ideas and the corresponding spirit to effect a change in some areas of our national life. For instance, the power sector has proven the greatest challenge to any aspiring entrepreneur in Nigeria. Power supply is epileptic and most times businesses have to be run on generators. The cost of this alternative source of power most often erodes whatever profit or capital an entrepreneur has put aside for his enterprise. In times of energy crisis when there is shortage of fuel supply, businesses are almost grounded due to unavailability of petrol or gas to power generators. This avoidable factor adds immensely to overhead costs and unnecessarily makes the cost of production very high. Due to this, investment in manufacturing and entrepreneurial activities is made uninteresting.

Another factor dissuading young people from going into entrepreneurship is the bad state of the roads in Nigeria and the lack of adequate and alternative means of transportation.

Air transport in Nigeria is expensive and rail is almost non-existent. Since road is the most affordable means, most people prefer to travel by road which is often a harrowing experience for many. The transportation system is unorganized and the dilapidated roads connecting the states and intractable traffic snarls in the commercial cities are often a nightmare for businessmen. Telecommunication before now was a major issue for any entrepreneur but with the liberalization of the sector in the last few years, the problems associated with this all important factor in business has to a certain degree being solved.

What most people complain about is the enormous cost of the services rendered by the companies which is seen as the costliest anywhere in the world. This cost of course has a domino effect on other services associated with telecommunications such as the internet.

One other critical factor is the lack of adequate security for lives and property and the helplessness fostered on the citizens by a police that has most often than not proved incapable of addressing the urgent and constant security challenges over the years.

Enterprises serious about doing business have to put in place their own security structures. The process of employing these private security personnel puts a big hole in the pockets of the business entrepreneur. It is believed that the heavy costs expended on these vital services have made entrepreneurship quite challenging in Nigeria. All these put together have made entrepreneurial activities unprofitable and uninteresting thereby dissuading the youth from assuming entrepreneurial or leadership positions.

(ii) *Inadequate Working Capital* – The availability of capital is central to the establishment and continued existence of any enterprise irrespective of the size, focus and objective. It has been observed that for an entrepreneur in Nigeria to start a business, he must have adequate funds. In a situation where the working capital is inadequate or unavailable, it becomes a problem. This is one

of the major problems that young people encounter when opening a business or preparing to assume a leadership position. Banks have before now been reluctant to give out loans to intending entrepreneurs especially when they are young people. The procedures for accessing such credits are often rigorous and dependent on the provision of collaterals which the potential entrepreneur may not possess. Furthermore, the financial institutions charge outrageous interest rates sometimes as high as 21% depending on the bargaining power of the applicant. With this situation, one would have thought that the government would put in place practical programmes and policies for assisting such people in need of start-up funds but the reverse is often the case. Where such funds are provided, they are distributed to relatives of those in government who misapply them and eventually fail to pay up at the maturity time thereby further creating the notion that young people are lazy and bereft of managerial abilities and ideas. Under these state of affairs, intending entrepreneurs often fall back on their personal savings or on loans from family members and friends.

Considering the very high cost of establishing business and the environmental factors considered above, this option becomes unappealing thereby terminating an idea that was ready to fly. Moreover, the business entrepreneur misses an opportunity of being guided by an institution such as a bank that would ordinarily offer advice to an enterprise they have invested in.

(iii) *Low Standard of Education* – There is no gainsaying the fact that education is the key to knowledge and that it plays a strong role in forming the burgeoning entrepreneur. The world today is a global village and since an intending entrepreneur must be conversant and in tune with events around and about him, education becomes a critical factor in preparing and empowering the entrepreneur with the qualities required of him.

Unfortunately, the role of education in forming young people to become change agents it seems, have been ignored. Year after year, the quality of education in the Nigerian institutions has gradually been on the decline. Due to lack of incentives for teachers, there has been a mass exodus over the years by qualified teachers. Those stuck in the system are there due to unavailability of alternative jobs. Government policy or lack of one has been a major bane of education in Nigeria. The schools are not adequately funded, equipped and managed to bring out their optimum potentials. Most times students are home due to strikes called by teachers. Most people in government send their ward abroad for their education thereby preventing the will to address the urgent need for the sector. The result is a half-baked workforce who are lacking in personal confidence and desire to look within and make a mark in an area of human endeavour.

(iv) *Lack of Adequate Training* – A regrettable consequence of the immediate foregoing is the absence of adequate training for students such as will enable them meet the challenges of the future as leaders of business and change agents. It has been observed that the educational curriculum in Nigeria focuses more on the theoretical without a corresponding practical approach. Most employers are always compelled to retrain their employees due to lack of knowledge of basic work ideas or familiarity with the area of study of the employee. Technology has been used to improve the quality of life through the use of the computers and other technological discoveries such as the internet. Where the youth does not have the knowledge or skill of the latest technology, it affects their outlook to life. It is surprising that in this age and time when the computer and the internet are taken for granted in so many parts of the world, the reverse is the case in Nigeria. Except for the cities, the internet and other ICT are not available in the rural areas where majority of the Nigerian youth are located. This situation denies these people an alternative means of skill acquisition, information gathering and other advantages associated with the World Wide Web. This has resulted in a situation where employers prefer to take people with on-the-job experience and required skills thereby making it impossible for the young persons to gather the much needed experience, skill, familiarity with a work environment and basic contacts and network to pioneer a successful enterprise of a business or non-business nature. Where some of these basic trainings are offered, they are usually directed at the employees of big businesses considering the exorbitant fees charged by the institutions or bodies providing same. With little or no money to spare, young people often

miss these opportunities to equip themselves mentally and otherwise for the assumption of leadership roles. This also results in low morale, inefficiency and lack of confidence.

(v) *Other Economic, Social and Political Factor* – Aside from the factors listed above, there are other major dynamics which play a role in stifling the dreams and aspirations of the youth towards assuming leadership positions. Economic factors such as policy reversals, high and double taxations, difficulty in procuring business approvals, high inflation and unstable exchange rates are some of the areas of concern for the potential entrepreneur who is in most cases a greenhorn. The cost and procedure for establishing a company is rather prohibitive as the intending entrepreneur must engage a solicitor and accountant to take care of the legal and financial aspects. Politically, some of government's policies it seems are made to favour friends and associates. Even when it comes to award of contracts and other government patronages, cronyism is the word. This creates a situation of uneven advantage to certain people while others are meant to look like mediocre irrespective of pedigree, ability and expertise. One cannot complete this without mentioning the social malaise of systemic corruption which dissuades most people from venturing into enterprises. It seems most times that whatever one needs to do must be coupled with some kind of favour to the person or authority granting the approval. This situation is almost frustrating and has kept many away from entrepreneurship with many youth preferring to be engaged in paid employments where they will be certain of picking their pay packages at the end of every month without the worries associated with running a business.

3.5.3 Skills Required of Youth for Leadership

One requires skills to be successful in any endeavor. Leadership develops daily and it develops from the inside out. Everything rises and falls on leadership. For every business there is no future but the future lies in the person who holds the business and some one with a vision. The skills required of the youth for starting and managing a successful enterprise amongst others is:

Communications: Developing excellent communication skills is absolutely essential to a successful business. The entrepreneur requires this to communicate his ideas across to his audience. Such ideas must be expressed and conveyed in clear and lucid manner in order to create no room for ambiguity. The budding entrepreneur must always give the people something to feel, something to remember and something to do. Doing so will increase his ability to lead and drive a successful business.

Initiative: An entrepreneur should always possess the initiative and resourcefulness to achieve objectives. Naturally, young people are initiators of ideas. The budding entrepreneur must be bold, daring and willing to sacrifice his time and energy to meet goals. The fear of failure should not be a deterrent to putting initiatives into practice. He must work against all odds. He must be ingenious and alert to opportunities in order to take action. Success is sometimes connected with actions. When mistakes are made, the young leader should not quit but should device alternative means to achieve his objective. The youth must be willing to take risks.

Responsibility: The youth as a future leader must be willing to take responsibility for his actions. He should also learn to admit his failures as well as the failures of those under him. Leadership comes with doing things the way one wants others to do them. As such, the leader must lead by example. He must be honest, transparent, fair and just to his subordinates. He must learn to trust those under him and give them a sense of belonging. A leader must always be capable of building confidence in people so that they can believe in him as well as believe in themselves.

An entrepreneur should always be a motivating factor to people around him.

Vision: A good entrepreneur must be a visionary and must know that the future belongs to those who see possibilities before them. Vision is everything for a leader. It is utterly indispensable and vision leads the leader. As such any leader must possess the ability to infuse hope and courage amongst his team. Hope is built from seeing the potentials in people and in situations.

The leader must always be optimistic and possess a positive attitude at all times in spite of the situation. It is the vision of the leader that drives him. Without a vision, there will be no mission to accomplish. The vision gives a leader the drive to seek to achieve results. Through the vision,

he establishes the ways and means of achieving same. He knows when he deviates from the objective. And he knows when he succeeds.

3.5.4 How Skills can be Acquired

It is said that the youth are the future and leaders of tomorrow. The realization of this fact is often the beginning of the desire to institute policies and programmes both from the public and private sectors of the nation to achieving the objectives. The Nigerian government has realized that its full co-operation and determination will ensure success of entrepreneurial activities in order to achieve the long term growth of the economy. Having noted the importance of entrepreneurship, the government has initiated some policies like the National Directorate of Employment scheme, establishment of the Bank of Industry, promotion of the Small and Medium Enterprises Development Agency of Nigeria, (SMEDAN), and the Small and Medium Industries Equity Investment Scheme (SMIEIS). Unfortunately, most of these programmes have not had the desired result in addressing the policies for which they were promoted. Moreover, these programmes are not specifically targeted at the youth or young persons and the awareness about the programmes are lacking. Consequently, the youth have not derived full benefit from them.

In this wise, it is imperative for the government in order to empower the youth to introduce leadership programmes in the educational syllabus from primary school to the tertiary levels. This sort of instruction will inculcate in the students from an early stage in life the qualities required of them as well as train them for positions of responsibility whether in the formal or informal sectors of the economy. The present school curriculum requires a total overhaul because it stresses more on training for employment purposes as against training for entrepreneurial purposes.

Secondly, the youth should be encouraged into assuming positions of authority and leadership because there is nothing that can surpass the effectiveness of an on-the-job training. Often times, those in leadership authorities do not see the youth as qualified to take challenging roles whether in or out of government. This could be as a result of the cultural notion which perceives older people as wiser. It should not be so. Records and research have proven that young men harbour fresh ideas and ingenuity which often make the difference wherever they go. Putting the youth into leadership positions is bound to build confidence, resourcefulness and experience for them early in life. Through such, they can begin to change society.

Thirdly, capital is a necessary requirement for any venture. Lack of capital or its inadequacy is usually a stumbling block to novel ideas and initiatives. This factor has proven a problem for young people with entrepreneurial ideas. To address this problem, the public and private sectors of the economy should create and implement policies through which young persons can access loans and other financial services at minimal charges. Such services can be conditioned on the presentation of plans with certain criteria which must be met before extension of credits. The over emphasis currently placed on the provision of collaterals is unduly stifling the entrepreneurial spirit of young people.

Fourthly, there needs to be a constant reaching out to young people, and an involvement in whatever concerns them. The government, its agencies, non governmental organizations and corporate institutions should be seen as showing interest in the affairs of the youth. Policies that will incorporate the youth as partners in progress should always be initiated, adopted and supported. There should be a continuous interflow of ideas between these bodies and the youth. These could be done by involving the youth in corporate workshops, seminars, lectures, road shows, trainings and other activities organized by these institutions especially in areas where the interest of the youth is concerned. The youth should be encouraged to participate actively in such programmes so as to build capacity, network and skills required to pursue their immediate or future endeavors.

Fifthly, since majority of young people in Nigeria live in the rural areas, and since the government is often concerned about rural to urban migration by young people, a lot more attention need to be focused on the youth in those areas. Through vocational, managerial and skill acquisition trainings

focused on these people, they will surely take their future in their hands by becoming experts in their various areas of choice professions or trade. More so, the allure of migrating to the cities will dissipate if the rural youth can become an entrepreneur. She will use her skills to further train others thereby reducing the trend of movement to the cities. This can be achieved by willingness on the part of government to initiate and implement policies geared toward the creation of awareness and re-orientation of rural dwellers on the gains of entrepreneurship as well as the provision of the basic amenities and facilities required for such education.

Onwubiko (2011) concluded that there is a need to enthrone a regime of secure and poverty free nation for the youth to become influential members of society. Poverty, hunger, homelessness, lack of security and sickness are paramount issues that require immediate attention of the government if young people are expected to become leaders and persons of influence. For many, these factors are daily challenges staring them in the face. It therefore becomes a distraction to the realization of a youth's full potential if he cannot feed cloth or shelter himself or his immediate family. Because the need for survival is an overriding one, a good number of young people have fallen victims to pressures and many have ended up as armed robbers, prostitutes, scammers and militants fighting for whatever cause that catches their fancy. Research has proven that the failure of government to provide the conducive environment as well as the basic needs of life as enumerated above has largely created these societal problems. It is imperative therefore that policy that will address these issues have become essential for the improvement and empowerment of the youth.

4.0 CONCLUSION

Entrepreneurship evolved over a period of time. We mentioned some of the authors and practitioners who contributed to the evolution of entrepreneurship. We also traced and discussed the history of entrepreneurship in Nigeria over two different stages.

5.0 SUMMARY

In this unit, we

- traced global history of entrepreneurship;
- listed and extolled the contributions of the authors and practitioners during the evolution of entrepreneurship;
- traced the history and development of entrepreneurship over two stages.

In the next unit, we shall discuss the role of entrepreneurship in an economy.

6.0 TUTOR MARKED ASSIGNMENT

1. Does entrepreneurship have any history? Briefly trace the history of this phenomenon and How did Entrepreneurship developed in Nigeria with the challenges of entrepreneurship development in Nigeria and prospects of ED in Nigeria?

4. What are the hindrances to youth empowerment?

5. What are the skills required of youth for leadership? How can these skills be acquired?

List and discuss.

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UNIT 3 THE ROLE OF ENTREPRENEURSHIP CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Review of Discussion on Entrepreneurship
 - 3.2 The Entrepreneurial Process
 - 3.3 Factors of Entrepreneurship
 - 3.4 Advantages and Disadvantages of Entrepreneurship
 - 3.5 The Role of Entrepreneurship in an Economy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit, we traced global history of entrepreneurship, listed and extolled the contributions of the authors and practitioners during the evolution of entrepreneurship, traced the history and development of entrepreneurship over two stages.

In this unit, we shall examine the role of entrepreneurship in an economy.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define entrepreneurship and many different ways;
- discuss the process of entrepreneurship and the factors contributing to it;
- list and briefly explain the advantages and disadvantages of entrepreneurship;
- state the roles of entrepreneurship in an economy.

3.0 MAIN CONTENT

3.1 Review of Discussion on Entrepreneurship

In Unit 1, we variously defined entrepreneurship. We shall examine some other definitions by other authors. Morris (1994) noted that early definitions of entrepreneurs were developed by economists. According to him, these definitions emphasised factors such as risk and financial capital. To Catillon's (1734, quoted in Sharma and Chisman, 1999), reference was made of entrepreneurship as self employment with an uncertain return. An entrepreneur was therefore seen as a person who carries out new combinations, which may take the form of new products, processes, markets, or of creative destruction. This creative destruction states that entrepreneurs are a force for change and make existing products obsolete (Morris, 1994).

From the above discussion, one is tempted to agree with Morris' definition of entrepreneurship as "a process activity. It generally involves the following inputs: an opportunity; one or more proactive individuals; an organisation context; risk, innovation; and resources. It can produce the following outcomes: a new venture or enterprise; value; new products or processes, profit or personal benefit; and growth".

3.2 The Entrepreneurial Process

Reynolds (1994) reveals that one common phenomenon in the United States is entrepreneurial process in which, on yearly basis, 4 percent of the adult population is actively involved in trying to start a new business, either on full-time or on part-time basis, or that they are already running another business and do not devote themselves full time to the new venture until it is a going concern. Gendron (1994) observed that one out of every two adults in the US has tried to start a new business at some time in his or her life. According to him, the general public perception about entrepreneurs is always that they are "flash of genius". He states that flash of genius are

rare given the fact that some of the companies considered great today did not start out with a compelling idea for a product or service.

Collins (1993) traced that in 1945, Masaru Ibuka and seven employees started a company in a bombed-out department store in Tokyo. However, they did not have an idea of what the business would do. For weeks, they tried to figure out what business the company could enter without a clue. However, today, that company is known as Sony Corporation. Collins also revealed that Bill Hewlett and Dave Packard founded Hewlett-Packard; they had no specific idea to pursue. Although the business was vaguely defined as electronic engineering, the owners did not have any formative plans. Hewlett explains, "We did everything that would bring in a nickel.... Here we were with about \$500 in capital trying whatever someone thought we might be able to do.

In his opinion, Collins states that identifying a specific idea may actually be detrimental, because if you equate the success of your company with the success of a specific idea, then you're more likely to give up if that idea fails. If instead you consider the business the ultimate product, it is more likely to survive if the first product concept fails. Thus, for the person who has thought of being an entrepreneur but has not had a flash of inspiration or a unique idea, business ownership is still quite possible.

Collins identifies several types of entrepreneurial activities but felt that not everyone would classify the individual involved in each case an entrepreneur. Look at the underlisted examples:

- ***New concept/new business*** – The classic entrepreneur develops a new product or a new idea and builds a business around the new concept. This requires a substantial amount of creativity and an ability to see patterns and trends before they are evident to the general public. The business concept may be so new and revolutionary that it may create an entirely new industry. Examples of creative entrepreneurs include Steven Jobs, one of the founders of Apple Computer and NEXT, and Bill Gates, founder of Microsoft. Most people would agree that these innovative businesspeople are true entrepreneurs.

- ***Existing concept/new business*** – Some individuals start new businesses based on old concepts. For example, if someone opens a convenience food store, the idea is not new and the founder may not be described as innovative, but the business still represents a financial risk to the owner, and the person is developing something where nothing previously existed.

Most people would consider this person an entrepreneur, although others may disagree because of the lack of creativity and innovation involved. It should be pointed out, however, that individuals who engage in this type of activity seldom do so without introducing some change. The likelihood of a business succeeding if it is patterned exactly after one that already exists is remote. Therefore, most entrepreneurs who start a business to compete with those that already exist do so in the hope that theirs will offer something new or better. The additional something is born of creativity.

- ***Existing concept/existing business*** – Even less innovative is the person who buys an existing business without many plans to change the company operations. There is little need for creativity or innovation, but the individual is still taking a personal and financial risk.

Therefore, many people describe this person as an entrepreneur.

3.3 Factors of Entrepreneurship

From the above discussion, one would discover that there is more than one factor to consider when studying entrepreneurs. There is no agreement as to why some people choose selfemployment and others choose to work for someone else. One recent study by Leo-Paul (1997) has identified four spheres of influence in determining entrepreneurial behaviour: the individual, the enthocultural environment, the circumstances in society; and a combination of these. These factors are discussed below.

5.3.1 The Individual

Despite the fact that personality traits have not been found to be reliable predictors of future behaviour, Boyz and Vozikis (1994, quoted in Lambing and Kuehl, 2007) opined that many

studies still focus on the entrepreneur's personality. Some people, such as Peter Drucker, do not believe that traits are a deciding factor, and believe that anyone can be taught to be an entrepreneur. According to a Goodman (1994, quoted in Lambing and Kuehl, 2007), *"For every risk seeker, I'll show you someone who's risk averse. For every first-born child who is a successful entrepreneur, there's a successful last-born or only child. For every entrepreneur who grew up listening to tales of entrepreneurial success at the dinner table [had entrepreneurial parents] there are those whose parents were military or corporate or absent"*.

There is also concern as to cause and effect. Since many studies of entrepreneurs are completed once the person is a successful business owner, it is possible that the experience of entrepreneurship affects the individual's personality. Morris (2002, quoted in Lambing and Kuehl, 2007) points out that the psychology and behaviour of the entrepreneur may change as the business evolves. However, many believe that entrepreneurs have a special personality and that these traits cannot be taught. Oneal (1993, quoted in Lambing and Kuehl, 2007) states,

"While [Drucker's] probably right that the nuts and bolts of entrepreneurship can be studied and learned, the soul of an entrepreneur is something else altogether. An entrepreneur can be a professional manager, but not every manager can be an entrepreneur".

Whether entrepreneurial tendencies exist at birth or are developed as a person matures, certain traits are usually evident in those who enjoy success. Many of these traits have been found in successful managers as well as entrepreneurs. Let us examine some of these traits:

1. Passion for the Business – The entrepreneur must have more than a casual interest in the business because he or she must overcome many hurdles and obstacles. If there is no passion or consuming interest, the business will not succeed. "Burning passion? Absolutely", says Quinn (2002, quoted in Lambing and Kuehl, 2007).

2. Tenacity despite failure – Because of the hurdles and obstacles that must be overcome, the entrepreneur must be consistently persistent. Many successful entrepreneurs succeeded only after they had failed several times. It has been stated that "Successful entrepreneurs don't have failures. They have learning experiences" (Goodman, 1994, quoted in Lambing and Kuehl, 2007).

3. Confidence – Entrepreneurs are confident in their abilities and the business concept. They believe they have the ability to accomplish whatever they set out to do (Lambing and Kuehl, 2007). This confidence is not unfounded, however. Often they have an in-depth knowledge of the market and the industry, and they have conducted months (and sometimes years) of investigation. It is common for entrepreneurs to learn an industry while working for someone else. This allows them to gain knowledge and make mistakes before striking out on their own.

4. Self-determination – Nearly every authority on entrepreneurship recognizes the importance of self-motivation and self-determination for entrepreneurial success. Goodman states that self-determination is a crucial sign of a successful entrepreneur because successful entrepreneurs act out of choice; they are never victims of fate. They believe that their success or failure depends on their own actions. This quality is known as an **internal locus of control**.

5. Management of risk – Risk is at the very heart of running your own business, and the ability to manage risk is one of the qualities of any successful entrepreneur (Dorsey, 2003, quoted in Lambing and Kuehl, 2007). The general public often believes that entrepreneurs take high risks; however, that is usually not true. First, more than two-thirds of those trying to get a business started have a full or part time job or they are running another business. They do not put all of their resources and time into the venture until it appears to be viable. Entrepreneurs often define the risks early in the process and minimize them to the extent possible.

6. Seeing changes as opportunities – To the general public, change is often frightening and is something to be avoided. Entrepreneurs, however, see change as normal and necessary. They search for change, respond to it, and exploit it as an opportunity, which is the basis of innovation (Lambing and Kuehl, 2007).

7. Tolerance for ambiguity – The life of an entrepreneur is unstructured. No one is setting schedules or step-by-step processes for the entrepreneur to follow. There is no guarantee of success. Uncontrollable factors such as the economy, the weather, and changes in consumer

tastes often have a dramatic effect on a business. An entrepreneur's life has been described as a professional life riddled with ambiguity – a consistent lack of clarity. The successful entrepreneur feels comfortable with this uncertainty” (Oneal, 1993, quoted in Lambing and Kuehl, 2007).

8. Initiative and a need for achievement – Almost everyone agrees that successful entrepreneurs take the initiative in situations where others may not. Their willingness to act on their ideas often distinguishes them from those who are not entrepreneurs. Many people have good ideas, but these ideas are not converted into action. Entrepreneurs act on their ideas because they have a high need for achievement, shown in many studies to be higher than that of the general population. That achievement motive is converted into drive and initiative that results in accomplishments.

9. Detail orientation and perfectionism – Entrepreneurs are often perfectionists, and striving for excellence, or “perfection”, helps make the business successful. Attention to detail and the need for perfection results in a quality product or service. However, this often becomes a source of frustration for employees, who may not be perfectionists themselves. Because of this, the employees may perceive the entrepreneur as a difficult employer. For instance, I know of an entrepreneur who is into printing and has magnificent printing press in the heart of Abuja, Nigeria. There is virtually no human being, no matter how good you are, that this man would not abuse, dress down or embarrass. Such is the trait in an entrepreneur. For an employee who wants to make a career in that enterprise, he must be tolerant and pretend that nothing happened.

10. Perception of passing time – Entrepreneurs are aware that time is passing quickly, and they therefore often appear to be impatient. Because of this time orientation, nothing is ever done soon enough and everything is a crisis (Lambing and Kuehl, 2007).

11. Creativity – One of the reasons entrepreneurs are successful is that they have imaginative and can envision alternative scenarios (Goodman quoted in Lambing and Kuehl, 2007). They have the ability to recognize opportunities that other people do not see. Nolan Busnell, who created the first home video game and the Chuck E. Cheese character, believes the act of creation is nothing more than taking something standard in one business and applying it to another.

12. Ability to see the big picture – Entrepreneurs often see things in a holistic sense; they can see the “big picture” when others see only the parts (Lambing and Kuehl, 2007). One study found that successful owners of manufacturing firms gathered more information about the business environment, and more often, than those who were less successful. This process, known as **scanning the environment**, allows the entrepreneur to see the entire business environment and the industry and helps to formulate the larger picture of the business activity. This is an important step in determining how the company will compete (Box, 1993, quoted in Lambing and Kuehl, 2007).

13. Motivating factors – Although many people believe that entrepreneurs are motivated by money, other factors are actually more important. The need for achievement, mentioned earlier, and a desire for independence are more important than money. Entrepreneurs often decide to start their own businesses in order to avoid having a boss. Many are self-employed for less pay than they would receive if they worked for someone else.

Oneal (1993), who studied approximately 3000 entrepreneurs identified the following factors as “very important” reasons for being self-employed:

- To use personal skills and abilities;
- To gain control over his or her life;
- To build something for the family;
- Because he or she liked the challenge;
- To live how and where he or she chooses”.

Other studies have identified other motivating factors, such as the need for recognition, a need for tangible and meaningful rewards, and a need to satisfy expectations (Lambing and Kuehl, 2007).

14. Self-efficacy – A recent study has suggested that the concept of self-efficacy influences a person's entrepreneurial intentions Boyz and Vozikis (quoted in Lambing and Kuehl, 2007).

Self-efficacy has been defined as a person's belief in his or her capability to perform a task. One study found that a sense of personal efficacy that is both accurate and strong is essential to the initiation and persistence of performance in all aspects of human development (Lent and Hackett, quoted in Lambing and Kuehl, 2007).

A separate study looked at the concept of thought self-leadership (TSL) and self-efficacy. TSL states that people develop functional and dysfunctional habits in the ways they think. This in turn influences their "perceptions, the way they process information and the choices they made". Thus, entrepreneurs may develop a habit of "opportunity thinking", a functional habit that focuses on opportunities and positive ways of handling challenging situations.

The dysfunctional way of thinking, known as "obstacle thinking", focuses on negative aspects of a problem and would most likely result in giving up. These thought patterns affect self-efficacy since an entrepreneur who engages in functional, opportunity thinking is likely to see an increase in self-efficacy (Neck, Neck, Manz and Goodwin, 1999, quoted in Lambing and Kuehl, 2007). Thus, a habit of opportunity thinking makes a person more likely to pursue entrepreneurship.

5.3.2 Cultural Factors

A common finding is that ethnic enterprise is often overrepresented in the small business sector; that is, members of some ethnocultural groups typically have a higher rate of business formation and ownership than do others. However, the effect of culture on entrepreneurial tendencies is not completely clear, because individuals from different cultural groups do not all become entrepreneurs for the same reason (Dana, 1997, quoted in Lambing and Kuehl, 2007). The effect of culture and traits may be intertwined, since some studies have shown that different cultures have varying values and beliefs. For example, Japanese have been known to have an achievement-oriented culture that helps entrepreneurs persist until they succeed. Another potentially important factor is whether a culture generally has an internal locus of control. For example, US culture tends to support an internal locus of control, whereas the Russian culture does not. Individuals from a culture with an internal locus of control may be more predisposed to believe they have a chance of succeeding as entrepreneurs (Dana, 1997, quoted in Lambing and Kuehl, 2007).

5.3.3 Circumstances in Society

In all societies, there are those who had not planned to be entrepreneurs but who find at some point that they are pushed toward self-employment. Workers in the Nigerian banks who have been affected by downsizing carried out by their employers might be included in this group. The decision to become an entrepreneur was precipitated by the changes in the marketplace. This is therefore considered **adaptive-response behaviour**. One study of ethnocultural factors found that although some people do not come from an ethnocultural group that values entrepreneurship, they chose entrepreneurship as an adaptive response to marginality and a means to social integration (Dana, 1997, quoted in Lambing and Kuehl, 2007)..

5.3.4 A Combination of Factors

Whether a person becomes an entrepreneur or decides to be an employee is therefore the result of many factors, including the three we have just discussed above. Because such tendencies might be enhanced under the right set of circumstances, some people suggest that we should concentrate on nurturing the entrepreneurial spirit in young children. One study of kindergarten children indicated that one of every four children showed entrepreneurial tendencies. By high school age, however, only 3 percent of students still retained that spark. The current educational system does not encourage entrepreneurship and, in fact, teaches conformity rather than individuality. The creative abilities of young children are discouraged, although creativity is necessary for most entrepreneurs (Gutner, 1994, quoted in Lambing and Kuehl, 2007).

3.4 Advantages and Disadvantages of Entrepreneurship

There are many advantages and disadvantages to self-employment as could be shown on figure 3.1 below.

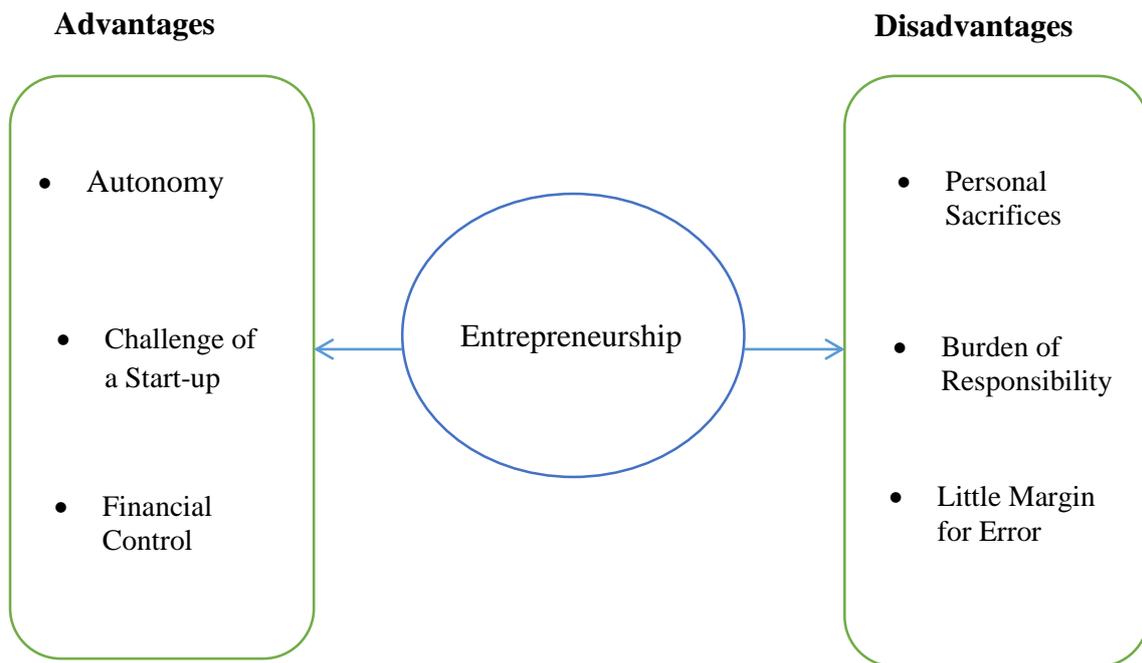


Figure 3.1 Advantages and Disadvantages of Entrepreneurship

Source: Lambing, P.A. and Kuehi, C.R. (2007). *Entrepreneurship* (Fourth Edition), USA: Pearson Education, Inc. Prentice-Hall, Upper Saddle River, pg. 23.

3.4.1 Advantages

Autonomy – The need for independence and the freedom to make decisions is one of the major advantages. The feeling of being your own boss is very satisfying for many entrepreneurs.

Challenge of a start-up/feeling of achievement – For many entrepreneurs, the challenge of a start-up is exhilarating. The opportunity to develop a concept into a profitable business provides a significant feeling of achievement, and the entrepreneur knows that he or she is solely responsible for the success of the idea.

Financial control – Because it is often stated that entrepreneurs have financial independence, one might get the impression that they are wealthy. Many are not necessarily seeking great wealth, but they do want more control over their financial situation. They do not want a boss who can unexpectedly announce a layoff after they have dedicated years of work to a company.

3.4.2 Disadvantages

If self-employment were easy, the number of self-employed people would be much higher. In fact, it is one of the most difficult careers one can choose. A few of the disadvantages are described below:

Personal sacrifices – Especially in the early years of a business, the entrepreneur often works extremely long hours, possibly six or seven days each week. This leaves almost no time for recreation, family life, or personal reflection.

The business consumes the entrepreneur's life. This often results in a strain on family relationships and a high level of stress. The entrepreneur must ask how much he or she is willing to sacrifice to make the business successful.

Burden of responsibility/jack-of-all-trades – The entrepreneur has a burden of responsibility unlike that of corporate workers. In corporations, employees are usually surrounded by other people at the same level with the same concerns. It is possible to share information at lunch or after work, to have a sense of companionship. The entrepreneur, however, knows that it is lonely at the top.

No one else in the company has invested his or her life savings; no one else must ensure that enough money is available to meet the payroll at the end of the month.

The entrepreneur must also be jack of all trades. While corporate workers usually specialise in specific areas such as marketing, finance, or personnel, entrepreneurs must manage all of these functions until the business is profitable enough to hire employees with necessary expertise. The need to be an expert in many areas is an enormous burden.

Little margin for error – Large corporations often make decisions that prove to be unprofitable. They introduce products that are not well accepted and they open stores in unprofitable locations. Many large corporations will usually survive because they have adequate financial resources to pay for the losses.

Small businesses, however, operate on a thin financial cushion because the only financial resources available are those of the entrepreneur. Even after years of successful operation, one wrong decision or weakness in management can result in the end of the business.

3.5 The Role of Entrepreneurship in an Economy

Entrepreneurship has been recognized as an important aspect and functioning of organization and economies (Dickson et al, 2008). It contributes in an immeasurable ways toward creating new job, wealth creation, poverty reduction, and income generating for both government and individuals. Schumpeter in 1934 argued that entrepreneurship is very significant to the growth and development of economies (Keister, 2005, quoted in Garba, 2010).

Entrepreneurship leads to poverty reduction. For instance, the Federal Government had since 1999 been injecting funds into different skills acquisition programmes, small businesses, support for the informal sector through provision of credit facilities for boisterous economic activities at the rural community level. This is a decision in the direct direction as majority of the population live in the rural areas and an improvement in the quality of life would prevent migration of the residents of the rural communities to the urban centres. The implication of this is that it will create employment opportunities thus leading to greater reduction in social maladies or vices.

The wide spread and acceptance of entrepreneurship education is a clear indication of its usefulness and importance in the present realities. The development of entrepreneurship will go a long way in providing the necessary impetus for economic growth and development. It will be crucial in boasting productivity, increasing competition and innovation, creating employment and prosperity and revitalizing economies (SBS, 2002, in Ritche and Lam, 2006).

Koce (2009) defined social responsibility as the obligation (of managers) to pursue the policies, to make decisions, or to follow lines of action which are desirable in terms of objectives and values of our society. The social responsibility of economic enterprises is in the efficient use of resources, to produce economic wealth (production of goods and services to satisfy people's material wants). In the production of goods and services, a business enterprise is socially responsible in such a way, that no restriction is placed upon the legitimate rights and interests of any person. To observe by word and deed the ethical standards of society, business enterprises discharge their obligations to employees by giving them better-than-competitive wage and fringe benefits, economical prices and quality merchandise to consumers, gifts and scholarships to educational institutions in their vicinity in terms of education and research which have a direct relationship to the future of the business by making available better trained human resources or advanced knowledge which will be beneficial to the business, donations, provision of social infrastructures e.g., clinic, good roads, etc to the community where the enterprise is situated, donating services and maintaining uneconomical operations, job generation for people of the community and free tax collections and donations of services for gifted managers to the government.

4.0 CONCLUSION

We reviewed the earlier definitions of entrepreneurship and considered some other ones for a better comprehension of the topic. We described the entrepreneurial process and the factors that

contribute to entrepreneurship. We enumerated and explained the advantages and disadvantages of entrepreneurship while discussing the role of entrepreneurship in an economy.

5.0 SUMMARY

In this unit, we defined entrepreneurship in many different ways, discussed the process of entrepreneurship and the factors contributing to it, listed and briefly explain the advantages and disadvantages of entrepreneurship and stated and briefly explained the roles of entrepreneurship in an economy.

In the next unit, we shall consider another topic, the functions of entrepreneurship.

6.0 TUTOR MARKED ASSIGNMENT

1. Passion for the business (as an individual factor) must be a priority to an entrepreneur if the entrepreneurship business is to succeed. Do you agreed with this statement? What are the other factors do you consider necessary to ensure that an entrepreneurship business is successful?
2. List the advantages and disadvantages of entrepreneurship that you know and explain them briefly.
3. What is the role of entrepreneurship to a developing economy like that of Nigeria?

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UNIT 4 FUNCTIONS OF AN ENTREPRENEUR CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Risk Bearing
 - 3.2 Management Decision Making/Taking
 - 3.3 Producing
 - 3.4 Strategic Planning
 - 3.5 Marketing Management
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In this last unit, we defined entrepreneurship in many different ways, discussed the process of entrepreneurship and the factors contributing to it, listed and briefly explain the advantages and disadvantages of entrepreneurship and stated and briefly explained the roles of entrepreneurship in an economy. In this unit, we shall examine the major functions of an entrepreneur.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- describe the role of an entrepreneur as a risk bearer;
- discuss the management decision making function of an entrepreneur,
- explain the production function of an entrepreneur;
- discuss the strategic planning function of an entrepreneur;
- explain the marketing management function of the entrepreneur.

3.0 MAIN CONTENT

3.1 Risk Taking

In the last unit, we had identified that willingness to take risk was one of the characteristics of an entrepreneur. This characteristic stands an entrepreneur out from among the people just as it is one of the important functions performed by him. Any entrepreneur is a risk taker; they take calculated risks whether formally or informally. Mostly they take risk informally because they make calculation within their brain on what to buy, keep and sell latter. They equally try to figure out the probability of success of their business once they are convince that it is high, they will go into such business, which means they take risk. Marketing research is undertaken by entrepreneur consciously and unconsciously. If this research is carried out, they venture into such businesses. Entrepreneurs are not tired of trying. If they invest in a business and they fail, they still try another business so that they can succeed. Brown 1997 say: an entrepreneur has what he call calculating risks.

- (1) Is the goal worth the risk?
- (2) How can I maximize the risk?
- (3) What information do I need before I take the risk?
- (4) Why is this risk important?
- (5) Am I willing to try my best to achieve the goal?
- (6) What preparation do I need to make before I take the risk?
- (7) What are the biggest obstacles to achieving my goal?

The goal of every manager is to create a surplus (in business organisations, this means profit).

Clear and verifiable objectives facilitate measurement of the surplus as well as the effectiveness and efficiency of managerial actions.

3.2 Management Decision Making/Taking

Under this section are listed all the management functions, namely: planning, organizing, decision making, staffing, leading, motivating, communicating, and controlling.

3.2.1 Planning Function

In your course on ENT313, ENT407, and at undergraduate level we considered planning very extensively. We noted that planning is a must for every business enterprise operating in a dynamic environment where today's world is a global village. We also noted that the most important aspect of this changing environment is change in technology, government policy and activities, social norms, among others and that planning provides direction and sense of purpose, provides a unifying framework within which such organisations are guided, reveals future opportunities and threats, means of minimizing risks, provides performance standard, and so on.

1. Definition of Planning

Wehrich and Koontz (2005) state that planning involves selecting missions and objectives and deciding on the actions to achieve them; it also requires decision making, that is, choosing a course of action from among alternatives. According to them, plans thus provide a rational approach to achieving pre-selected objectives.

Awujo (1992 quoted in Ikharehom, 2006) defined planning as the activity by which managers analyze present conditions to determine ways of reaching a desired future state. Planning encompasses defining an organisation's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It is concerned, then with the ends (what is to be done) as well as means (how it is to be done).

Robbins and Coulter (1998) define planning as involving defining the organisation's objectives or goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It can further be defined in terms whether it's informal or formal.

In informal planning, nothing is written down, and there is little or no sharing of objectives with others in the organisation. This type of planning is done in small businesses; the owner-manager has a vision of where he or she wants to go and how to get there. The planning is general and lacks continuity. It exists in some large organisations too, and some small businesses have very sophisticated formal plans.

As regards a formal planning, the objectives covering a period of years are defined. These objectives are written and made available to organisational members. Finally, specific action programs exist for the achievement of the objectives; that is, managers clearly define the path they want to take or follow to get the organisation from where it is to where they want it to be.

2. Features of Planning

Planning is characterized by the following features:

- It must be realistic and capable of implementation;
- It must be comprehensive;
- It must have clearly defined objectives in terms of scope, accuracy, clarity and definitiveness;
- It must be flexible;
- It must be futuristic;
- It must relate to conditions of relative certainty and uncertainty; and
- It must be a continuous process.

3. Purposes of Planning

Why should managers plan? Wehrich and Koontz (2005) state at least four reasons. According to them, it gives direction, reduces the impact of change, minimizes waste and redundancy, and sets the standards used in controlling.

Planning establishes coordinated effort. It gives direction to managers and non-managers alike. When employees know where the organisation is going and what they must contribute to reach the objective, they can coordinate their activities, cooperate with each other, and work in teams. Without planning, departments might work at cross purposes, preventing the organisation from

moving efficiently toward its objectives.

Planning reduces uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. It also clarifies the consequences of actions managers might take in response to change.

In addition, planning reduces overlapping and wasteful activities. Coordination before the fact is likely to pinpoint waste and redundancy. Furthermore, when means and ends are clear, inefficiencies become obvious and can be corrected and eliminated.

Finally, planning establishes objectives or standards that are used in controlling. If we're unsure of what we're trying to achieve, how can we determine whether we have actually achieved it? In planning, we develop the objectives, identify any significant deviations, and take the necessary corrective action. Without planning, there would be no way to control.

4. Forecasting

Planning cannot be divorced from forecasting, for what is feasible depends, to a large extent, on events in the external world. The actual planning starts with goal setting, but any number of contingencies in the environment will have a major effect on the extent to which various goals may be feasible.

Hornby (2006) defines forecasting as a statement about what will happen in the future based on information that is available now. Ikharehon (2006) divides forecasts into two, namely: economic forecasts; technology forecasts and forecasts of changes in public taste and public opinion.

Economic Forecasts – These are basic for every company's sales depending on how much money is available for purchase. With few exceptions, sales are bound to drop during a period recession.

Technological Forecasts – What new inventions or new technical developments are probable, and when they are likely to come on the market? The answer to this question is important for new developments can make a company's products obsolete, or at least reduce the market for them drastically.

Forecasts of changes in Public Taste and Public Opinion – Changes in public taste affect not only products or services designed for the ultimate consumer, but sales to industry as well. For instance, if sales of a product drop, the companies that produce it will contain their operations and buy less from their suppliers. Changes in public opinion may produce new laws that necessitate changes in plans or perhaps give rise to boycotts of some products.

In forecasting, a company should be able to decide the following questions as:

- a. What product(s) or services will be provided?
- b. To whom will we sell? That is, what is our market share?
- c. What methods or means will be used to sell these product(s)? Is it through direct sales, or advertising, or both?
- d. What plant, equipment, and personnel will be needed?

5. Planning Process

Planning process has to do with a logical set of steps a manager must take in order to find ways of reaching desired future objectives. Meanwhile, in planning process, the first step to consider is the identification of goals of the organisation upon which the plans will be built. In other words, management must have an overall goal in mind before the organisation even comes into existence. This and subsequent specific goals help determine the organisational structure.

The second step of planning process involves a search for opportunities. This is where the manager opens his mind to new ideas, rather than fixing his mind.

The third stage involves the translation of opportunities into selected courses of action. The managerial job at this time is to evaluate the alternatives and compare each alternative to factors like the organisation's strengths and weaknesses, and to forecast economic activity.

Furthermore, the next step involves setting specific targets. Here, the plan becomes a budget or some other specific statement of targets.

Finally, the planning process must be continuously reviewed and revised where necessary. This will be fully discussed in subsequent unit.

3.2.2 Organising Function

Organizing draws particular attention to the processes of function and structure in an enterprise, to the uncertainties that accompany the day-to-day life in an enterprise and to the fundamental point that an enterprise is not fixed/unchanging entities. An enterprise should be viewed as a result of the processes of organizing. It is commonly known that most of our lives are spent in association with other enterprises and organisations. Organisations are man-made, thus, they are simply social units or human grouping deliberately constructed to carry out specific task.

Organisations vary in size from the sole trader outfit to the large multinational business, employing thousands and their tasks will cover the whole spheres of human needs and wants. As organisations are artificial constructs, they, in theory change their form, as human needs change or disappear altogether as people get their wants and needs satisfied in cheaper or better ways by alternative organisations.

Organizing involves the establishment of an intentional structure of roles through determination of the activities required to achieve the goals of an enterprise and each part of it, the grouping of these activities, the assignment of such groups of activities to an entrepreneur, the delegation of authority to carry them out, and provision for coordination of authority and informational relationships horizontally and vertically in the organisation structure. Ikharehon (2006) is therefore defined as the process through which the structure of an organisation or enterprise is created and maintained. Organizing draw particular attention to the processes of function and structure in an organisation to the uncertainties that accompany the day-to-day life of the enterprise and to the functional point that enterprise are not fixed entities.

1. Types of Organisation

Basically, we have two types of organisations, namely: formal and informal organisations.

A formal organisation is an institution or a functional group, which exist to achieve a predetermined goal. Formal organisation clearly defined structures, its members are made up of officials and authorised relationships, it has clearly defined organisational goals, and its operations are governed by rules and regulations. Examples of formal organisation are schools, churches, government agencies, hospitals, among others.

An informal organisation, on the other hand, usually referred to as shadow organisation, since they exist within a formal organisation and its members are not easily identifiable. This organisation does not have specific goals or purposes, rather, its activities tend to be loosely organised, and flexible and ill-defined. The existence of information groups cannot be totally ruled out in any vibrant entrepreneurial setting, they also have a way of contributing to the well being of an enterprise. Their existence becomes threat only and only if members are insubordinate to the constituted authority. Examples of informal organisations are peer groups, nocturnal organisations among others.

2. Organisation Structure

Management function of organizing involves identifying jobs, which must e performed, and staffing these jobs with qualified people. It also includes establishing the authority relationships among organisational members. In the formal organisation, each person has a clearly defined job, and he has authority and responsibility to perform it. A job tells the employee what he must do and the relationship between his job and those of others. Hence, a good job design is important to avoid the overlapping of authority and responsibility.

In a nutshell, organisation structure is the framework through which the activities of an organisation are coordinated. An organisation chart defines this framework, which is a diagram of positions in an organisation and their relationships. It is also a formal set up of a system, which direct the activities of members of the enterprise. In charting the organisation structure, solid vertical lines connecting boxes define lines of authority, while the lateral or horizontal lines shows the relationships between managers and foreman at the same level who have to exchange information or pass work from one to another.

3. Types of Organisation Structure

Line or direct organisation is the type of structure much pronounced in the military organisation where scalar principle is practiced. It indicates the immediate and ultimate superior and subordinate and the authority bestowed on each others. The line or direct authority has some benefits, namely: line of authority is clear and well understood, discipline is easier to enforce, officers have power and duty to act; and it makes for stability. On the other hand, its disadvantages include: it does not make provision for use of initiative by a resourceful subordinate, power can be automatic and it can be too rigid.

Functional Organisation Staff – This is an organisation where some specialist functions have developed. Such functional experts are referred to as functional managers. The functional managers have some responsibilities in their expert fields to offer advice to those who have direct responsibilities for carrying the main operations, e.g. cost accountant, among others, has a functional responsibility for offering expert advice to the production manager, so also the quality controller may pass instruction directly to the production workers without necessarily passing through the production manager.

The advantages are: it enhances a positive relationship for efficiency of operation between expert and the non-expert staff and it makes available expert knowledge to the knowledge. The disadvantages are: the junior staff may be confused due to the broken chain of command, there may be too many bosses for the junior staff and a conflict of authority may arise between the expert and the non-expert managers.

Line and Staff Organisation Structure – This is the blending together of both the line and the staff relationships. Thus, the line allows for the use of specialists, the functional managers by the line managers. For instance, the personnel manager will recruit and train for other departments who will maintain control over such staff. The line and staff relations typifying the real life situation in an enterprise.

The merits of this structure is that each expert at any level has only one boss, the use of experts by the line managers becomes acceptable in the enterprise and it obviates the problems of giving too many authority to one superior as in the line type. The only demerit is that the staff has no authority over the employee.

Features of Organisational Structure – the features of organisation structure are fourteen as listed by Henri Fayol include division of work, authority and responsibility, discipline, unity of command, unity of direction, subordination of individual to general interest, remuneration, centralization, scalar chain, order, equity, stability of tenure, initiative, and esprit de corps.

3.2.3 Decision making

Cornell (1980 quoted in Ikharehon, 2006) defines a decision first of all as an act, but an act requiring judgement. He also went further to explain that a judgement requires a choice to become a decision and that where alternatives exist, that the act of decision making becomes meaningful. An entrepreneur plays series of roles including interpersonal, informational and decisional roles. The authority an incumbent has is derived from the position he occupies and so a status is established. The status causes all managers to be involved in the interpersonal relationships with subordinates, peers and superiors, who in turn provide managers with the information needed to make decisions. Managers need information to make intelligent decisions and the other members of the enterprise depend on such information received from or transmitted through managers. Information is therefore the basic input to decision making. Interpersonal and informational roles are facilitators to the process of decision making while decision roles are an end on their own.

Decision-making requires analytical and conceptual thought. Stoner and Freeman (1992, quoted in Ikharehon, 2006) assert that analytical thinking involves breaking a problem down into its components, and then coming up with a feasible solution. Even more important is the ability to think conceptually, which means viewing the entire tasks in the abstract and relating it to other tasks.

Components of Decision-making

Decision-making is made up of several components, namely: the decision maker, the environment in which decision is made, goals and ends to be served by taking the decision, relevant alternatives from which a choice will be made, a relation who produces an ordering of alternatives based on an acceptable criterion, and choice of the most preferred alternatives. Decision is classified into programmed and non-programmed categories. Programmed decisions are relatively structured decisions within a clearly defined area. The rules are known and frequent. They are decisions a manager is called upon to make almost everyday and he often makes them relying on either judgements or past experiences or on precedents or applying a standing rule or policy of the enterprise established in some time past. No systematic prior analysis takes place before a decision is made.

On the other hand, non-programmed decisions are decision-making exercise where decision rules and procedures cannot be devised. They are non-repetitive decisions involving many external and internal factors, frequent with high levels of risk and requiring information from a variety of sources. They are those incorporating a conscious effort at analyzing the decision need, the decision environment, and probable outcomes of the decision.

Decision making Process

There are five steps in decision-making model, they are: identification and definition of the problem, determination of the outcomes of the solutions, search for alternative solutions to the problem, evaluation of each solution in form of some criterion, and making a choice.

3.2.4 Staffing

Staffing involves filling and keeping filled, the positions provided for by the enterprise structure. It thus necessitates defining workforce requirements for the job to be done, and it includes inventorying, appraising, and selecting candidates for positions; compensating and training or otherwise developing both candidates for positions; compensating and training position holders to do their tasks effectively. To function effectively and efficiently, enterprises need the unavoidable service of human beings. Since the enterprise work or function with human efforts, it need not be stressed therefore that the human component is the most important and the pivot on which other parts of the enterprise revolve. To that extent, unless there is the right number and kind of people with the right levels of skills, in the right jobs at the right time and carrying out the right responsibilities, it may not be possible to achieve the pre-determined goals.

The entrepreneur's function of planning, organizing and controlling can be viewed as essentially objective tasks which may even have some important mechanistic features. On the other hand, the functions of staffing and leading concerned almost exclusively with people. Thus, uncertainties in the selection and direction of people may lead to frustration of the managers who know the importance of staffing and, at the same time recognize the limitations of the tools available for carrying out this function effectively.

For staffing to be effectively carried out, there is need for job analysis, job description, and job specification. Job analysis is the cornerstone of all human resource functions. Specially, data obtained from the analysis form the basis for a variety of human resource activities. These activities include: job definition, job re-design, recruitment, selection and placement, orientation, training, career counselling, employee safety, performance appraisal and compensation. Job description involves not only analyzing job content but also reporting the results of the analysis. These results are normally presented in the form of a job description and a job specification. Job description concentrates on describing the job as it is currently being performed. It explains, in written form, what the job is called, what is to be done, where it is to be done, and how it is to be done. While the formats for job descriptions vary somewhat, most job descriptions contain sections that include the following: the job name, a brief summary description of the job, a listing of job duties and responsibilities, and an explanation of some relationships pertinent to the job. Its benefits are: it makes the duties tasks and responsibilities of the job known to the job holder thereby eliminating misunderstanding between him and his boss, it serves as the basis for

performance evaluation and for promotion, it is useful in designing training programmes; it forms the basis for developing job specifications, and it is useful in setting standards of performance.

Job specification concentrates on the characteristics needed to perform the job. It describes the competency, educational qualifications and experience the incumbent must possess to perform the job. A job specification may be prepared as a separate document or as is more often the case, as the concluding section of a job description.

3.2.5 Leading

Leadership is the notion that leaders are individuals who, by their actions, facilitate the movement of a group of people toward a common or shared goal (House and Podsakoff, 1994; Ikharehon, 2006). Since leadership implies followership and people tend to follow those in whom they see as a means of satisfying their own needs, wishes and desires, it is understandable that this area of management involves motivation, leadership styles and approaches and effective communication.

The distinction between leader and leadership is important, but potentially confusing. The leader is the individual; leadership is the function or activity the individual performs. The following key variables may be used to understand leadership: leadership characteristics and style; follower characteristics; leader behaviour and leadership context.

The following factors can enhance leadership, they are: respect for individual, delegate authority and responsibility, excellence, build workers self-esteem, inform employees, apply the reinforce principle, be an active listener. Leaders are individuals who have developed their personal styles of leadership. Leaders are those who possess ideals and broad visions, which they impress on their supporters and voluntary assistants. In their internal organisations, they are leaders rather than drivers. To be an effective leader, one must try to see things through the eyes of those he is leading.

3.2.6 Motivating

Ikharehon (2006) opines that since managing involves the creation and maintenance of an environment for the performance of individuals working together in groups toward the accomplishment of a common objective, it is obvious that a manager cannot do this job without knowledge of motivation. Motivation is defined by Hornby (2006) as the process of stimulating the interest of people to do something. Bernard and Garry (1964 quoted in Ikharehon, 2006) sees motivate as an inner state that energises, activates or moves, directs or channels behaviour toward goals. Motivated behaviour has three characteristics, namely: it is sustained and maintained for a long time until satisfied; it is goal-directed and seeks to achieve an objective, and it results from a felt need. For every enterprise to motivate an employee, there must be: needs that the employee wishes to satisfy, the motivating factor must be one that needs the desire or aspiration of the employee, the goal must be perceived as being available, and that the goal must be attainable by the employee.

Types of Motivation

The types of motivation are intrinsic and extrinsic motivation, while theories of motivation include: Maslow's hierarchy of needs (made up of physiological, safety or security, social affiliation, esteem and self-actualization needs), Herzberg two-factor theory (made up of motivator factors and hygiene factors), Douglas McGregor's theory X and theory Y of motivation, Adam's equity theory, Victor Vroom's Expectancy theory, and Alderfer's ERG theory respectively.

3.2.7 Communicating

Enterprises exist through communication and without communication there would be no organisations. In modern enterprise, communication is the foundation upon which all other functions rest. This is because when communication fails no activity prevails. Organisation communication is the process by which managers develop a system to give information and

transmit meaning to large numbers of people within the organisation and to relevant individuals and institutions outside it. In other words, communication is the transfer of information from the sender through the communication channel to the receiver with the information being understood by the receiver.

The process of communication includes encoding (who is the originator of the message in spoken or written form), channel (is the means by which the information gets to the decoder), and decoder (is the receiver of the information sent by the encoder). Characteristics of information refer to that which creates value for information. These are: relevance, accuracy, completeness, confidence, communication to the right person, timeliness, detail and communicated by an appropriate channel of communication.

The functions of communication are to enable employees to express themselves, to motivate the activities of subordinates, serves as vital function for managerial decision making. It is therefore the vehicle through which the basic management functions are carried out. Organisation attempt to control the activities of individuals through the design and use for formal communication channels. In other words, it is used to control and evaluate the performance of organisational members.

The purpose served by communication in an organisation include: serves as lubricant to foster the smooth operation of the management progress, it is the vehicle through which basic management are carried.

3.2.8 Controlling

Control means to check or verify, to regulate, to compare with a standard, top exercise authority over, or to curb or restrain. Controlling is the process of measuring performance against standard. It is the process of measuring and correcting individual and organisational performance to ensure that event conform to plan. It shows where deviation from standard exists, and helps to correct them. Ejiogu (1995, quoted in Ikharehon, 2006) sees managerial control as the monitoring and adjusting of organisational activities towards effective and efficient goal attainment. He further stated that through his/her control activities, a manager ensures that all organisational actions and behaviours are in consonance with expected desired results. In essence, the essential purpose of control is to ensure that actions do indeed conform to plans and contribute towards the accomplishment of goals, which is to say that, through a well-coordinated control system individual managers are enabled to meet their accountability.

The steps in a control process include establishment of standards, assessment of performance, comparing performance against standards, evaluation and adjustment. The reasons for controlling function is to check actual performance against set standard, to ensure that the objective of the organisation is achieved, to sought out deviations and mistakes in the system, to ensure proper functioning of the enterprise and to ensure the steering and guiding of the enterprise in the right direction.

There are four basic areas where control is necessary, they include: financial resources, physical resources, human resources and information resources. The attributes of a good control process are: flexibility, objectivity, economy, accuracy, correctiveness and integration. Sometimes controls are resisted due to the following reasons: unnecessary bossing, over control, nonseriousness, rewarding inefficiency and mediocrity and accountability.

3.3 Producing

The production is the transformation of inputs such as raw materials through the transformation processes to produce outputs such as finished products that are available and highly affordable. The duty of the entrepreneur is to harness all human and material resources with a view to improving production and distribution efficiency such that the goods get to the final consumers. The entrepreneur ensures that necessary funds are provided from time to time to source for the needed raw materials at the right quantity and quality, right price and specification to produce the products desired by the consumers. He will also ensure proper inventory management so as to

minimise, in total, the costs associated with stock.

Over-stocking are stocks which are excess to current needs and it results in capital being tied up and increased costs of storage and obsolescence. Under-stocking may result in costly production hold-ups, which may mean increased costs of goods. It also interrupts production, making machines and men idle and causing sales loss. However, there are benefits to be derived by an entrepreneur when a proper stock management is in place, and these include:

1. ensuring proper execution of policies covering procurement and use of materials and make possible rapid shifts in business to meet changes in market conditions.
2. obtaining economics through a reduction in needless variety of items carried in stock
3. helping to eliminate delays in production caused by non-availability of required materials and tools.
4. avoiding over accumulation of inventories and tools and thereby maintain the minimum investment consistent with production needs and procurement policies.
5. reducing inventory losses caused by inadequate inspection of incoming materials, damaged, deterioration, obsolescence, waste or theft.
6. providing balance stores records to serve as a reliable basis for effective production planning, economical procurement, cost accounting and preparation of financial reports.

3.4 Strategic Planning

oyedijo (2008) defines strategic planning as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future. A word by word dissection of this definition provides the key elements that underlie the meaning and success of a strategic planning process: The process is strategic because it involves preparing the best way to respond to the circumstances of the organization's environment, whether or not its circumstances are known in advance; non-profits often must respond to dynamic and even hostile environments.

Core Areas of Strategy

Three core areas of corporate strategy are strategic analysis, strategic development and strategy implementation.

1. *Strategic analysis.* The organisation, its mission and objectives have to be examined and analysed. Corporate strategy provides value for the people involved in the organisation – its stakeholders – but it is often the senior managers who develop the view of the organisation's overall objectives in the broadest possible terms. They conduct an examination of the objectives and the organisation's relationship with its environment. They will also analyse the resources of the organisation.
2. *Strategy development.* The strategy options have to be developed and then selected. To be successful, the strategy is likely to be built on the particular skills of the organisation and the special relationships that it has or can develop with those outside – suppliers, customers, distributors and government. For many organisations, this will mean developing advantages over competitors that a sustainable over time. There are usually many options available and one or more will have to be selected.
3. *Strategy implementation.* The selected options now have to be implemented. There may be major difficulties in terms of motivation, power relationships, government negotiations, company acquisitions and many other matters. A strategy that cannot be implemented is not worth the paper it is written on.

Process, Content and Context

Research (Pettigrew and Whipp, 1991) has shown that in most situations, corporate strategy is not simply a matter of taking a strategic decision and then implementing it. It often takes a considerable time to make the decision itself and then another delay before it comes into effect. There are two reasons for this. First, people are involved – managers, employees, suppliers and customers for example. Any of these people may choose to apply their own business judgement to the chosen corporate strategy. They may influence both the initial decision and the subsequent

actions that will implement it. Second, the environment may change radically as the strategy is being implemented. This will invalidate the chosen strategy and mean that the process of strategy development needs to start again. For these reasons, an important distinction needs to be drawn in strategy development between process, content and context.

Every strategic decision involves:

1. *Context* – the environment within which the strategy operates and is developed. In the IBM case during the 1980s the context was the fast-changing technological development in personal computers.
2. *Content* – the main actions of the proposed strategy. The content of the IBM strategy was the decision to launch the new PC and its subsequent performance in the market place.
3. *Process* – how the actions link together or interact with each other as the strategy unfolds against what may be a changing environment. The process in the IBM case was the delay in tackling the PC market, the slow reaction to competitive actions and the interactions between the various parts of the company as it attempted to respond to competition actions. Process is thus the means by which the strategy will be developed and achieved.

Two approaches to the process are: prescriptive and emergent. A prescriptive corporate strategy is one whose objective has been defined in advance and whose main elements have been developed before the strategy commences.

Emergent corporate strategy, on the other hand, is a strategy whose final objective is unclear and whose elements are developed during the course of its life, as the strategy proceeds. Mintzberg (1987) sees merit in both approaches. According to him, in many respects, they can be said to be like the human brain, which has both a rational left side and an emotional right side. Both sides are needed for the brain to function properly. It can be argued that the same is true in corporate strategy.

What makes ‘Good’ Strategy?

Given the lack of agreement on a definition of corporate strategy and the difficulty of developing it successfully, it is relevant to explore what makes ‘good’ corporate strategy. To some, it might appear that there is one obvious answer: ‘good’ strategy delivers the purpose set out for the strategy in the beginning. However, this begs several important questions:

1. Was the purpose itself reasonable? For example, perhaps the purpose was so easy that any old strategy would be successful.
2. What do we do when it is difficult to define the purpose clearly, beyond some general objective of survival or growth? Such vagueness may make it difficult to test whether a ‘good’ strategy has been developed.
3. Since the whole purpose of strategy is to explore what we do in the future, can we afford to wait until it has been achieved before we test whether it is good?

Essentially, we need some more robust tests of good strategy. These lie in two areas, first, those related to the real world of the organisation and its activities: application-related. Second, those that rely on the disciplines associated with the basic principles of academic rigour, originality, logical thought and scientific method. It might be argued that academic rigour has no relevance to the real world, but this would be wrong. All organisations should be able to apply these basic principles to the process of strategy development.

(a) Tests of good strategy: application-related – at least three tests are available that provide some means of assessing whether a strategy is good:

1. *The value-added test.* A good strategy will deliver increased value added in the market place. This might show itself in increased profitability, but might also be visible in gains in longer-term measures of business performance such as market share, innovative ability and satisfaction for employees.
2. *The consistency test.* A good strategy will be consistent with the circumstances that surround a business at any point in time. It will take into account its ability to use the resources efficiently, its

environment, which may be changing fast or slowly, and its organisational ability to cope with the circumstances of that time.

3. *The competitive advantage test.* For most organisations, a good strategy will increase the sustainable competitive advantage of the organisation. Even those organisations that traditionally may not be seen as competing in the market place – such as charities or government institutions – can be considered as competing for resources. Charities compete with others for new funds, government departments compete with each other for a share of the available government funds.

(b) Tests of good strategy: academic-related – another five tests might also be employed that relate to the above but are more fundamental to the basic principles of originality, logical thought and scientific method:

1. *The originality test.* The best strategy often derives from doing something totally different. One test that has academic validity is therefore that of originality.

However, this needs to be used with considerable caution or it becomes just another excuse for wild and illogical ideas that have no grounding in the topic.

2. *The purpose test.* Even if there are difficulties in defining purpose, it is logical and appropriate to examine whether the strategies that are being proposed make some attempts to address whatever purpose has been identified for the organisation. Such a definition of purpose might be taken to include the aspirations and ambitions of the leaders of the organisation, along with its stakeholders.

3. *The logical consistency.* Do the recommendations flow in a clear and logical way from the evidence used? And what confidence do we have in the evidence used? Do we trust such evidence? Might it be unreliable because it has come from a competitor?

4. *The risk and resources test.* Are the risks and resources associated with the strategies sensible in relation to the organisation? They might be consistent with the overall purpose, require resources that are substantially beyond those available to the organisation – not just finance, but perhaps people and skills.

5. *The flexibility test.* Do the proposed strategies lock the organisation into the future regardless of the way the environment and the resources might change? Or do they allow some flexibility, depending on the way that competition, the economy, the management and employees and other material factors develop?

Objectives of Strategic Planning

The basic purpose of strategic planning, according to Oyeidijo (2008), is to improve strategic decision-making in the organisation so that resources and talents or skills are applied to the most profitable uses. It is therefore targeted at enhancing the corporate performance. Corporate planning serves the following objectives:

- It assists in the fair and reasonable allocation of resources among divisions and units.
- It helps top management level in the analysis and consideration of alternative course of action so new opportunities are identified and exploited.
- It ensures that organisations adjust to environment opportunities and threats thereby ensuring a better fit between the business and its environment.
- It makes it easy for the objectives set, strategy and tactics to be appraised regularly.
- It encourages internal examination of the firm's internal strengths and weaknesses.
- It equally develops futuristic outlook for the organisation.

Benefits of Strategic Planning

Several benefits accrue from a sound and effective strategic planning. They are as follows:

- ☞ It provides a comprehensive view of the company.
- ☞ It creates clarity of purpose and better awareness of corporate goals and problems.
- ☞ It improves the ability of a firm to cope with changes and uncertainties.
- ☞ It encourages innovative thought and creativity thereby introducing a spirit of dynamism in the organisation.
- ☞ It helps to improve communication at all levels of the organisation.

- ✂ It helps to take risks and think ahead.
- ✂ It helps to improve the motivation, morale and job satisfaction of employees.
- ✂ It also improves the quality of managerial decisions.
- ✂ It provides a new way of controlling the business.

Limitations of Strategic Planning

The limitations of strategic planning (Aghedo, 2010) include:

- It is time-consuming and expensive.
- It is not useful in a dying company.
- It does not guarantee that the company will not be affected by adverse circumstances.
- It involves a measure of judgement.
- It is subjective and subject to errors.
- It cannot produce results – timely and appropriate actions are required for success.
- The programme cannot be suddenly started and expected to be an overnight success.

Why Strategic Planning Fail

Several reasons abound why strategic planning fails. They include:

- Lack of support from top management.
- Narrow outlook to issues coming from a unit or department.
- Inability to recognize the multiplicity of objectives.
- The rules of bureaucracy.
- Overemphasis on short-term results to the neglect of long-term goals.
- Poor and ineffective communication system.
- Failure to devote sufficient resources.
- Failure to allow the planning organisation to grow to maturity.
- Too much reliance on committees.
- Faulty implementation of the plans.

3.5 Marketing Management

Marketing management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals. Marketing management is also defined as the analysis, planning, implementation, and control of programs designed to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives.

People think of marketing management as finding enough customers for the company's current output, but this is too limited a view.

From these definitions the following terms: needs, wants, demands, products, exchange, and some others are useful.

Some of the basic concepts underlying marketing are explained below:

Needs – The most basic concept underlying marketing is that of human needs. Human needs are states of felt deprivation. These needs include basic physical needs for food, clothing, shelter and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression.

The needs are in-built in human nature itself. It is not invented by marketers.

Wants – Human wants are desires for specific satisfaction of deeper needs. For example, a man in the village needs rain and food and wants fertilizer. Also, a man may want yam, rice, body cream, a bag, a wrist-watch, etc. but needs money. Human needs may be few, but their wants are numerous. These wants are continually shaped and re-shaped by social forces and institutions such as families, church, schools and business corporations. Marketers do not create needs; needs pre-exist in marketing. Marketers, along with other operatives in society, influence wants. They suggest and inform consumers about certain products and persuade them to purchase, stressing the benefits of such products.

Demands – People have almost unlimited wants but limited resources. They want to choose

products that provide the most value and satisfaction for their money. When backed by purchasing power, wants become demand. That is, demand want for specific products that backed up by an ability and willingness to buy them. For example, many desire a car such as Mercedes Benz, Toyota, BMW, Honda etc. but only a few are really willing and able to buy one. It is therefore important for marketing executives to measure not only how many people want their company's products, but also measure how many of them would actually be willing and able to buy them.

Products – People normally satisfy their wants and needs with products offered in the market. Broadly, a product can be defined as anything that can be offered to someone to satisfy a need or want. Specifically, a product can be defined as an object, service, activity, person, place, organization or idea. It should be noted that people do not buy physical objects for their own sake. For example a lipstick is bought to supply service (beautify); toothpaste for whiter teeth – prevent germs or give fresh breath or sex appeal. The marketer's job is to sell the service packages built into physical products. If one critically looks at physical products, one realizes that their importance lies not so much in owning them as in using them to satisfy our wants. For example, we do not buy a bed just to admire it, but because it aids resting better.

Exchange – Marketing takes place when people decide to satisfy needs and wants through exchange. Exchange is therefore the act of obtaining a desired object from someone by offering something in return. Exchange is only one of the many ways people can obtain a desired object. For example, hungry people can find food by hunting, fishing or gathering fruits. They could offer money, another food or a service in return for food. Marketing focuses on this last option. As a means of satisfying needs, exchange has much in its favour, people do not have to depend on others, nor must they possess the skills to produce every necessity for themselves. They can concentrate on making things they are good at in exchange for the needed items made by others. Thus, exchange allows a society to produce much more than it would. However, Kotler (1984) states that for exchange to take place, it must satisfy five conditions, namely:

- There are at least two parties;
 - Each party has something that might be of value to the other party;
 - Each party is capable of communication and delivery;
 - Each party is free to accept or reject the offer;
 - Each party believes it is appropriate or desirable to deal with the other party.
- These five conditions make exchange possible. Whether exchange actually takes place, however depends on the parties coming to an agreement. It is often concluded that the act of exchange has left both of them better off, or at least not worse off. Hence, exchange creates value just as production creates value. It gives people more consumption possibilities.

Relationship Marketing – Relationship marketing is a process of creating, maintaining and enhancing strong value added relationships with customers and other stockholders.

Markets – A market is defined as a set of all actual and potential buyers of a product and service. These buyers share particular needs or wants that can be satisfied through exchange. The size of a market depends on the need of people with common needs and that has resources to engage in exchange, and is willing to offer these resources in exchange for what they want.

Originally, the term 'market' stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. However, Economists often use the term to refer to a collection of buyers and sellers who transact in a particular product class, such as clothing market electronic market, cattle market, etc.

Functions of Marketing – The functions of marketing can be classified into three: namely merchandising function, physical distribution and auxiliary function.

• **Merchandising Function**

1. Product Planning and Development: Product planning starts with idea generation, idea screening and development of a prototype product. It also takes into consideration the purchasing power of the consumers, taste and market segmentation. Research and development is established for the analyses of ideas generated.

2. **Standardization and Grading:** This is concerned with setting certain standards/levels to accomplish the produced goods. This is carried out by the production department and regulated by some government agencies, such as Standards Organization of Nigeria. For example, Sprite is 30 cl, Coke is 35 cl, etc.

3. **Buying and Assembling:** Here, we are concerned with the marketing institutions that purchase goods or services at cheaper prices in order to resell at minimum prices to the end-users. These marketing institutions include the wholesalers, retailers and agents.

4. **Selling:** This is concerned with selling of the finished goods to the end-users either through the manufacturers or the marketing channels. In order to get the attention of their target consumers, they embark on various promotional strategies, such as discounts, promo tools, bundle sales, bonuses, etc.

• **Physical Distribution**

1. **Storage:** Storing of goods to meet future demands and for time and other utilities.

2. **Transportation:** The movement of goods from the manufacturer down to the target consumers. This includes material handling, warehousing, etc.

• **Auxiliary Function**

1. **Marketing Finance:** That is, allowing credits to customers and as well as obtaining credit from customers, such as Banks, individuals etc.

2. **Risk-Bearing:** Risk means ‘uncertainty’. Entering into a business entails risks, such as loss of items, road attack, weather risk, etc.

3. **Market Information:** Gathering necessary information about the markets, the target consumers in terms of their purchasing power, taste, colour, choices, competition, and their products.

The Role of Marketing

1. The first and foremost role is that it stimulates potential aggregate demand and thus enlarges the size of the market. You might ask how does it help in the economic growth of a country?. The answer is that through stimulation of demand people are motivated to work harder and earn additional money (income) to buy the various ideas, goods and services being marketed. An additional advantage which accrues in the above context is that it accelerates the process of monetizing the economy, which in turn facilitates the transfer of investible resources.

2. Another important role which marketing plays is that it helps in the discovery of entrepreneurial talent. Peter Drucker, a celebrated writer in the field of Management, makes this point very succinctly when he observes that marketing is a multiplier of managers and entrepreneurs.

3. It helps in sustaining and improving the existing levels of employment. You may ask, how does it happen? The answer is that when a country advances economically, it takes more and more people to distribute goods and proportionately a lesser number to make them. That is, from the employment point of view, production becomes relatively less significant than marketing and the related services of transportation, finance, communication, insurance, etc. which spring around it.

Marketing Management philosophies

Marketing management has been described as carrying out tasks to achieve desired exchange with target markets. But then what philosophy should guide these activities. What weight should be given to the interests of the organization, customers and society that carry out these activities? This section examined five philosophies that underlie marketing activities.

1. Production Concept – The production concept holds that consumers would favour products that are available and highly affordable. Management therefore should focus on improving production and distribution efficiency. This concept is one of the oldest philosophies that guide sellers. The production concept is a useful philosophy which applies to:

a) When the demand for a product exceeds the supply. This is very common to most of goods/services available in Nigeria markets. Examples of these are petroleum products, food stuffs, and educational books. It therefore implies that management should look for ways of increasing production of such products.

b) When the product’s cost is too high and improved productivity is needed to bring it down. For example, Henry Ford’s whole philosophy was to perfect the production of the model ‘T’ so that its

cost could be reduced and more people could afford it. Another example is the cost of earlier Mobile Phones and their accessories. They were very costly and access was limited to only few privilege individuals in Nigeria as compared to present situation whereby an average individual has one. In order to maintain the market turnover, it thus implies that management should endeavour to improve facilities and reduce prices of their products/services.

2. The Product Concept – The product concept holds that ‘consumers will favour products that offer the most quality, performance, and innovative features, and that an organization should thus devote energy to making continuous product improvements’. In modern marketing, the product concept plays an important role. This is because; consumers are diverse in their needs and wants and sparsely distributed. Thus, they need to be served base on their peculiarity of needs and environmental consideration. For example, the Toyota and Honda companies adopt this concept for their brands of cars for Nigeria markets. In hospitality industry, services are provided base on the expectation of the guests. This is why rooms in the same hotel are not charged equally. However, marketing executives should be careful in applying this concept. Quality and innovative features may involve additional production costs, which in the long-run; the consumers might be compelled to bear the burden. Thus, income of the consumers and their willingness to pay for these new features should be sought. Otherwise, the product concept can lead to ‘market myopia’.

3. The Selling Concept – The selling concept or sales concept is another common approach adopted by some firms in penetrating their target markets. The selling concept holds that consumers, if left alone will ordinarily not buy enough of the organization’s products. The organization must therefore undertake an aggressive selling and promotion effort. The concept assumes that consumers having show buying inertia or resistance and has to be coaxed into buying more, and that the company has various strategies of effective selling and promotion tools to stimulate more buying. This selling concept is being practiced by both profit and non-profit making organizations. For instance, in an insurance industry, the selling concept is practiced aggressively with ‘unsought goods’.

These are goods that buyers normally do not think of buying, such as insurance policies.

Thus, various sales techniques are used to locate potential and prospective buyers.

4. The Marketing Concept – The marketing concept is a business philosophy that arose to challenge the previous concepts. The marketing concept holds that the key achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. This concept concern it with: Find wants and fill then Make what will sell instead of trying to sell what you can make

Love the customer and not the product, etc

The selling and marketing concepts contrasted. Selling focuses on the needs of the sellers; marketing focus on the needs of the buyers. Selling is pre-occupied with the sellers’ need to convert his product into cash; marketing concerned itself with idea of satisfying the needs of the customers by means of the product and whole cluster of things associated with creating, delivery and finally consuming it. In selling, management is sales-volume oriented; while in marketing, management is profit oriented. In selling, planning is short-run oriented in terms of today’s products and markets. However, in marketing, planning is long-run oriented in terms of new products, tomorrow’s markets and future growth. (That is, the marketing concept is a philosophy of business that states that the customers’ want-satisfaction is the economic and social justification for a firm’s existence). This thus implies that all company’s activities must be devoted to finding out what the customers want and then satisfying those wants, while making profits in the long-run.

The marketing concept rests on four main pillars, namely:

- A market focus
- Customer orientation
- Coordinated marketing and
- Profitability

4.0 CONCLUSION

We note from the unit that the entrepreneur's major function is that of risk taking. We also discussed extensively the management decision making functions of an entrepreneur ranging from planning, organizing, controlling, decision-making, communicating, staffing, leading etc. The production function of an entrepreneur was explicitly dealt with while not leaving out the role of an entrepreneur as a strategic planner. Finally, we examined and discussed the marketing management function of the entrepreneur.

5.0 SUMMARY

In this unit, we have,

- described the role of an entrepreneur as a risk bearer;
- discussed the management decision making function of an entrepreneur,
- explained production function of an entrepreneur;
- discussed the strategic planning function of an entrepreneur;
- explained marketing management function of the entrepreneur.

6.0 TUTOR MARKED ASSIGNMENT

1. Describe briefly the risk taking function of an entrepreneur.
2. Why does an entrepreneur have to take decisions? What type of decisions are taken by an entrepreneur? List and explain four of them.
3. Compare and contrast the Production and Marketing Management functions of an entrepreneur.
4. Write short notes on the following: production concept, product concept, selling concept and marketing concept.

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UNIT 5 ENTREPRENEURSHIP AND FORMS OF BUSINESS OWNERSHIP

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Forms of Business Ownership
 - 3.2 Sole Proprietorship
 - 3.3 Partnership

3.4 Joint Stock Company/Limited Liability Company

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit, we described the role of an entrepreneur as a risk bearer; discussed the management decision making function of an entrepreneur; explained production function of an entrepreneur; discussed the strategic planning function of an entrepreneur; explained marketing management function of the entrepreneur.

In this unit, we shall examine various forms business ownership and their distinguishing characteristics.

2.0 OBJECTIVES

At the end of this unit, you should be able to discuss the various forms of business ownership that entrepreneurs could embark on. You should also be able to discuss the features, objectives, capital available, advantages and disadvantages of each form of business ownership.

3.0 MAIN CONTENT

3.1 Forms of Business Ownership

Brown and Dow (1997) say define business as all of the activities of an individual or group of individuals in producing and distributing goods and services to customers. Business wants to know the needs, wants, goals, values etc. of prospective and potential consumer before they can sell their goods to them. Business therefore is involved in the production of goods and services, undertake organizing, managing, and marketing. The resources used by the businesses include human, material and financial resources. Business, no matter the type or form, has certain characteristics such as involvement in the exchange / sale or transfer of goods and services, profit motive, production of goods and services and bearing risks and uncertainties.

As mentioned earlier in the unit, we mentioned objectives of a business to include:

- (i) profit maximisation;
- (ii) survival and continuity;
- (iii) growth;
- (iv) control of a fair share of the market;
- (v) improvement in productivity;
- (vi) initiating innovative ideas for quality product;
- (vii) employee welfare;
- (viii) service to consumers; and
- (ix) social responsibility to the community that hosts the enterprise.

We list below the forms of business ownership to include sole trader or proprietorship, partnership, business name, cooperative society. All these business ownership whether individuals or group of individuals or corporation are all referred to as entrepreneurs. These forms of business ownership listed will be discussed separately in subsequent sections of this unit.

3.2 Forms of Business (1) - The Sole Trade

The definitions of a sole trader are almost the same depending on the different authors consulted. A sole trader is a person who enters business working for him/herself. He/she puts in the capitals to start the enterprise, works either on his/her own or with employees and, as a reward receives the profit. A sole trader is a form of business enterprise in which one man owns and manages the business (Denedo, 2004:2). A sole trader goes with other names as “one-man business”, “sole proprietor”. Sole trading is mostly found in retailing business. This type of business is the oldest type of business in Nigeria. Up to 19th century, most production companies were owned by

individuals. In Nigeria it is one of the commonest types of business you see around. You see them around the cities and villages.

The sole trader starts his business with his own capital and labour (sometimes he may borrow money from friends or relatives assisted with labour by same people). He organizes the business himself and takes all the profit or loss that arises. The sole trader therefore represents many things at the same time. He is a capitalist because he alone owns the business and receives the profit. He is a labourer because he performs most or all the work in the business; he is an entrepreneur because he takes on his stride the risk of financial loss. He is also a manager because he takes decisions and controls the operation of the business.

Features of a Sole Trader

- **Ownership:** A sole trader as the name implies is own by one person.
- **Liability:** The liability of the one man business is unlimited. i.e., if the owner is indebted, both, the business asset and his personal asset can be sold to offset the debt.
- **Sources of Capital or Finance:** The capital outlay is provided by the owner. This source of fund could be through: Personal saving, Intended capital, Credit, Borrowing from relatives and Banks etc.
- **Legal Entity:** It is not a legal entity. By law the business and the owner are regarded as one person. They are not different, unlike corporate business; a company is a legal entity, different from the owners.
- **Motive:** It is believe, that a sole trader is into business to make profit.
- **Method of Withdrawing Capital:** The owner can withdraw his capital anytime from the business without consulting with anybody.
- **No Board of Director:** Because he is the owner, no board of directors that is why he does what is in (vi).
- **Its Nature:** It is a simplest and the commonest type of business unit you can think of.

Sources of Funds of a Sole Trader

(i) Personal Savings

Many individuals or group of individuals raise money from their personal savings to set up business.

(ii) Borrowing particularly from Friends and Relatives

It is common, among the Igbo business traders that once their brothers are willing to do business, they give him a helping hand by borrowing him some amount of money to start his business, when he starts making profit, he will pay. This borrowing is not limited to brothers alone; friends and relatives equally help out in this situation for people to start up a one man business.

(iii) Credit Purchase from Manufacturers or Wholesalers

Sole traders get financed through credit buying from the manufactures or a wholesaler by selling goods to sole traders at credit the wholesalers are financing a sole trader.

(iv) Donations from Friends and Relatives

Friends and relatives can dash you money purposely to help you continue with your business.

Advantages of a Sole Trader

Sole trader is the earliest form of business ownership. The advantages of this form of business ownership are as stated below:

- (i) It requires small capital. Can be established quickly and easily with small cash, there are no organization fees and the services of lawyers to draw up terms are not generally required. It is the commonest and the cheapest form of business organization.
- (ii) Easy to establish: This is because it requires no formalities and legal processes attached to establishing the business and is subject to very few government regulations as no business of balance sheet to the registrar of companies is required.
- (iii) Ownership of all profit: The sole trader does not share profit of the business with any one.
- (iv) Quick decision-making: The sole trader can take quick decisions since he has no parties to consult or a boss whose permission he must get. He takes action as soon as circumstances arise or as soon as he conceives an idea, such flexibility could be very vital to his success.

- (v) Easy to withdraw his assets: Proprietorship can be liquidated as easily as it is begun. All what he needs to do is to stop doing business. All his assets, liabilities and receivable are still his.
- (vi) Single handedly formulates all policies: He determines the firms' policies and goals that guides the business internally and externally and works towards them. He enjoys the advantage of independence of actions and personal freedom in directing their own affairs.
- (vii) Boss: He is free and literally his own boss but at the same time continues to satisfy his own customers.
- (viii) It is flexible: The owner can combine two or more types of occupation as a result of the flexibility of his business e.g. a barber can also be selling mineral and musical records.
- (ix) Personal Satisfaction: There is a great joy in knowing that a person is his own master. The sole trader has a great deal of that. He also knew that the success and failure of the business completely lies with him. This gives him the incentive to make his business as efficient as possible.
- (x) Cordial Relationship, with workers and customers: Because the sole trader is usually small, the owner can have a very close relationship with his workers to the extent that domestic/personal issues can be discussed and addressed. He also knows first hand from customers what their wants are. It also enables him to know which of the customer's credits are worthy. This kind of relationship is usually beneficial to all the parties.
- (xi) Tax saving: Unlike in companies the profits of the sole trader are not taxed, the owner only pays his income tax.
- (xii) Privacy: The sole trader is not under any legal obligation to publish his accounts for public consumption as in joint stock companies.

Disadvantages of a Sole Trader

The disadvantages of this form of business ownership include:

- (i) **Bear All Losses and Risks Alone** - Business is full of risks and uncertainties and unlike other forms of business organizations where risks and losses are shared among partners, the owner of one-man business does not share these risks and losses with any body as it does not share the profits of the business with any body.
- (ii) **Limited Financial Resources** - The greatest single cause for the abandonment of one man business form is the desire for expansion and the resultant need for additional capital which is not forthcoming because the capital used in running the business comes from only one-man and is limited to the extent of his own personal fortune. His inability to raise more capital limits its plan of expansion.
- (iii) **Unlimited Liability** - Unlimited liability means that in the event of failure of the business, the personal assets of a person can be claimed to pay debts of the business. For a sole trader, it means that everything he owns is subject to liquidation for the purpose of setting the ability of the business if the business fails.
- (iv) **Lack of Continuity** - When the sole proprietors retires or dies, the business may end like that. Though his children or relatives may attempt to continue with the business, most often than not they lack the zeal, and or, the ability to operate efficiently. The imprisonment or bankruptcy of the sole proprietor spells similar doom for the business.
- (v) **Absence of Specialization** - As stated earlier the sole proprietor does so many things by himself. As a result of this, he may not handle aspects of the work efficiently. This negatively affects the prospects of the business.
- (vi) **Limitation on Expansion** - Because of limited capital, the sole proprietor may not be able to increase the size of his business no matter how ingénué he is. As enumerated earlier, the sole proprietor has few source of capital. Except for banks, he may not get any substantial capital for expansion frantically; his ability to borrow from banks depends on his collateral which may not be enough for bank finding.

3.3 Forms of Business (2) - Partnership

Denedo (2004) says partnership is an association of two to twenty persons carrying on a business

in common with the view of making profit. The partners contribute both funds and efforts to set up and manage the business sharing profit (or loss) on an agreed basis. Partnership can also be define as the relationship that exist when two or more persons who contribute small money or moneys worth in order to establish, own and manage business organization with the sole aim of making profit. Partnership is an association of 2-20 persons or 2-10 persons as in case of a bank to carry on as co-owners of business for profit. They also share the losses that arise from such businesses.

Features of Partnership

Following are the features of a partnership form of business ownership:

- **Ownership:** It is formed by between 2-10 people and between 2-10 people in case of banks.
- **Capital:** The initial capital is contributed by partners.
- **Liability:** Their liability is unlimited except for limited partner.
- **Formation motives:** They are formed for profit reasons.
- **Sources of capital:** contribution from the partners ploughing back profit, loans from banks.
- **Method of withdrawing capital** must be approved by other partners as laid down in their partnership deed.
- It has **no separate legal entity**.
- It has **no board of directors**.

Types of Partnership

We have principally two types of partnership namely; ordinary and limited partnership.

Ordinary Partnership - All members or partner take active part in the management of the business and are generally liable to any loss or risk. All partners have equal responsibility and bear all the risks of the business equally. All the partners have equal powers, unlimited liabilities, take active part and profits are shared equally.

Limited Partnership - Any members in this category, his debts are restricted to the amount of money contributed in running the business. Not all partners take equal part in the management of their business. But there must be a member who bears the risk and also takes active part in the business activities. In other words, in limited partnership, there is at least one ordinary partner who has unlimited liability.

Kinds of Partners

We have five types of partners and they include:

- **Active Partner:** This is the partner(s) who take active part in the formation, financing and management of the business. They receive salary for the role they play as a manager or managing director or director of the business as spelt out in the partnership deed.
- **Dormant/Sleeping Partner:** This partner contributes only the money needed for formation of the business or for running of the business. He is not involve in managing of the business and doesn't receive salary. He is only entitled to profit sharing and losses as it is agreed upon before formation.
- **Normal/Passive Partner:** A normal partner is one who is not actually a partner but who allows his name to be used in the partnership or who gives the public the impression that he is a partner even though he may not share in the profit of the business. This is a partner appointed because of his experience, fame or wealthy position. These members may be men and women of substance whose name are greater than silver and gold like retired army generals, politicians, civil servants ,successful business men.
- **Silent Partners:** A silent partner is an individual who is known to the public as a partner but who does not take active part in the management of the firm.
- **Secret Partner:** A secret partner is that who is active in the affairs of the business but not known to the public as a partner.

Sources of Funds for Partnership

The following method could be used by partner to fund their business.

- (i) Contribution from members

- (ii) Ploughing back profits
- (iii) Borrowing from the bank
- (iv) Enjoying credit facilities

Article of Partnership or Deed of Partnership

This is the document that regulates the activities of the partnership business. It is the “constitution of the partnership business aimed at guiding against, or resolving disagreements. It is normally drawn by a solicitor for the partners. The partners agree and sign the document. The deed of partnership is not legally required. It is very essential. The style and contents of the deed of partnership vary from partnership to partnership. They include all or some of the following:

- Name of the firm
- Name of the partners
- The place of business
- The description of the nature of business
- The amount of capital that each part is to contribute
- The role of each partner in the business
- The method of profits and losses sharing
- The compensation, if any, the partners are to receive for services rendered to the business
- The right of partners in the business
- How long the business shall last
- Partner’s rights in the business
- How matters shall be determined either by majority vote or not
- Provision for the admission of new members
- The arrangements concerning withdrawals or additional investment
- Arrangement for the dissolution of the firm in the event of death, incompetence or other causes of withdrawal of one or more of its members.

Once each partner agrees to sign this document, it becomes a legal document that is enforceable in a court of law.

Advantages of Partnership

The following, are the advantages of partnership:

- (i) **Greater Financial Resources:** Unlike a one-man, business between two and twenty persons forms the partnership. It translates into more capital for such business compare to the one-man business. By so doing ability to borrow i.e. from bank and be approved is higher and better compare to one-man. Benefits of expansion are higher because more funds are available.
- (ii) **Combined Abilities and Skills:** In partnership, there are various partners, with various ideas, i.e. accountants, marketers, bankers, historians, managers etc. may come to together to form a business. They will put into use various talent which may advance the company more compare to a one-man business, who is the only talent.
- (iii) **Greater Continuity:** Relative to the sole proprietorship, the partnership has a very great tendency of continuity even in death. The death of a partner may bring about a reorganization of the partnership, but the remaining members are likely to have some knowledge that will enable them to continue with the business.
- (iv) **Ease of Formation:** Like-one-man business, the partnership is fairly easy to organize as there are few governmental regulations, governing the formation of partnerships. The investments duties, privileges, liabilities and other relationships of the partners are mutually agreed upon, and as soon as the new members and materials have been brought together, the business is ready to function.
- (v) **Joint and Better Decision:** That two good heads are better than one and this is applicable to partnership business where joint and better decisions are taken.
- (vi) **Creation of Employment Opportunities:** The large size partnership is in a vantage position to employ more in their business because of its huge financial resources.

(vii) **Employment of Valued Employees:** In order to secure the advice and experience of esteemed employees. They are made partners in the firm. This is a way of enhancing their personal work as well as that of the firm.

(viii) **Tax Advantage:** Partnership enjoys tax advantage. Taxes are therefore, levied upon the individual owners rather than upon the firm as it are not recognized as a legal entity.

(ix) **Application of Division of Labour:** This is applicable in its managerial and administrative hierarchy.

(x) **Privacy:** Like the sole proprietorship, partnerships are not under any legal obligation to publish their books of accounts for public consumption.

Disadvantages of Partnership

The disadvantages of partnership form of business ownership are:

(i) **Unlimited Liability:** If the business fails in the process, assets will be sold to offset their liabilities. In a situation where the assets can not pay for the debt, the owners' personal belongings could be sold to offset such debts.

(ii) **The Business is not a Legal Entity:** Most of the partnership business has no legal backing.

(iii) **Disagreement and Resignation:** Death of a partner can lead to the death of a business especially the active partner. Most of the partnership ends with disagreement.

Disagreements because of action or Opinion lead to resignation which could lead to total death.

(iv) **Decline in Pride of Ownership:** Since the partnership is owned by at least two people the pride and joy associated with ownership is reduced. Unlike in sole proprietorship where the owner enjoys great pride in his business.

(v) **Bureaucracy Leads to Slow Decision and Policy Making:** Meeting that require quorum, may not always be formed.

(vi) **Risk of Mandatory Dissolution:** Where a member withdraw his membership or admission of a new partner becomes necessary, the partnership will be dissolve and another agreement reached to admit such member. The rigors involve in this is tedious, which may be a problem for such act.

(vii) **Limited Capital:** This partnership can not get more capital through shares except through members.

(viii) **Restriction on Sale of Interest:** There is a difficulty in affecting transfer of ownership.

The interest of operation is not transferable without the consent of other partners.

3.4 Forms of Business (3) - Registered Business Name

Assuming that Adamu, Uba and Adamu, Bilikis intends to operate a business under a name 'Abdalah Maganin Duniya' Enterprises. The **Business Names Act 1961 and Companies and Allied Matters Act, 1990** states that "whether or not Adamu, Uba and Adamu, Bilikis incorporate or form a partnership, since they wish to trade under the name of 'Abdalah Maganin Duniya' Enterprises, it will be necessary for them to register the business name under the *Business Names Act/CAMA*.

Registration would not be required if Adamu, Uba and Adamu, Bilikis are in partnership, traded under their individual names or if after incorporation the company, traded under its incorporated name. It is only where a person trades under a name other than his/her own that registration is required.

The registration of business name is undertaken at the Corporate Affairs Commission (CAC) in Abuja. As soon as the registration certificate is issued, the business name now becomes the basis of identification of the business concerned. The certificate of registration is issued by CAC upon payment of requisite fees.

3.5 Forms of Business (4) - Cooperative Society

The term co-operation is derived from a Latin word "co-operari" where the word (CO) means "with" and (OPERARI) means "to work". Thus co-operation means 'working together' so those who want to work together with some common economic objectives can form a society which is termed "Co-operative Society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as

mutual help. The main objective is to provide support to the members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the possible manner, and derive some common benefit out of it.

In 1981, Roy defined Co-operative as a business voluntarily organized, operating at cost, owned and capitalized, controlled, democratically by member-patrons who are the users and share risk and benefits according to their participation in the society. Lambert (1963) described Co-operative as an enterprise formed and directed by an association of users applying within itself the rule of democracy and directly intended to serve both its members and community as a whole. Calvert (1959) viewed it as a form of organization where members voluntarily associate together as human beings on the basis of equality for the promotion of economic needs. Basic to all these viewpoints is the issue that Co-operative is based on the values of self-help, self responsibility, democracy and equality and that co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Reeves opined in 2003 that the best way of pushing back the limit of economic problems of scarcity is by working together. This is because more can be accomplished when people coordinate their efforts with each other and take concerns and talents of other into considerations. Olesin in 2007 described the idea of cooperation to be that ‘what everybody saves is pooled and members can take loans either to buy households items, vehicles, lands, houses or do business, but there is a bond that the borrowers must benefit from the same pool’. Coady International Institute, however, defines cooperative as a “free association of persons legally constituted for the purpose of conducting an economic enterprise or business which they control and administer democratically according to established principles and technique”. Each of the definitions stated above emphasises three main issues. The first is the voluntary nature of the association, secondly, the collective efforts of the people, which imply that people’s endeavours are geared towards the success and betterment of the cooperators. The third factor is the issue of collective control. This, by implication, means that if there is any benefit or problem accruing to the society, such benefit or problem belongs to all the members.

Calvert in his book – “The Law and Principles of Cooperation” define cooperative as a form of organisation wherein persons voluntarily associate together as human being on a basis of equality for the promotion of the economic interest of themselves”. In Calvert’s definition, the points emphasised here are that cooperative is a means to an end and an end in itself. It is never a goal but an excellent way of reaching the goal. The word “Voluntarily” implies that any association that springs from compulsion as against a freewill, cannot be genuinely said to be cooperative in the orthodox sense of the term.

A member’s influence and voice in a cooperative society should entirely depend not on his wealth or his political or social position, but purely on his human qualities such as honesty, intelligence and tact. This is the origin of the cooperative principles, which borders on equality of human beings. Similarly, the phrase “economic interest” as contained in Calvert’s definition has been stretched to cover other spheres of action and not mainly the attainment and the use of wealth.

Although, the greatest service rendered by the cooperative have been most entirely in the purely economic sphere, the cooperative society is not a philanthropic institution as it exists to help its own member and not other people. If a cooperative is to succeed, it must meet a definite need felt by its members and must be capable of meeting such need more effectively than the individual effort of members could do.

The phrase “self help through mutual help” therefore, correctly summarises the general meaning and purpose of cooperative societies.

Historical Development of Cooperative in Nigeria

Cooperative or cooperation is as old as humanity. Before the advent of the colonial masters, our

parents practiced cooperation in their own primitive style. They had “Owe” (Communal assistance given to a member of a group during the time of need) or “Aaro” (Rotational assistance made by a group of people for the benefits of its members).

“Owe” and “Aaro” were introduced to reduce labour and cost used in development of firms and building projects while “Esusu” or “Ajo” was introduced to create lively economic machinery to improve their trades. Although there is a slight difference between the two, the marketing of cocoa – the only economic crop of Nigeria as at that time, was exclusively dominated and controlled by the middlemen. This consequently gave rise to the formation of some brand of cooperatives in Nigeria for cocoa farmers in the then Western Nigeria. they were mainly the thrift and loan societies designed to protect farmers from exploitation by money-lenders during the difficult period of the world trade depression.

Further attempt was made by the Nigerian Government to import that type of modern cooperation by sending an expatriate administrative officer, Mr. C. F. Strickland to study cooperative as practiced in India where people had accepted the British pattern of cooperative hook, line and sinker. The report submitted on the Introduction of Cooperative to Nigeria by Strickland, and having been accepted by the Nigeria Government, paved way to the enactment of cooperative law by the Nigeria’s legislative council in the thirties.

By 1935, Mr. E.F.G. Haig was appointed the first Registrar of Cooperative Societies. With this appointment, Government went further to appoint some African staff and thus, the control of cooperative was gradually transferred to Nigerians through the newly created cooperative department. According to Ejiofor (1989), the first registered Cooperative Marketing Primary Marketing Society (G.P.M.S. Ltd.) named after one village near Ibadan. This was followed by the formation of cooperative societies in the old Ife, Ilesa, Ijebu and Abeokuta provinces.

In the then Eastern Nigeria, the first marketing cooperative was established in 1936 to purchase and transport palm produce. Other primary marketing societies were formed in Ikom, Umuahia and Edo mainly to purchase cocoa, while Rubber Marketing Cooperative Societies were formed in Ade and Eket areas respectively. The awareness was not all encouraging in the northern part of Nigeria as the Local Government had taken the initiative directly by providing credit for farmers. They saw no pressing need for cooperative societies until recently when the wind of cooperation had started to blow towards the North.

Distinction between Cooperative Thrift and Credit Society (CTCS) and Traditional Ajo or Esusu

We will now detail the distinguishing features of the Modern Cooperative Society (CTCS) and the traditional “Ajo” or “Esusu” as a means of saving or obtaining financial assistance by their respective members.

CTCS ‘AJO’ or ‘ESUSU’

1. The membership of CTCS is unlimited or unrestricted.	1. Membership is limited or restricted.
2. Life of CTCS is perpetual as a corporate body.	2. Life terminates when the last member takes his turn.
3. Credits are made available at all times.	3. Credits are made available at certain times

	only.
4. Loans are usually given out on merit.	4. There is favouritism and bias in granting Loans
5. Inspection or periodic auditing is allowed.	5. No inspection or periodic auditing is allowed.
6. Capital is kept revolving.	6. Capital is tied down unnecessarily.
7. Many members enjoy social and economic benefits.	7. Very few privileged members enjoy its social and economic benefits.
8. Modern scientific method of operation is involved.	8. Traditional or unscientific method of operation is involved.

Cooperative Principles

Cooperative principles are usually associated with Rochdale Pioneers who are referred to as the founding fathers of the modern cooperative societies. These principles are coined from the stipulation of the cooperative laws but varied to suit the type of society being formed by a group. The number of these principles is either increased or reduced depending on the taste of such group or body that owns the cooperative..... Regardless of the number, however, these principles still forms the basis of the universal principles of modern cooperative as recommended by the International Cooperative Alliance (ICA). Among the basic principles as observed by this body are:

- (i) Open and voluntary membership.
- (ii) Democratic control and equality of members.
- (iii) Limited returns on capital.
- (iv) Patronage rebate or dividend sharing to members.
- (v) Political and religious neutrality.
- (vi) Strictly, cash trading.
- (vii) Sale at market prices.
- (viii) Continuous education for members, officers, employees and general public.
- (ix) Cooperation among national and international cooperatives.

(i) Open and voluntary membership.

Open membership means that the society is not exclusive. It must be open to everyone to whom it can be of service. Without this principle, societies would lose their cooperative and degenerate into profit-making enterprises. Membership is open to all people irrespective of race, creed, religion or status considerations.

A corollary to open membership is the issue of voluntary membership. Individual freedom is necessary to the improvement of character, which has always been regarded as the ultimate goal of cooperation. Voluntary cooperation makes it possible to enjoy the benefits of associated efforts. Thus, a cooperative society is “an organisation for men to join freely or quit freely and an organisation independent of and free from state or political control”.

(ii) Democratic control and equality of members.

Cooperative societies are democratic organisations whose affairs are administered by persons elected or appointed in a manner agreed upon by the members.

Members enjoy equal rights of voting, that is, one member one vote. They also enjoy equal participation in decision affecting their societies. The one-man-one-vote principle prevents a few powerful members to dominate the rest of the members.

To attain meaningful democracy, however, there must be educated membership, adequate provision of information, regular meeting attendance and meaningful discussion of the society affairs with its management. Without all the above, the tyranny of democracy will definitely surface.

(iii) Limited returns on capital.

The principle of limited interest on capital would be better stated as rate of interest on capital fixed by the rule of the society. There is the recognition of the value of the service performed by the provision of capital and this is paid for, by a fixed rate of interest sufficiently high enough to attract an adequate amount of capital has no further claims on any surplus.

If, however, the amount of capital is to be increased or decreased, the rule of fixing the rate of interest may be altered although with the constant agreement of the members.

This principle exists in order to provide services to members at the least cost without generating large returns from the capital.

(iv) Patronage rebate or dividend sharing to members.

This is an important principle of the cooperative, which involves the division of surplus in proportion to members' contribution to the society in terms of patronage, or transactions made to the society within a given period. The principle enables the society to operate in a way within which no members make profit out of the rest. The early cooperators were opposed to profit making and thus regarded it as a possible source of economic, social and moral evils. Rebate or dividend arise from the fact that price charged by the society to its members were in excess of cost price.

In practice, the societies fixed a price for its members, which left a reasonable margin to meet the cost of distribution. If at the end of the day, a surplus is realized, this surplus will be divided among the members on the basis of each member's patronage or transaction with the society. This dividend is not a profit per-se but a surplus in excess of the actual cost price previously contributed. The returns thus generated are shared amongst members according to the volume of their patronage.

(v) Political and religious neutrality.

The principles of political and religious neutrality emerged in the British Cooperative Movement so as not to infringe on the principles of open membership and democratic control. These principles allow the society to influence the running of the society with their religious or political inclination. Nobody questions the validity on the principles of neutral questions and the validity on the principles of neutrality. There is no discrimination on the grounds of politics, religion or race in the race in the admission of anyone into a cooperative society.

(vi) Strictly, cash trading.

Cooperatives are disciplined organisations. It is therefore mandatory that members should adhere to the principle of strict cash trading. There is a common belief that the principle of cash trading was practiced partly to ensure the adequacy of financial resources and partly to avoid bankruptcy of the business. The failure of many societies was due to lavish and indiscriminate granting of credit facilities. Similarly, indebtedness is against the spirit of cooperation.

On the other hand, modern cooperatives do not regard credit as a social evil. For instance, if granted prudently, it would make the debtor member economically viable.

Thus, as long as credit is dynamic and not static, the purpose of cooperation is fulfilled.

Regardless of the merit of credit granting, however, trading strictly on a cash basis will definitely eliminate the problems, which usually attend credit transactions. It is therefore mandatory for members of cooperative to adhere strictly to this principle.

(vii) Sale at market prices.

Sale at current market prices was held as a wise and prudent principle because every organisation must sell at current prices. While agreeing that cooperative societies have a duty to try and keep the price down, sale at current market prices is perhaps of more significance than what modern

writers have assumed. To sell below market prices would be to invite the determined opposition of private traders, which could lead to cut-throat competition that may ruin the societies. Some schools of thought, however, strongly believe that unless cooperative societies dominate the whole economy, it is doubtful if they could influence the general level of prices as many of the factors and circumstances affecting prices of goods are outside the societies' control.

Cooperative societies do sometimes sell below the prevailing market prices when they believe that prices are artificially too high. In such cases, cooperatives sell at what they know to be a reasonable price in order to break the monopolistic control or exploitation.

When prices are dropped to a reasonable level, cooperative societies will then resume their normal policy of selling at current market prices.

(viii) Continuous education for members, officers, employees and general public.

Cooperatives should follow a continuous programme of education in the principles, practices and objective of cooperation. In order to be able to compete ideologically, operate correctly, genuinely, purposefully and effectively, the existing members, prospective members, officers, staff and employers of cooperative should be given sound knowledge, skills necessary information on the workings of the principles, ideals and philosophy of cooperatives.

Education and training of members on cooperative business issues are crucial to the smooth operation of the cooperative. It would also afford the members the opportunity to make intelligent decisions on matters of policy that may affect the destiny of the venture. The Rochdale Pioneers experiment would not have been successful without education.

Hence, the promotion of education among the members, staff of cooperative societies and indeed, the general public in the principles, practices and techniques of cooperation becomes imperative.

(ix) Cooperation among national and international cooperatives.

This principle emphasises that all cooperative, home and abroad, should actively cooperate in every practical way with other cooperatives at Local, National and International levels. This becomes necessary partly because of the dire need to serve the interest of their members and the communities they represent and partly to avoid protracted disunity which bedeviled the cooperatives of the early thirties.

The Role of Cooperative Principles and its Universal Applicability

The cooperative principles have always had an impact on the smooth running of the cooperatives, especially where the principles are strictly adhered to. There is no doubt that the cooperative modern principles have contributed to the sustainable development in the cooperative movement throughout the world. The first three principles, that is, voluntary and open membership, democratic control and members' economic participation are the foundation on which the modern movement was built.

The principle which guarantees autonomy and independence from government and religion has been considered as a necessary ingredient in societies where government have formerly used cooperative to enforce their own economic development programmes and plans; often to the detriment of the cooperative values of self-help and responsibility.

Others like the principle of continuous education have been acknowledged as being of considerable importance not only for the cooperative members and elected representatives, managers and employees, but also for society at large; especially the opinion leaders and the world of cooperators. Also, the principle of cooperation among cooperatives is the potential strength of the international cooperative movement.

It is a principle, which is becoming increasingly important in the face of the contemporary global economic, social and political trends which societies every where are facing. The principle of cash trading was introduced as an antidote for financial problem. The fact is that where credit is indiscriminately granted, working capital will be drained off gradually and the association will run into bankruptcy. Cash trading is also considered to be a sound trading practice, which gives equal treatment to all and sundry.

Other principles of cooperatives, regardless of their shortcomings, are of tremendous importance to the growth and development of cooperative societies. Based upon the above, one can deduce that cooperation is of universal applicability. It can be employed to solve any known human problems.

To embark on a poultry project, for instance, one needs capital, technology and marketing outlet, which may include transportation, storage etc. A single farmer may not be in a position to scale all these possible huddles in view of our low per capita income. But where he teams up with others and they pool their resources together in line with the cooperative principles, they will be able to perform this feat. Similarly, to solve the initial problem of capital, thrift and credit cooperative society is an indispensable agent in mobilising savings. The illustration give here in case of poultry project can also be adopted in respect of any other small-scale business set up anywhere in the world.

Golden Rules and Self Reliance of Cooperatives

Like any other business enterprises, cooperative also have their rules and operational methods, which any prospective member or promoter must strictly follow if he wants to succeed in his business.

Among these rules are:

- (1) The initiator of the cooperative must give necessary information and educate the members about the cooperative ideas, concepts, leadership and how best to achieve their aims.
- (2) Friendliness, love and solidarity must exist within the group making up the cooperatives.
- (3) Prospective members have the freedom to join or withdraw their membership.
- (4) The business of the cooperative is aimed at satisfying the economic interest of its members based on self-help and mutual assistance.
- (5) In cooperatives, principle of one man one vote is exercised and there is freedom of opinion.
- (6) Members own manage and patronise the business of the cooperative. This makes it distinct from other business enterprises.
- (7) Cooperative should operate according to the cooperative principles recognised by the International Cooperative Alliance (ICA).

Cooperative as a Self Reliant Venture

The self reliance of a cooperative implies that a cooperative venture should be self supporting, relying solely on its efforts for promotion, development, supervision, capital formation, training, research, expansion, management, control, auditing etc. without any governmental assistance from outside sources.

It is when a cooperative reaches this level that such a cooperative can truly be said to be selfreliant. For Nigeria cooperative to be self-reliant, drastic and positive change must occur. To ensure self-reliance and secure an independent posture, however, the following steps must be followed:

- (i) Establishment of primary cooperative based on the felt needs of the members. This will ensure members' loyalty and their active participation in the cooperative business.
- (ii) Securing financial self-sufficiency for the cooperative.
- (iii) Investing any surplus cash in viable project.
- (iv) Proper and good management training for the staff with adequate and commensurate remuneration for a better performance.
- (v) Adequate accounting, planning and budgetting system should be institutionalized for a better management.
- (vi) Cooperators should strive towards improved turnover, in cooperative organisations and in greater achievement in terms of growth, profitability and expansion.
- (vii) Establishment of the efficient strong and capable men and materials coupled with buoyant central financing capable enough to meet the financial needs and business volume of the various affiliated cooperatives.
- (viii) Reorganisation of the existing credit unions that will assist in the acceleration of the growth, better development and efficient services of the cooperatives.

Classification of Capital

Cooperative financing, like any other business organisation, can be regarded as the means through which the cooperative meet their financial requirements, in their day-to-day business operation.

In the practical sense, the economic survival of all cooperative ventures depends entirely on the availability of funds or finances.

According to Ejiofor (1989), modern cooperatives derive their finances from two sources which constitute the two major classification of cooperatives capital available to the cooperative concern.

These classifications are:

- (1) owned capital, and
- (2) loan or borrowed capital.

1. Owned Capital

Owned capital is made up of the share contribution of members plus the reserves of all types, undistributed profits and the member's entrance fees. These are discussed below:

(a) Members' Shares

This is an important aspect of the owned capital subscribed by members in form of withdrawable or transferable shares. In Nigeria and in most countries, members' shares are usually withdrawable in accordance with the provisions of the bye-laws. Each society has bye-laws, which determine the value of shares and the minimum and maximum number of shares to be held by each member.

The reason for fixing the limit of a member's shareholding is to prevent the financial domination of the society by a single member. To facilitate subscription, share may be paid up in full at once or by installments over a given period.

Advantages

- (i) It forms a capital base of the society.
- (ii) The liability of a member is limited in the event of the business liquidation.
- (iii) The stipulation in the bye-laws in respect of a member's share holding, prevents unnecessary financial domination by few minority.
- (iv) Shares are easily withdrawable as provided in the bye-laws.

Disadvantages

- (i) The share capital of a society can only be subscribed to by members only and does not extend to the public at large. As a result of this, there is no open market for shares.
- (ii) The share capital is often very slow to realise because the minimum share holding is not always paid up in at once but usually by installments.
- (iii) Members' shares are generally withdrawable, hence, this makes the shares fluctuate with the membership, thus making long-term planning difficult.

(b) Reserves

The building up of reserves is a survival strategy for the operation of a cooperative business. Reserves constitute the most important aspect of owned capital, which is built within a society from the surplus accrued as a result of the successful operation of a society. The greater bulk of the owned capital of cooperatives is held in form of reserves.

There are rules in the bye-laws of every society in respect of the reserves of the business.

For instance, in Nigeria the law says that every society should build a statutory reserve not less than 25 percent of the yearly surplus. Besides, there are provisions for building other types of reserves such as general reserve, education fund, building fund, bad debt reserve and any other reserve in the interest of the society.

Advantages

- (i) They contribute to the successful operation of the cooperative.
- (ii) Reserves allow for long term planning and capital investment, thus strengthening the society.
- (i) Reserve portrays the spirit of solidarity in a society because of their nondivisibility
- (ii) They are the social capital of a society because of their neutrality and anonymity.
- (iii) Unlike share capital, reserves are not withdrawable and do not fluctuate with the membership.

- (iv) They increase the borrowing power of the society.
- (v) They act as a cushion for the protection of member's liability.

Demerits of Cooperative Reserves

- (i) Administration of reserves to generate surplus for the society is not easy to come by.
- (ii) Most members especially in the marketing union see the building up of reserves as an encroachment on their rights and the dwindling on the bonus on patronage.
- (iii) Hidden reserves (where value of the assets is understated) are often open to abuse by fraudulent managers.
- (iv) This source of financing faces the problem of mismanagement.

(c) Entrance Fees

Payment of entrance fees by new members is another source of the owned capital of a cooperative society. It is an important contributor to the working capital of the business especially during the formative period of the society.

Every society has in its bye-laws provisions for the payment of entrance fees. In the primary societies, for instance, the entrance fee per member is comparatively lower than that of the unions and apex organisations.

Generally, entrance fee share the same attributes of the 'Reserves' especially in its neutrality and anonymity posture. In most cases, the entrance fees are passed to the Reserve fund. Other sources under this category (owned capital), are: fines, special grants, special levies, just to mention but a few.

2. Loan Capital

Loan capital otherwise called borrowed capital consists of members' deposits, loan from cooperative banks, loan from government and trading credits etc.

(a) Members' Deposit

Every society usually makes provision for members' deposits in its bye-laws. A society should encourage members to make deposit; as such savings are a cheaper source of capital than borrowing from commercial banks. The rate of interest on such deposits is usually determined by the members themselves or it may be based on the prevailing bank rate on savings. Deposits may be made for a longer period payable at a fixed date. They could also be voluntary or compulsory.

Merits

- (i) Deposit is a cheaper source of capital for the society.
- (ii) Deposit can be made for a long or short period and payable at such.
- (iii) In most cases, members decide on the rate of interest that suits them.

(b) Revolving Funds

This is a very good device of securing loan capital from members. It is the most popular device with the cooperatives in the United States of America. Revolving funds are generated partly from the bonus on patronage part of which is retained and partly from the deduction made on every unit of produce marketed through the society.

The amount contributed by each member is credited to the member and passed to the revolving fund, which is made payable to the member usually at the end of the third or fifth year.

Advantages

- (i) Revolving fund is a good source for the long-term capital investment.
- (ii) It is a good way of obtaining capital from members at a cheaper rate of interest.

Its Shortcomings

It is difficult to apply where members' returns are low.

(c) Loan from Cooperative Sources

The bulk of the cooperative members and indeed, cooperative societies generally possess very meagre means. This fact makes outside borrowing imperative. To preserve the solidarity of cooperative in general, a cooperative society should first turn to other cooperatives for borrowing. A usual source is the Cooperative Bank.

Advantages

- (i) It helps in boosting the financial base of the cooperatives.

- (ii) It promotes unity and relationship among cooperatives.
- (iii) It accelerates the capital investments of all cooperative societies.

(d) Loan from Commercial Banks

Cooperative societies do borrow from commercial banks, although in some cases, they are reluctant to give out long term loans. The financial weakness of cooperative societies makes loan from commercial banks almost indispensable.

Advantages

- (i) It is a source of capital.
- (ii) It provides guarantees fund for cooperatives.
- (iii) It is instrumental to business growth and expansion.

Disadvantages

- (i) Bank loan attracts high rates of interest.
- (ii) Bank loans always with tough and in some cases, unbearable conditionalities like production of collateral securities.
- (iii) Loans to farmers' cooperative, for instance, are by their nature risky and hazardous.

(e) Loan from the Government

Governments do give grants and loans to various cooperative societies for the successful execution of their programme. In most developing countries, government has often come directly or indirectly to give financial assistance to the cooperatives.

Loans from government are channelled through commercial banks, cooperatives financial agency, the Nigeria Agricultural and Cooperative Bank and some cooperative banks. All these loans are made available to cooperatives under some stipulated conditions.

Merits

- (i) It accelerates the attainment of the society's objectives.
- (ii) It is a source of capital necessary for the take off of the cooperative ventures.
- (iii) It nurtures the society to a degree of financial self-sufficiency.

Demerits

The shortcoming of this source is that, in some cases, overdependence of cooperatives on government assistance might not be in the initiative for self-sufficiency will be discouraged.

The process of taking loan from government is very slow and ineffective. In most cases, loan gets to the cooperative late. Most cooperatives do not keep to the terms of the loan agreement.

Another problem identified with this source is the discrimination or partiality involved in granting the loan to cooperatives by abuses charged with the disbursement of the loans.

In most cases, loans through this channel have been opened to various abuses like injudicious spending, mismanagement and fraud.

(f) Trading Credits

Another source of loan capital is the trading credits. A trading credit is a credit granted to any business organisation with a view to defer payment for the goods received for a specific period of time.

Advantages

- (i) It is a good source of loan capital.
- (ii) It is very easy to obtain.

Demerits

- (i) It is a costly credit.
- (ii) Where it is granted, a society loses the advantage of a cash discount and a good bargaining.
- (iii) Trading discount may lead to indebtedness or bankruptcy, which may result in business liquidation.

While there may be other sources, it is pertinent to say that those sources listed above are never exhausted by many cooperative societies. Some factors, which usually impede capital accumulation by these societies, however, may range from size of the society, administrative problem to operational cost, to mention just a few.

Cooperative Capitalisation

According to Ejiofor (1989), capitalisation deals with the capital structure of a business in relation to the amount of equity, its composition and changes in it. The procedure for determining the value of a firm is known as the “capitalisation of income, method of valuation”.

It is a method of calculating the present value of a stream of earnings. The following terms are commonly used in the valuation process.

(i) Par Value

This is the face value at which shares are issued. It is usually static and not affected by business changes.

(ii) Market Value

This is the price at which shares are sold in the stock exchange or in any other organised stock market. It is affected by the vagaries of demand and supply in the market.

(iii) Book Value

The value at which the asset values of shares are carried in the company’s account books.

It is calculated by dividing the aggregate equity item by the number of outstanding shares.

(iv) Real Value

This is the capitalized value of earning, divided by the number of outstanding shares.

3.6 Forms of Business (5) - Joint Stock Company/Limited Liability Company

A company is an association of individuals who agreed to and jointly pool their capital together in order to establish and own a business venture distinct from others. You can define it again as an association of investors who buy or own shares in a company for the purpose of carrying on a business. Those who buy or own shares are known as shareholders. They are regarded as the owners of the company. A joint stock company could be a private limited company or a public limited company.

We have two kinds of companies:

(i) **Unlimited Liability Companies:** Their liabilities do not end on the money contributed to the business, their personal belongings could be sold to recover money from them in case of a company’s indebtedness.

(ii) **Limited Liability Company by Guarantee:** This business is for promotion of science, religion, arts, education and not for profit making. They source their fund from members.

Their liabilities are limited by promise or guarantee.

(iii) **Limited Liability Companies by Shares:** Liability is limited to the amount they contributed for the formation and management of the company. If a company is liquidated, they lose only the shares they have in the company.

We have two types of limited liability companies, they are:

• **Private Limited Liability Company:** This Company when formed has a minimum number of two people and a maximum of fifty. The number includes employees of the company.

• **Public Limited Liability Company:** Minimum numbers of people that can form this company are seven while the maximum is not stated. The owners are shares holders, people are free to come in and free to sell-off their shares.

Methods of Formation

Formation of Joint Stock Company starts with preparation of documents that will be presented to the registrar of companies for his action and subsequent registration. The document use for registration includes:

• Memorandum of Association

It states how the company will relate with the outside world. It will state the name, location and objectives of the company. Memorandum of association include:

- The name of the company with “limited” as the last word.
- Location of the company
- Objectives of the company
- Amount of the registered capital proposed
- Liability of the company’s shareholders (statement).

- **Article of Association**

It tells you to about the regulation that is laid down for the internal rules and regulations of the government organization, and management of the company. The may include:

- The duties rights and position of each member of the company
- The method of the appointment of the directors
- How dividends are to be shared
- How general meeting are to be held and the procedure
- Method of electing directors and the voting rights at such election
- Method of auditing the company's account.

- **The Prospectus**

This is a document of notice, circular, advertisement or other invitation offering the public subscription or purchase of shares or debentures of a company.

- **Certificate of Incorporation**

This certificate is issued by registrar of companies and cooperate affairs commission Abuja to show that a business is legally incorporated and recognize by government.

- **Certificate of Trading**

It is issued to public limited liability company. He can start a business and exercises borrowing powers.

Features of a Private Company

- **Membership:** a minimum of 2 and a maximum of 50
- **Issuance of Shares:** cannot sell shares to the public
- **Transferability of Shares:** can only be transferred with the consent of other shareholders
- **Quotation:** private companies are not quoted on the floor of the stock exchange
- **Publication of Accounts:** not required to publish annual account. However they must send a copy of their audited account to the registrar of companies each year.
- **Limited Liability:** each shareholder possesses limited liability.

Features of a Public Company

- (i) **Membership:** a minimum of seven and no maximum, but article of association could specify maximum.
- (ii) **Issuance of Shares:** can sell share to the public.
- (iii) **Transferability of Shares:** shares can be transferred without the consent of other share Holders.
- (iv) **Quotation as Public Companies:** are quoted on the floor of the stock exchange.
- (v) **Publication of Accounts:** required by law to publish account and to also send a copy of audited account to the registrar of companies each year.
- (vi) **Limited Liability:** each shareholder possess limited liability.

Advantages of a Private Company

The advantages of a private company are:

- i. **Limited Liability:** Liability is limited to the amount of money contributed into the business. In case of liquidation, your personal properties are not touched.
- ii. **Privacy:** Just like the public company, it is not compulsory to publish its account yearly as such the company has the advantage of keeping its secret.
- iii. **Continuity:** The minimum number of holder of a company is two and maximum is fifty. If for instance you have forty members and two dies the company will still continue, compare to a one man business
- iv. **More Capital:** Compare to partnership business, the chances of sourcing for funds to be granted i.e. from banks is higher.
- v. **Legal Entity:** The Company is a legal entity as such it can sue and be sued.

Disadvantages of a Private Company

The disadvantages are listed below:

- i. **Taxes:** Most of these companies pay corporate tax compare to a sole trader or partnership that pays personal income tax, the tax may be so heavy that it may be a burden on the company.
- ii. **Share:** It is unfortunate that the companies share are not publicly subscribed, even in the exchange of shares, all member must be notify. A new member may be rejected.
- iii. The shares of private limited companies are not quoted on the floor of the stock exchange; hence they cannot be transferred without the consent of other share holders.

Advantages of Public Limited Company

The advantages of a public limited company are as follows:

- (i) **Legal Entity:** It is a corporate body; it can sue and be sued.
- (ii) **Limited Liability:** The liabilities of the owners is limited to the shares brought into the organization
- (iii) **Ease of Raising Additional Capital:** Because of the large numbers of the owners it makes it easy to raise fund from their contributors or selling of shares or bonds.
- (iv) **Expansion is Unlimited:** There is no limit to where the company can expand to provide the company has a large capital.
- (v) **Continuity:** This company life is long, even if hundred members die at a time the chances of its survival is still there. Even in a period of resignation, disability etc., the company is not threatened.
- (vi) **Adaptability:** It is adaptable to small medium and large scale companies according to the fund available to the firm.
- (vii) **Capital Transfer:** you can transfer your capital at will if you are not satisfy with the company.
- (viii) **Flexibility:** for the fact that we have many members as shareholders, members of board, managers etc with diverse experience and knowledge, the running of the company will be perfect using the verse of experience personnel thereby giving room for flexibility.
- (ix) **Enjoyment of Large Scale Production unlike the One-Man Business:** Because of the number of owners, finances, flexibility etc. a company has a better advantage of producing goods in a large quantity.
- (x) **Share Holders Interest is Safeguarded:** Because there is no secrecy, the shareholders have nothing to fear.
- (xi) **No Managerial Responsibility:** You can be a share holder and yet you are not part of the management. It means that others are managing the business for you.
- (xii) **Employees May become Co-owners:** Employee will become owner either by deliberate action of the management of the companies or by buying shares.
- (xiii) **Democratic Management:** The Company is run democratically; election of board of directors is by vote. In meeting, if no quorum is formed there will not be a meeting.

Disadvantages of the Public Limited Company

The disadvantages are:

- (i) **Double Taxation:** Most corporations are faced with double taxation. In Nigeria, federal, state and local government charge companies different taxes.
- (ii) **Hard to Establish:** Methods of establishment and finance needed for such kind of business is high and it require a large capital outlay which may scare out a lot of investors.
- (iii) **No Privacy:** Company and allied matter decree expect this type of company to publish its account annually, making it public affairs.
- (iv) **Non-Flexibility:** It is hard to switch business because the papers for registration state what they are to do. If you change condition, it means you are to form another company entirely.
- (v) Special performance must be sought from government to transact business outside the location in which you were registered.
- (vi) **Cooperation is Non Existence:** Most companies have problems of misunderstanding between both managers and managers or with workers; it may be because of the large nature.
- (vii) **Owners are Separate from Managers:** Therefore there is the tendency of the managers not running it well since they are not the owners.
- (viii) Huge capital is required for its formation, it therefore become more complex to manage

compares to one-man business.
(ix) Delay in policy and decision making.
(x) Suppression of individual initiatives.

4.0 CONCLUSION

We have examined in a comprehensive manner, the various forms of business ownership that entrepreneurs could embark on.

We discussed the features, objectives, capital available, advantages and disadvantages of each form of business ownership.

5.0 SUMMARY

In this unit, we have discussed the various forms of business ownership that entrepreneurs could embark on. We also discussed the features, objectives, capital available, advantages and disadvantages of each form of business ownership.

6.0 TUTOR MARKED ASSIGNMENT

1. What is a joint stock company? Is there any difference between the processes involved in registering a joint stock company and a partnership business?
2. Differentiate between a cooperative society and sole proprietor.
3. What sources of capital are available to the five forms of business ownership? List and discuss the advantages and disadvantages of each of them.
4. Write short notes on the following:
 - (a) Deeds of Partnership
 - (b) Registration of Business Name
 - (c) Memorandum of Association
 - (d) Articles of Association
 - (e) Cooperative capitalisation

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MODULE 2: Starting a New Business, Buying an Existing Business, New Product Development, Business Growth and the Entrepreneur, Law and its Relevance to Business Operations. Enterprise relationships of DC & NICs and application of developing countries. Enterprise link with employment brainstorming and at least 10 practical vocations.

MODULE 2: STARTING A NEW BUSINESS, BUYING AN EXISTING BUSINESS

Unit 1: Starting a New Business

Unit 2: Buying an Existing Business

Unit 3: **ENTREPRENEURSHIP AND NEW BUSINESS/PRODUCT DEVELOPMENT**

Unit 4: Business Growth and the Entrepreneur

Unit 5: Law and its Relevance to Business Operations

UNIT 1 STARTING A NEW BUSINESS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Innovation and Entrepreneurship
 - 3.2 Sources of Ideas
 - 3.3 Rationale Why the New Business is Needed?
 - 3.4 Obstacles: Barriers to Entering a New Industry
 - 3.5 The Method: How the New Business will be Established?
 - 3.6 The People: Who will be Involved
 - 3.7 The New Business and the Business Plan
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

You are welcome to the third module in this course.

In the last unit of the second module, we

- discussed various forms of business ownership that entrepreneurs could embark on. We also discussed the features, objectives, capital available, advantages and disadvantages of each form of business ownership.

In this unit, we shall examine the procedures involved in starting a new business.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- discuss innovation as it relates to entrepreneurship;
- enumerate and explain the various sources of ideas available to entrepreneur starting up a new business;
- give lucid reasons why the new business is needed
- highlight and describe the obstacles and or barriers to entering a new industry;
- state and describe the method of how the new business will be established;
- explain the people who will be involved in starting up the business;
- relate the new business with the business plan to determine its success.

3.0 MAIN CONTENT

Have you ever wondered how businesses come into existence? On one level this question is easily answer: Someone has an idea and starts a business to exploit the opportunity that the idea represents. This, of course, is the essence of entrepreneurship and we can see it happening all around us. New businesses springing up as regularly as individuals have ideas and act on them.

When explored on a different level, however, the question of how businesses get established becomes much more complex, and a variety of issues emerge. In this unit, we would describe the process of starting a new business by exploring four sets of questions:

The first concerns what the business will be – that is, what product or service will it provide, and for whom? After the issue of what has been examined, we turn our attention to why. Why do it? Why will our prospective customers buy from us? What are we going to give them that is not already available? How is the competition not serving the market? What advantage will we have over the competition? The third set of questions deals with how. Even with a well-conceived idea for which a favourable market exists, a new firm needs careful planning if it is to survive. Do we have the needed resources? Is our technical knowledge sound? Will we get orders, and will they come soon enough?

Finally, we consider the issue of who? Specially, we examine the question of whether to involve a partner.

3.1 Innovation and Entrepreneurship

One of the characteristics many people associated with entrepreneurship is innovation.

People find a better way and use innovation as the basis for a new business. This is the classic pattern of entrepreneurship, and when you see a new business just established becomes successful, this success story supports the view the entrepreneurship and innovation go hand in hand. However, for every case of a creative idea leading to success, there are many instances of innovations that did not make it. Each attempt at capitalizing on innovation has its own set of problems that can keep it from succeeding.

To that extent, it could be said that innovation does not ensure survival of the enterprise; successful entrepreneurship takes more. Entrepreneurship and innovation are not one and the same.

Another reason to doubt the link between entrepreneurship and innovation is that most new businesses are very similar to many that already exist. The entrepreneur who opens a restaurant may be serving a new market, may be providing wonderful food and service, and may offer an excellent menu – a combination of factors allowing him to succeed.

Whether any of these elements constitute innovation, however, is doubtful. Many similar examples of businesses starting and succeeding despite doing something that has been done many times before can be found.

In summary, while innovation is held by many people to be an essential ingredient of entrepreneurship, it is neither sufficient nor necessary for entrepreneurial success.

3.2 Sources of Ideas

Research findings reveal (Case, 1989) that idea for a new business emerges from the following sources:

- People got the idea for their business form the experience they gained while working in the same industry or profession. For these entrepreneurs, the move into their own business was not complicated by the task of getting to know who's who and what's what in the industry. They knew how things operate, and they typically had a network of contacts – so important in the start of a new business. The years of being in the industry gave them insights into unfilled needs and how those needs translated into opportunities for new businesses. The importance of industry experience as a source of ideas for new businesses leads to the conclusion that the most promising preparation for an entrepreneur may be a conventional job. In addition to providing the means to discover opportunities upon which to start a business, this approach has the advantage of being much more forgiving of mistakes arising from inexperience.

Mistakes are never welcome, even in a well-established business; but they are far more serious for a new business and can threaten its very existence.

- The second idea most frequently mentioned was “I saw someone else trying it, and figured I could do better”. This finding is in keeping with the confidence level enjoyed by many entrepreneurs who feel that their abilities and perseverance will give them the edge to succeed at something in which others are already engaged. This inspiration to enter into business often starts with dissatisfaction with something that is currently on the market.

- The third idea was that an “unfilled niche in the consumer marketplace” gave them the idea to start their business. In this particular case, the entrepreneur sees an overlooked market niche rather than one that is being ineffectively served.

- The fourth idea was that of “hobby or a vocational interest”.

The study from the results provides useful insights into the sources into the sources of entrepreneurial ideas and allowed a general conclusion to be drawn that the role of experience as a source of ideas.

3.2.1 Search of Opportunities

It is useful to distinguish between two basic approaches people use as they search for opportunities for entry into business.

- Some entrepreneurs approach the task by looking at their own skills, abilities, background, and so on to determine what kind of business they should start. This is the **inside-out approach**, which is based on the notion that the key determinant of business success is, after all, the entrepreneur himself or herself. This method of entry into business is sometimes referred to as **idea generation**. At its most basic level, this approach involves identifying one's most promising skills and generating ideas as to how these skills might be shaped into the foundation of a business. Some skills have a great deal of economic potential; others do not. For instance, an expert wishing to enter into markets in the third-world countries may likely find a favourable response from many firms that are seeking to develop trade with those nations.

Similarly, if a system is developed which is capable of reducing energy costs, there is a promising basis for a successful new business.

- While many prospective entrepreneurs follow the inside-out approach, some turn this process around, looking first for existing opportunities. The outside-in approach, also called **opportunity recognition**, has as its basis the idea that a business can succeed only if it responds to, or creates, a need in the market. The process is largely one of translation from general conditions or trends to specific opportunities. Many of the successful businesses resulted from the recognition by their founders of the significance of two or more societal or economic conditions. Hindsight allows us to identify the trends and understand their significance; the task of the entrepreneur, however, is much more difficult, for it requires spotting the trend before others have exploited it as an economic opportunity. One requirement, then, of opportunity recognition is environmental scanning. This means deliberately search for developments that can be translated into economic opportunities. News about these opportunities can come from a variety of sources including:

- a. newspapers that allow the entrepreneur to stay abreast of emerging trends in society, fashion, technology, home and work life as they may affect the public;
- b. business periodicals provide coverage of changes in the economy;
- c. trade journals and trade shows describe events affecting a particular industry;
- d. government publications cover a wide range of topics;
- e. producing licensing information is provided by independent brokers, universities, and corporations.

Although these are some of the more commonly used sources, they are by no means the only ones. Entrepreneurs are always looking for news of economic developments that will provide an opportunity for a new business.

- Finally, it should be acknowledged that many businesses are established as the result of something other than a deliberate plan or search on the part of the entrepreneur/ founder. The name given to these starts is serendipity. Serendipity is defined as "the faculty of making happy chance finds". A serendipitous start, then, is one in which the right factors come together in such a way to allow it to happen. Examples of such starts include a manager taking over a division of a company that is about to be liquidated. The result of the takeover is that the division is reborn as an independent business. Cases such as these, in which the manager responded to the liquidation decision and as a consequence finds himself or her herself thrust into the role of entrepreneur, are examples of serendipity. Other examples can be seen in cases of individuals whose jobs are eliminated but whose work remains critical. In instances such as these, the individual often provides his former employer with his or her services on a contractual basis.

To summarise, the genesis of business ideas has many forms, ranging from self appraisal in the hope of finding something upon which to base a business, to a systematic search of the environment for opportunities, to simply being in the right place at the right time.

Getting the idea of what the business is to be is the first step; the next examines why. Put differently, our concern here is whether the idea makes sense. Will the business succeed?

The following section describes two important determinants of small business success.

3.3 Rationale Why the New Business is Needed?

Very few new businesses create new markets; while for the vast majority of new businesses, the task is one of taking customers away from first currently serving those customers. With this in mind, we see that the why issue concerns primarily the advantage the new firm will bring to the market. This advantage can be defined by customer needs and competitor capabilities.

No business, regardless of size, can serve every market. Mass marketing has given way to market segmentation. Markets may be segmented in several ways. Among the more commonly used methods of segmentation are demographic, benefit, geographic, and socioeconomic. Regardless of the basis of segmentation, the idea is to group individuals by a characteristic that has relevance to their buying decisions. For example, among the large number of breakfast cereals are many that are intended for children – an example of demographic segmentation. Some cereals are prepared and marketed for people who are concerned about having a nutritious breakfast; these manufacturers are using benefit segmentation. Some firms have cereals sold only in a certain part of the country –geographic segmentation. As a final example, one of socioeconomic segmentation, consider the case of the lowest-priced cereal on the shelf. It is intended for consumers for whom price plays the most significant role in the purchasing decision.

How the members of the cereal industry compete with one another is determined to a considerable extent by how they segment the market. One of the first decisions, then, for any firm considering entry into the cereal market is who the target customer will be. And so it is with almost any industry; our products will have more appeal for certain kinds of consumers than for others. Finding out who these individuals are, how they are similar to one another, and how they differ from other members of the market is necessary for effective segmentation.

Recognising that the market consists not of one homogenous group of prospective buyers but rather of segments leads to the issue of benefits expected from the product. No one buys something simply to be buying it; we buy products from which we expect to receive certain benefits. We do not buy soap to own soap; we buy soap because we are convinced it will make us clean, or it will make us smell better, or it will soften our skin. We buy things because of what we feel they do for us. It is our definition, as the consumer, of a product's benefits, then, that matters most, rather than the product's attributes themselves.

After identification, we must analyze the needs of the group. Who will buy from the enterprise and why will they do so? Is it because it costs them less? In some markets, this is indeed the critical element in the purchasing decision, so any firm not offering the low price is at a serious disadvantage. After establishing a profile of who we hope will be buying from the enterprise and for what reason, we must identify and analyse the customer's alternatives. Among these alternatives is the choice of not buying at all. If you plan to start a car-wash facility, for example, you will be providing something that customers obviously can defer, or can do on their own. Consequently, being the best and cheapest car wash in town is no guarantee of success. Another alternative is to satisfy the need through a different means, involving a different route entirely.

The most obvious, and most important, alternative to buying from our firm is buying from a competitor. This is a particularly troublesome problem as new firms enter a market. They can survive only by taking customers away from companies already established. Taking customers from another member of the industry is always difficult; for some new companies that have entered highly competitive markets, it can be nearly impossible.

3.4 Obstacles: Barriers to Entering a New Industry

Among the barriers to entry that firms new to an industry face are customer attitudes and habits, practical concerns such as switching costs, and factors such as the likely response of established industry players.

2. *Customer attitudes and habits.* A great deal of the resistance to trying the product of a new supplier may be irrational in nature. This resistance can have as its source blind loyalty to suppliers who have served the company for years or the lethargy that develops over the years and causes people to choose the easiest way (in this case, keeping the same supplier). In both instances, the attitudes and habits of the customer create a difficult obstacle for the new firm to overcome; getting

the first order can be a formidable task. Attitudes and habits typically change slowly, so the new competitor often faces a long struggle. Considering what it will take to get the customer to buy from the new firm, sometimes a lower price will do it; other times it is better or faster service or perhaps some combination of these and other factors.

Beyond these considerations, the entrepreneur often must put himself or herself in the shoes of the prospective customer to be able to offer a deal that will be accepted.

Although such conditions can give rise to difficult demands from the customer, the start-up business usually has the flexibility to respond in ways that most established companies cannot or will not.

3. **Switching costs.** These can be incurred when going from one supplier to the next.

The costs include those of retraining workers. If the new supplier's product differs from the old one, some period of adjustment will be necessary. Another switching cost is the one encountered in modifying fixtures, tools, and so on when switching to the new system. Finally, there are the costs of checking the new supplier and phasing out the old.

4. **Response of existing competitor.** The entry of a new business into a mature or declining market is anything but a welcome development for those already there.

Consequently, many companies will respond aggressively, with vigorous efforts to maintain their market shares. This is done in the hope of driving the new firm back out of the industry. The likelihood of this response is great when the market offers little or no growth or is declining, when there are exit barriers that make it costly to leave the industry, and when the industry is the only or main source of revenue for most of the industry members.

In this section, we have described how the question of how the new business is needed might be explored. The answer to the question involves two issues: the needs of consumers and the extent to which they are being satisfied by the current members of the industry.

If no gap exists between what consumers want and what they are being provided, in terms of quality, price, service, selection, and product features, there is no reason to go on. If there is a gap, however, we should explore how we can exploit the opportunity it represents.

3.5 The Method: How the New Business will be Established?

Two basic routes exist for a start-up. The new firm can introduce a product that is not available to customers, or it can add its product to those already being marketed. Each of these routes presents its own opportunities and difficulties. The new product option is regarded by many as the purest type of entrepreneurship because it has innovation as its source. The innovative response to a need, or the creation of a need, can provide splendid opportunities for the start-up business. Introduction of a product needed by large numbers of consumers, but previously unavailable, occasionally leads to the stories of spectacular results.

The difficulties with this as a route into business include the uncertainty of consumer response to the product. Some of this uncertainty can be reduced through careful market research, as anything less than careful research can lead to disastrous results. Sound, objective analysis of the market has proven difficult for people who would not buy their products. The founder of the firm is often "in love with the product" and, as a result, exaggerates the interest consumers have in his or her product. This groundless optimism, often buoyed by supportive friends, leads to reassuring, but worthless, conclusions such as "If only 2 percent of the potential market buys from us, we'll break even and we'll surely get more than that".

Even carefully conducted, unbiased market research can be hazardous as a source of data for use in financial planning. The primary problem with new product research concerns the difference between the expression of interest and actual behaviour. Getting supportive answers in market research interviews is a lot easier than getting orders.

In most industries, customers are given a great deal of attention. Buyers typically have a choice of sellers, with no need to tolerate dissatisfaction for long. If a firm does not meet the expectations of

its customers, the chances are great that many of them will find another supplier. Given these circumstances, most firms try hard to please their customers. The consequences of bad service are clear. Customers will take their business elsewhere.

The importance of customer expectations is obvious, so the question of how to meet them demands careful analysis and planning. Three basic options are available. The start-up can develop a low-cost strategy, a differentiated product or a focus on a segment of the market. In situations in which a large number of sellers are competing for buyers, competition is likely to be intense. Under these conditions, failure to meet a customer's needs will have unfortunate consequences for the seller – it will lose the customer.

Buyers are seldom unaware of the bargaining power they enjoy in the buyer-seller relationship. Not only is it clear that expectations must be met, the set of expectations often becomes increasingly demanding. This escalating set of demands frequently focuses on price. When the pressure for lower price is heavy, many sellers submit to it rather than lose customers.

Quality is only one of the bases upon which to build a differentiation strategy. Other possibilities include styling, service, and availability. Whatever the basis, product differentiation can be a powerful device by which a start-up can gain entry into a market.

A final strategy to consider for use in market entry is that of focus. This strategy is customer-oriented in that its basis is to understand and respond to the needs of a segment of the market in the most complete way possible. A supplier of office products, for example, may find that its real strength is its ability to anticipate and serve the needs of the educational market. Such a focus may allow the firm to establish itself as the segment leader and thereby protect itself – at least to a degree – from the difficulties of competing strictly on price.

3.6 The People: Who will be Involved

Most new businesses are started by one person. That's the way entrepreneurs are and that's the way they do things. In this section, we shall discuss whether this solo approach makes sense.

Among the probable reasons that people choose to go it alone is the appeal of uncontested control of the enterprise. Things are decided by the entrepreneur in the way he or she sees fit; there is no need to clear decisions with anyone and this makes life simpler. Coordination is less complicated, and information has to be shared only to the extent that the task requires it. For the person with a firm grasp of what needs to be done to succeed and a high degree of confidence in his or her abilities to accomplish these things, the sole proprietorship is more appealing than going into partnership. And to these attractions the fact that the profits will go to the founder only and the 9 to 1 ratio becomes less surprising.

While the motivation is easily understood, the choice deserves careful consideration.

There are some compelling reasons to enlist another person as the business is started.

First is the old, and scientifically sound, adage that two heads are better than one. Having a partner may be regarded as a measure toward mistake prevention. A good partner will ask the kinds of questions and provide the kind of input that will lead to the exposure of flaws in the plans or strategy of the firm. Another advantage of taking on a partner is that more can be accomplished by the team than by the individual. Entrepreneurs have a great deal of drive and frequently work extremely long hours, yet there obviously are limits to what they can get done. Having a partner increases the pool of time and energy available to the start-up.

Finally, a partner can provide the skills that the entrepreneur lacks but the business needs if it is to succeed. Many entrepreneurs are technically talented but have poorly developed people skills. Some are terrific salespeople but need the kind of discipline provided by an accountant.

Research into the question of the chances of success faced by the sole proprietor versus those of partners seems to be on the side of partnerships but not overwhelmingly so. For certain kinds of ventures – particularly those that are high-tech – having a partner or partners provides a clear

advantage. Other important factors noted in the research are the entrepreneur (does he or she have broad experience and a balance of skills, or are there significant voids?) and the partner (what can the partner contribute?).

The demands of starting a business are such that regardless of how talented and energetic the founder of the start-up may be, help is often needed. Taking on a partner is one way to deal with this; however, a number of other means is to fill the void can be identified. One route is to hire the people with the skills needed. While the hiring decision should not be taken lightly, taking on an employee is a much less momentous move than taking on a partner. Another option is to use outsiders. The outsider can be a consultant, advisor, or vendor whose role is to provide a service to the firm. This route can bring the start-up exactly what it needs while having the advantage of no expectations beyond those specified in the contract. While these services are often too costly for a new business, occasionally advisors provide free service. Some entrepreneurs have been able to make good use of boards of advisors that consist of suppliers, bankers, accountants, university professors, and others who volunteer their assistance.

3.7 The New Business and the Business Plan

When starting a business, there are many issues that the entrepreneur must consider. The business plan helps the entrepreneur to fully consider all of the topics that must be addressed in order for the business to be successful. It is especially helpful to develop the plan and give it to others for feedback. Often, the entrepreneur is so optimistic that the flaws in the proposed business are not evident. Giving the plan to others who objective may provide insight on how potential customers will see the business and may prevent costly mistakes.

4.0 CONCLUSION

We learnt that starting a business is a difficult undertaking which requires painstaking analysis and planning. The idea for the business can originate from a variety of sources and in a variety of ways. A new business entering an established market faces the task of having customers from firms that have been serving those customers; the entrepreneur must examine the question of how the new firm will land those customers. A firm introducing a new product, while not faced with direct competition, has the task of winning customers nonetheless. In either case, the entrepreneur must ask exactly what the new business will do for the people it hopes to have as customers.

One important issue the entrepreneur must deal with is whether to start the firm alone or have a partner. Although many individuals insist on complete independence as a condition of starting a business, partnerships have important advantages that should be acknowledged.

5.0 SUMMARY

In this unit, we have

- discuss innovation as it relates to entrepreneurship;
- enumerate and explain the various sources of ideas available to entrepreneur starting up a new business;
- give lucid reasons why the new business is needed
- highlight and describe the obstacles and or barriers to entering a new industry;
- state and describe the method of how the new business will be established;
- explain the people who will be involved in starting up the business;
- relate the new business with the business plan to determine its success.

In the next unit, we shall discuss the procedures involved in buying an existing business.

6.0 TUTOR MARKED ASSIGNMENT

1. What role does past experience play in business start-ups? What advantage does it provide?
2. Describe the inside-out, outside-in and serendipity processes as they relate to establishing a new business.

3. What are the primary bases for market segmentation?
4. Distinguish between differentiation and focus strategies.
5. What are the advantages of having a partnership as opposed to a sole proprietorship management structure?
6. What are the highest difficulties faced by firms as they enter new markets?

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UNIT 2 BUYING AN EXISTING BUSINESS CONTENTS

- 1.0 Introduction
- 2.0 Objectives
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 - 3.1 Advantages of Buying an Existing Business
 - 3.2 Disadvantages of Buying an Existing Business
 - 3.3 Finding the Business
 - 3.4 Determining the Price of a Business
 - 3.5 The Negotiating Process
 - 3.6 Buying a Business and the Business Plan
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit of the second module, we discussed innovation as it relates to entrepreneurship, enumerated and explained the various sources of ideas available to entrepreneur starting up a new business, gave lucid reasons why the new business is needed and highlighted and described the obstacles and or barriers to entering a new industry. We also stated and described the method of how the new business will be established, explained the people who will be involved in starting up the business and related the new business with the business plan to determine its success.

In this unit, we shall discuss the procedures involved in buying an existing business.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- list the advantages of buying an existing business;
- enumerate the disadvantages of buying an existing business;
- state the steps to identify the business;
- determining the price of a business;
- highlight the negotiating process;
- determine whether a business plan is necessary when buying an existing business.

3.0 MAIN CONTENT

For someone who is seeking the independence of small business ownership but who is not interested in undergoing the trials so frequently encountered in starting a new business, the purchase option should be explored. While both routes – starting a new business and buying an existing one – have as their goal ownership of a business, the routes themselves differ considerably. In the previous unit, we examined the challenge of starting a business. In this unit we would explore the process leading to the purchase of a business. Our discussions will lead to comparing the purchase and start-up options, the process for finding a business to buy is then discussed, followed by a description of the processes used to determine the value of a business. The last topic is negotiating; we describe it as a process and identify the sources of power held by the participants.

3.1 Advantages of Buying an Existing Business

A number of reasons for buying an existing business, rather than starting a new one, can be identified. There is less risk, it is easier, and there is a chance to buy the business at a bargain price. These points will be discussed.

Less Risk

Regardless of how much pre-entry planning has been done, there is always the chance that a critical factor has been overlooked, that our investigation missed some fatal flaw.

If such misfortune awaits the entrepreneur, it will not matter that all other elements are as good as hoped. For example, imagine you spotted the opportunity to open a bookstore to serve students at your school. The university-run facility looks successful to you despite what seems to be a less-than-total dedication to customer satisfaction. There is a large facility across the street from campus that would be suitable in terms of both size and costs. The school has about 14,000 students, each of whom buys four to five books per semester. You anticipate that you should easily capture 10 percent of the market and, with book prices and profit margins being what they are, you'll make handsome profits even during the first semester. Everything points to go, until you discover that professors' book selection information goes only to the bookstore. The information is not available to anyone else until it is too late to order from the publishers. How viable does your new business idea look now?

While more exhaustive investigation into how bookstores do business could have uncovered the problem, the point of the illustration is that every business has a number of elements that must mesh if the enterprise is to accomplish its goals. When we start a business from the scratch, we occasionally do not know what these elements are. By buying a business we are able to side-step that problem, thereby reducing the level of risk we face.

Less Time and Effort Required

A moment's reflection tells us that any firm needs enough customers to generate the sales volume it must have to meet its expenses. Seldom do start-ups achieve this base until they have been in business for a while; often they need a year or more. The early days of many businesses are in large part devoted to intensive efforts to expand the customer base. Furthermore, the operations of any business require more than customers.

Employees must be hired, suppliers must be located, and service providers must be lined up. Each of these contacts takes time; arrangements must be made, details must be worked out and costs negotiated. Every entrepreneur has a number of groups or individuals with who to deal as the business gets off the ground.

Beyond these dealings, many details require careful planning before the business can open. Inventory, furniture, layout, and physical facilities must be given attention – in some cases, painstaking attention. Items like these can require analysis, decision making, and planning. There is no escaping these requirements for the start-up entrepreneur, but the buyer of an ongoing business are spare such demands.

The Possibility of Buying at a Bargain Price

Sometimes businesses are sold for less than they are worth. This possibility gives us the last advantage of buying, instead of starting, a business. Obviously, not all businesses are under priced; many are overpriced, and some are correctly priced. The chance of a business being priced too low seems to be largely dependent on three factors: the owner's reasons for selling, the owner's financial sophistication, and the way in which the sale is handled.

The owner's reasons for selling the business frequently have an important influence on the price demanded for the business. For example, an owner who is involved in the operation of the firm, who enjoys good health, and who has no plans other than to "may be try something else" is not likely to accept one cent less than what he or she feels is fair. On the other hand, someone who is no longer involved in managing the business, has health worries, and has concrete plans to move on to the next phase of his or her life may want to reach a prompt conclusion by offering an attractive price.

Determining the real reason, or set of reasons, may be as simple as asking the owner.

Some important parts of the story may get left out of the response, however, so the best advice is to probe a little and investigate a lot. While most owners are forthright and honest in what they tell a prospective buyer, to assume that you will be told everything that has a bearing on their reasons

for getting out is naïve. It is the buyer's responsibility to talk with customers, suppliers, employees, and even competitors, where possible. In addition, company records must be closely scrutinized and information about the industry gathered and analyzed. Nowhere in this information will the list of the owner's "real" reasons for selling be found, of course, but the prospective buyer will understand the situation far more thoroughly and be much more likely to make accurate assessment about the owner's attitude toward selling.

Some owners do a better job of building their business than they themselves realize. In these situations, basic financial and competitive analysis will quickly show that a difference between the owner's evaluation and an objective appraisal exists. That difference can be the result of the owner not recognizing the strengths of his or her business and/or using poorly conceived methods of evaluation. Three inadequate methods of evaluation are described here: the "I know what it cost me" approach, the "I know what I have to take out of here" approach, and an approach based on the price commanded by similar firms.

In the "I know what it cost me" approach, the owner reflects back on all he or she has put into the business. The hardwork, the risks, the personal sacrifices and so on all go into the computations. Do these things tell us how much the business is worth? Of course not. The value of a business is independent of what was put into it – but try telling the owner to ignore these investments. Many owners, perhaps the great majority of them, will let this reasoning lead them to an inflated estimate of the business's value. For some, however, the inputs are less dearly valued, and in these circumstances the possibility of discovering a bargain exists.

The second non-analytical approach is based on what the owner needs to gain from the sale of the business. Some owners have goals for not only their own financial security but that of their offspring as well. These, obviously, can be formidably large amounts and, indeed, are often far beyond what any objective appraisal would show as the value of the business. But once again, the possibility of an owner's aspirations being below the actual value of the business does exist. Some entrepreneurs have lived simply and have saved lavishly; to such owners, the proceeds from the sale are little more than frosting on their financial cake.

Another of these non-analytical methods involves basing the selling price on what a similar business has been able to fetch. This approach has its roots in real estate selling, where the sale of one four-bedroom house in a neighbourhood has an important bearing on the value of another. While this is a useful source of information in the housing market, it provides little guidance in determining the value of a business. Where it is used, the possibility of a firm being underpriced is created.

A final influence that may give rise to a bargain price concerns the way in which the sale is made. First, there is the matter of the conditions leading to the firm being put on the market. Was it planned, with ample opportunity to find out what the market was like? Under such conditions, the seller was probably trying to time the sales with the economy being robust, with the industry enjoying good times and the firm experiencing a profitable period. This rate combination is a seller's delight and puts strong upward pressure on the asking price.

Businesses put up for sale without the benefit of any of these conditions are subjected to considerable skepticism and pessimism. The resulting downward pressure on the selling price can be strong enough to lower it substantially. If the seller does not have the option to ride out the bad times, a bargain may be available.

In addition to the kinds of conditions just described, the person doing the selling can affect the sales price. The seller may choose to handle the sale himself or herself. This common choice, while it fits with the entrepreneur's image of self-reliance, may be a mistake. Buying a business from its founder can be a difficult experience. Most people who start and develop a business have a sizeable emotional investment in it. Through the years, the business has often had a negative impact on family relations, leisure pursuits, and personal health. For them, selling is a major step, perhaps the biggest single move of a lifetime. The chances of a buyer getting a bargain are not good, but they can be improved if the owner sees in the prospective buyer qualities the business needs.

In contrast, the family of a deceased company founder may be very cooperative and willing to negotiate. Often the family's chief concern is to sell the business while it remains viable, ongoing concern. Obviously this set of circumstances works to the advantage of the prospective buyer.

Selling a business is a time-consuming and demanding task, one that requires skills and background beyond that of most entrepreneurs. The complexity of the task of selling being what it is, owners typically get help to do it. Intermediaries, also called brokers are agents who arrange the sale. Although the owner can do it alone, intermediaries are frequently employed because they provide some important advantages, including experience, objectivity; negotiating skills, knowledge of buyers, and maintenance of confidentiality.

In summary, the independence of spirit and action, so characteristic of many entrepreneurs, can betray the entrepreneur when it comes to the time to sell the business. The prospective buyer should take this into account as he or she proceeds in the search for the right business.

3.2 Disadvantages of Buying an Existing Business

As you can see, there are many good reasons for buying, rather than starting a business, but some problems or disadvantages should be acknowledged. Put differently, although an ongoing business does not require the entrepreneur to look after the many details and problems of a start-up, it does provide certain limitations. Before an entrepreneur decides on the buy option, he or she should understand the kinds of inherent limitations that may be encountered in the purchase of an existing business. These limitations or disadvantages, can be categorised as external (environmental), internal, and the impact of the owner's departure.

3.2.1 The Environment

One reason for selling a business is inadequate sales volume. If sales levels are low, even an extremely well-run operation can fall short of the profit level needed to support the owner. Firms with low sales either face too much competition or are in a market that is too small. For example, a bakery in a community of 100,000 may face such difficult competition that it will be stuck with marginal sales volume until it finds a more effective way to compete. That same bakery in a community of 2,500 may have no competition but nonetheless face the same inadequate sales problem. The problem looks the same, but in the first instance, it is caused by tough competition, something the store can respond to; in the second case, the market is simply too small. There are not enough customers in a town of 2,500 to support the store, and no amount of hardwork or clever promotion is going to change that.

Both problems – the competition and the size of the market – are environmental, meaning they are outside the firm. But they have an important impact on profitability and, therefore, on the attractiveness of the business as a possible purchase. In addition to identifying the competitors, the prospective buyer must analyse how the competition is carried out.

Do the members of the industry compete on price?

On quality? On service?

What are the market segment? How aggressive are the competitors? Is there a dominant industry leader? Other questions are relevant to the market as a whole.

What is its size? Is it growing?

At what rate?

Are changes in technology about to affect the industry?

Every business must cope with its environment; some environments are friendly while some are hostile.

Knowing what kind of environment the prospective purchase in is an important part of the background for the interested buyer.

3.2.2 Internal Problems

These are problems unique to the business. Perhaps the most vexing of these problems is one of poor corporate image or reputation. We have all seen signs telling us a business is “under new management”. The real message is “We know you have not been happy with the company. Please give us another try”. It is impossible to say how effective the appeal is in winning back customers, but it seems clear that there would be no such announcement if there weren’t some concern about image or reputation.

Another difficult type of problem occasionally faced by buyers is provided by employees.

A history of employee-management conflict will not be erased by a change in ownership.

The employees, or their union representatives, may use the opportunity to improve relations, or they may dump on the new owner a number of unsettled grievances. The nature of their reception of the new boss is obviously crucial and must be carefully assessed. Even a friendly reception, however, can be accompanied by some powerful union restrictions on any personnel changes, no matter how reasonable and badly needed they may be.

Another example of an internal problem is something as basic as location. This factor is particularly important, of course, in relating. If the business is in a mall or shopping district that has developed a bad reputation, the business will surely suffer. If the business depends on automatic traffic, any future or even potential re-routing of highways could have devastating effects.

3.2.3 Departure of the Current Owner

Many businesses are “one-man shows”. Any firm in which the owner is the only employee is probably linked inextricably to that individual. Taking over the business may mean having to operate in the shadow of the founder for a long time. This kind of situation is particularly troublesome when the company’s business involves providing close service to clients. One-person firms in public relations, advertising, and accounting are examples of such businesses. The level of trust and confidence that the founder has worked for years to establish cannot be automatically transferred to the new owner.

3.3 Finding the Business

Once you have decided to go into business by buying one that is up and running, the next step is to find it. In doing so, you will probably have to consider a number of them before you get to the one that fills the bill for you. Locating these candidates is a daunting prospect, but considers the fact that there are several businesses in existence, say 22 million. Granted, some of them are extremely large and therefore beyond the price range of individuals, some are unacceptable because of the kind of industry in which they operate, and some are owned by people who would sooner sell their souls than their businesses. But if these and other factors result in the pool of candidates being reduced by 99 percent, there are still more than 200,000 remaining – a vast pool of prospects. Your tasks are to cut that figure down to a manageable number – that is, one for which careful research can be conducted – and then find the best of those remaining businesses to determine how much it is worth and to negotiate the right deal for it. We cover these topics in this unit.

3.3.1 Businesses on the Market

These businesses are often listed in the classified advertisements of newspapers in much the same way that houses and cars are listed. Sometimes, the owner is doing the selling, just as is the case with houses. For many businesses, however, a broker has been enlisted to make the sale. Although brokers have a number of channels for telling prospective buyers what is available, they use the classified advertisements, as do private sellers.

Local businesses can be found in the local newspapers; the journal features businesses from around the country and the world in its classified section. In addition to the candidates appearing in the newspaper advertisements, business brokers can be used. Not all brokers use the advertisements, and, for those that do, not all of their listings are put in newspaper advertisements. Consequently, discussions with the brokers of a community should be an early part of any search.

Finding businesses for sale is not a problem, finding a good one may be. Think for a minute of the things that may prompt the owner to decide to sell the business. There are many reasons for selling out, but one that may be more common than any other is that the business is struggling; it is not giving the owner the kind of return to make it all worthwhile. Is that the business you want? It may be if you can bring to it important improvements, the kind of improvements in operations or strategy that will lead to better returns. Those improvements should be clearly developed ideas that you know can be put into place, rather than an optimistic, but vague, notion that under your management, the place will surely run better than it does now.

If slumping sales seem to be the cause of the problem of a business you are investigating, it is essential that you have a firm plan for remedying the problem before you proceed far toward purchase. Is the entire industry experiencing the same kind of turndown? Is it a cyclical movement or is long-term demand decreasing? The need for an exhaustive search for information about the company and the industry is clear. Only with a thorough understanding of the company's strengths and weaknesses will you be able to determine the nature of the problem and what it means for the long-term prospects of the business.

3.3.2 Businesses Not on the Market

Not all businesses on the market have serious problems, of course, but enough of them do to make us broaden the search and look for candidates for purchasing that are not on the market. Why would we be able to buy a business that has not been listed in the newspaper advertisements or been put in the hands of a broker? The answer is that for most businesses, we can't. They will remain in the hands of their current owners because these people have no interest in selling.

For some owners, however, the thought of selling has been with them for a while. Many business owners will tell you that anybody who owns a business and tells you he or she has never thought of selling it is lying. For most, the feeling passes quickly, and they get on with running their company. For some, however, the feeling never leaves completely even as they attend to the demands of their firm. This press of business, procrastination, inertia, and uncertainty may keep the owner from taking the first steps toward putting the company on the market.

How can you find these businesses? Two approaches are available. The first is to contact people who are likely to have contact with this group of prospects. Some people you might contact are bankers, lawyers, and accountants. Notice that the list does not contain brokers; we are looking for possibilities that are not listed anywhere. Our dealings with these contact people are simple and direct; we ask them if they know of any business that might be available for sale. We do not ask for names that would be suggesting that they betray the confidence of their clients. We are hoping that the individual passes along the news of our interest to anyone he or she knows, or suspects, would be interested. This is the indirect approach.

The direct approach puts us into contact with the prospect without the use of an intermediary. We call, or visit, the owners of businesses that we have identified as suitable. Rather than risk offending them or looking presumptuous, we ask if the owner knows of any similar businesses that may be for sale. There are three possible answers:

(1) no, (2) yes, I think there is one across town, and (3) yes, as a matter of fact, I've been thinking a bit about that possibility myself.

The process we have just described is straightforward, but a word of warning should be given: It takes a great deal of homework to make yourself a creditable prospective buyer. If the owner views you as doing nothing more than fishing around, he or she is not going to treat you seriously. The same holds true for the indirect approach, incidentally.

Now that a prospect has been located, we must determine what price be paid for the firm and we must prepare for negotiation of the transfer.

3.4 Determining the Price of a Business

Before any bid on the business is made, the prospective buyer will have to determine the value of the enterprise. Notice we used the word *value*. Value is defined by Webster (1983) as "the monetary

worth of something: marketable price. It is the price for which the business can be purchased; consequently, it is the figure we are given when we ask how much the owner wants for the business. The owner can put the business on the market for any price he or she chooses. The response of prospective buyers determines whether the price exceeds the value they ascribe to the business. The seller has to set the price of the business while the market will determine its value – and that happens when a buyer agrees that it is worth the amount the owner is asking. While coming up with a figure is an inexact process that takes on many forms, two basic considerations should be included: the value of the business's assets and its future earnings.

When a business is purchased, the new owner gets the assets. There are four ways to figure the value of these assets. First, we can simply look up the values in the firm's books; this figure is called, not too surprisingly, the **book value**. The figure reflects the original cost of the assets minus the depreciation that has occurred.

The **replacement value** is also a straightforward figure but not as readily available as book value. To get this figure, we have to check the market for each of the firm's assets to determine what it would cost to purchase them.

Another way to view the value of assets is by what they would bring if we were to sell them; this is their **liquidation value**. Finally, there is the assets' **appraisal value**, or the value of an asset as determined by an independent industry expert. This figure should reflect the appraiser's knowledge of the market for the asset, and it should take into account both the supply of and demand for the item.

These four different views of value usually lead to four different results; we use an example to illustrate why this is so.

Suppose you are interested in buying a certain restaurant. You have a copy of the company's books and you have inspected the facility closely, making notes of all of the assets you did. Among the company's many assets is a large, stainless steel sink-counter combination. The original cost of the unit was N8,000. It has been depreciated at the rate of N800 per year for five years, leaving a book value of N4,000. You contact the local institutional kitchen supplier and are told that to replace the combination would take N10,000; this is, of course, the replacement value. Very few kitchens will be able to use the sink-counter, so selling it is going to be quite difficult. Let's say the liquidation value is N500. This range of "values" is so wide that it is hard to have confidence in any of them, so you decide to hire an appraiser, and she says it is worth N1,500.

These figures are so widely ranging that you're not sure what to do, but you do want to know which of these figures is best because you must come up with an offer. Your first instinct is to be cautious, but if you are too conservative and use liquidation value for all of the restaurant's assets, you will likely settle on a figure so low that your bid is certain to be rejected. Yet one of the concerns you have is how much would it cost you if you were to fail in this undertaking. The liquidation figure provides protection because among the things you would have to cushion your losses are the proceedings from the sale of the assets. How much is the five-year-old large, stainless steel sink-counter combination worth? Very little, as we have said. The liquidation value, then, is the "best" only if the buyer's concern about possible financial loss is so strong that even a little risk is unacceptable.

If, on the other hand, you want very badly to buy the business because you are so sure it's right for you, you may decide to go with the replacement cost figure. If you do, you will likely be bidding far more for the business than necessary to reach agreement with the owner. Is the book value the "right" amount? It is not likely to be; because it is only a bookkeeping entry. Had the restaurant's accountant decided the unit had an 8-year life instead of 10, the more rapid depreciation rate would have dropped the book value to N3,000 instead of its current N4,000. Book value seldom matches actual value. This leaves us with the appraised value. It is the most useful figures and is, therefore, the basis for seller-buyer negotiations. Knowing the other methods of revaluation, however, will deepen your understanding of the value of the business and allow you to judge whether the appraised-value figure is accurate.

As you scan the financial records of the restaurant, you notice that in addition to items such as the sink-counter, ovens, tables, chairs – the firm’s tangible assets – there is something labelled goodwill. This is one of the company’s assets, albeit an intangible asset. Any company that has been in business for a number of years and has established a reputation for being reasonable or better in terms of price, quality, and service is worth more than the sum of individual items it owns. Is it worth something to a company to have people know that it can serve them? Of course it is, and that is why goodwill is listed as an asset on financial records. The definition of goodwill is the value of a firm that can be traced to its reputation in the marketplace. Other intangible assets include such things as proprietary processes, established distribution systems, customer databases, and custom-designed software. It is easy to see that these kinds of assets are of value, for without them the company would be worthless – in some cases, much less. It is not easy, however, to determine *how much* they are worth. For the most common of these kinds of assets, goodwill, a number of factors are taken into account: the age of the business, its record of profitability, and its share of the market among them. The tendency for sellers is to exaggerate the importance of these items, but buyers will often counter by downplaying their significance. The buyer must recognize the legitimacy of goodwill and other intangible assets, but must be alert to sellers who have an inflated assessment of their value. See figure 2.1 below showing the steps involved in determining the price of business.

Table 2.1 Methods of Determining the Price of a Business
Steps Description

The value of a business can be determined many different ways. The following methods uses three factors to determine a company’s value: the adjusted net worth, past earnings, and future earnings.

Step 1 Determine the company’s net worth:

$$\text{Tangible net worth} = \text{market value} - \text{liabilities} + \text{goodwill}$$

Example:

$$\text{Tangible net worth} = \text{N}120,000 - \text{N}40,000 + \text{N}20,000$$

$$\text{Tangible net worth} = \text{N}100,000$$

Step 2 Incorporate past earnings. A company with a history of making money will usually continue to make money. Using that assumption, we capitalize a company’s annual earnings by multiplying by a factor usually ranging from 5 to 10. The number we use depends on our judgement of how good the business is, using elements such as growth rate, market share, company reputation, quality of the product line, and so on. we will say the firm earned N20,000 last year and that it has little competition, loyal customers, and an excellent growth record, so we will use 9 as our multiplier.

$$\text{Capitalized earnings} = \text{N}20,000 \times 9$$

$$\text{Capitalized earnings} = \text{N}180,000$$

Step 3 Discount future earnings. The closest thing to the true value of a business is its future stream of earnings. Let’s assume here that the business will stay at its current earnings level of N20,000. As stated in the text, we must consider the discount rate. If we use a discount rate of 10 percent, and if we assume that the annual earnings will continue forever, the discounted future earning will be:

$$\text{Discounted future earnings} \text{N}20,000/0.10 = \text{N}200,000$$

Step 4 Compute market value. We just used three approaches to determine the value of the business; because each of the approaches has strengths and weaknesses, the last step is to combine them to arrive at a price. To do so, we will use a method of weighted average. This method requires judgement and insight into the business. For example, the price of a business with large holdings in physical assets, operating in an industry where the market is shrinking, would perhaps best be computed using a 50 percent weight for the Step 1 figure, and 25 percent for each of the earnings amounts. Using these weights, the price would then be computed as follows:

$$(\text{N}100,000 \times 0.5) + (\text{N}180,000 \times 0.25) + (\text{N}200,000 \times 0.25) = \text{N}50,000 + \text{N}45,000 + \text{N}50,000 = \text{N}145,000.$$

Source: Adapted from Thomas W. Goldberg, L.I. Hulett & Company, St. Louis, MO quoted in Lambing, P.A. and Kuehi, C.R. (2007). *Entrepreneurship* (Fourth Edition), USA: Pearson Education, Inc. Prentice-Hall, Upper Saddle River, pg. 51.

In addition to the assets – tangible and intangible – the buyer gets upon acquiring the business, he or she gets the liabilities. These are the legal obligations of the firm to its creditors. When we buy the business, as a business, we get both sides of the balance sheet – the assets and the liabilities. There are two basic ways to handle liabilities: We can ask that the obligations be met by the owner, thereby removing them from the balance sheet; or we can adjust our offer by deducting the amount owed from the figure we got for the company assets.

After we have determined the value of all of the business’s assets and deducted the amount it owes to creditors, we have completed one method of evaluation. This method, however, is regarded by many as inadequate, because a business is more than a collection of assets. A business is a means of generating future financial returns, or profits. These expected future earnings provide the basis for the other method of evaluation. If we expect that a business will be around for the next 10 years and that it will earn N50,000 per year during the period, we can calculate how much the business is worth as an income producer. The simple answer is that it is worth N500,000. Unfortunately, this answer is too simple because it does not reflect the time value of money. That is, the N50,000 we will earn in year 10 is worth considerably less than the N50,000 we earn in year 1. The reason for this is that we can accumulate approximately N50,000 in 10 years if we invest N25,000 now and let it accumulate interest at 7 percent. That is the magic of compounded interest. But we will not be receiving this sum for several years, and so today, future money is worth less than the same sum in hand today. The method by which these differences in time value are determined is called *discounting future cash flows*.

The process uses a formula or table to bring the present value of money we will be earning. As another example of the difference resulting from the use of this discounting, consider the fact that N0.62 is invested at 10 percent will be worth N1.00 in five years, so N50,000 in year 5 is actually worth N31,000 today. Table 2.2 provides examples of the future value of N10,000 at various interest rates.

Table 2.2 Present value of future earnings of N10,000

Year payment is received	Interest rate				
	3%	6%	9%	12%	
	1	5	10	15	20
	9,709	8,626	7,441	6,419	5,337
	9,434	7,473	5,584	4,173	3,118
	9,174	6,499	4,224	2,745	1,784
	8,929	5,674	3,220	1,827	1,037

Source: Lambing, P.A. and Kuehi, C.R. (2007). *Entrepreneurship* (Fourth Edition), USA: Pearson Education, Inc. Prentice-Hall, Upper Saddle River, pg. 50.

If we knew for certain what the business’s future earnings would be, the process would simply be one of computation. The process is by no means that simple, unfortunately, because we do not know what the earnings stream will be. We know what the past earnings record has been, of course, and that gives us a basis for making a projection, but change is a rule of life, and each change can affect earnings. Consequently, determination of value based on future profits requires more than computation. Judgement must be used, assumptions need to be made, and the results of the process must be held up for close scrutiny.

3.5 The Negotiating Process

Suppose you decide to sell something – a tricycle, we’ll say. You set the price at N125,000. You thought about this figure for a while, and you checked with some friends, so you feel pretty comfortable with it seeing that a new one costs N150,000. The first person that responded to your

advertisement asks you how much you want for the tricycle, and you tell him N125,000. He responds instantly that he'll take it. How do you feel now? A little empty, may be, like you should have asked for more, is our guess. What if he had said, "I'll give you N110,000", you had said "Make it N120,000", and he then accepted? Would you feel better then, even though the final price is N5,000 less than the first case? If you are like most people, you would. Price is important, of course, but so is the process by which we arrived at it.

The same thing is true on the buying side. If you were the buyer of the tricycle and your counterproposal of N110,000 had been immediately accepted, you might feel that you should have tried N100,000. Here, too, the final price is not the only thing, the process is important as well.

3.5.1 Price versus Value

Ask a business owner what the business is really worth and you will likely get the response that he or she does not know. This would be the case with many owners, and yet when it comes to the time to sell the business, a price must be set. So there is the seller's dilemma: He or she does not know the value but must nonetheless set the price. Setting a price obviously does not make the business worth that amount, so price and value are two different things.

While there are computational methods for arriving at a figure that a business is worth, its value is set only in the marketplace. The value of a business is what someone is willing to pay for it. As was mentioned earlier, the price may be set by the seller, but the value is determined by buyers. When one agrees that the business is worth as much or more than the price being asked, the sale gets made. Another factor that can keep price from arching value is seen when the owner does not realize the potential of the business. As examples, we describe a dry-cleaning business under several conditions. First, consider a facility that is located adjacent to a station on a newly completed mass transit system. If the owner evaluates the business on the basis of profitability during recent years, he or she may be guilty of serious undervaluation. A more accurate evaluation might be reached by regarding the facility as a possible site for an entirely new business. Such an evaluation might be significantly higher than one that focuses on the business as it currently exists. If the store were in a less desirable location, however, the owner's use of the financial statements of the last few years might lead to an overestimate of the value of the business because it does not take into account such factors as the emergence of the new competitors and changes in traffic patterns.

In some cases, the owner may realise the value of the business but choose to set the price elsewhere. For example, it may be important to the owner that the business be operated in the inmanner that she finds reasonable and in keeping with the tradition she has established.

With these concerns in mind, the owner may be inclined to sell to "the right person" at a price that is a bit more attractive than the maximum she could get for it.

Finally, we should keep in mind that price is only one of the factors making up the sales package. The terms of the deal, the rate of payment, and various non-financial arrangements are examples of such factors. One owner may respond favourably to office space and other support of his interests, another may enjoy serving as a company director, and yet another may want to continue to deal with her longtime customers. Such arrangements may fit nicely into the seller's plans while costing the buyer little or nothing and even being beneficial on occasion.

3.5.2 Sources of Power in Negotiations

From time to time during the negotiations between the two parties, differences in power become obvious. In order to negotiate effectively, it is important to understand how each side obtains power. Perhaps the most important source of power during negotiations of any kind is information. The value of the firm is influenced by a number of factors, including the market, the competition, and societal and environmental trends. Unless the buyer has full and reliable information, he or she is at a serious disadvantage. Information is vital to a strong bargaining position, and that information should come from a number of sources.

The worst mistake a buyer can make in this regard is to rely completely on the seller for information under such an arrangement, the seller decides what to let you have access to, and this, of course, means anything that sheds a bad light on the company may be withheld. The best advice for the buyer, then, is to be as self-reliant as possible. Do your homework thoroughly, trusting the seller is commendable, but relying on him or her as your only source of information is not wise.

In addition to information, negotiating power is affected by pressure from others. If a firm has several owners and two of them are more eager to sell than the others, the person representing the company will be in an uncomfortable position. Part of the group is interested in a quick sale; another part will want to maximize the final settlement; and others may want certain stipulations included in the contract. The distractions that these demands create for the selling side can work on the buyer's advantage.

Negotiations are also affected by timing. If, for example, the seller has already purchased another business and must make the first payment on that purchase before long, the prospective buyer finds his or her situation quite desirable. This is particularly true if the buyer is the only or leading candidate to purchase the firm. If the shoe is on the other foot, however, and the buyer have been given a deadline by his or her backers to make the deal or go without them, the buyer will find that time is his or her enemy. The best situation is to have more time than the other side.

Power in negotiations is also influenced by the alternatives held by each side. Someone who is selling a business because it is the only way to clear up a difficult problem is likely to be much more agreeable than someone for whom selling is only one of a number of possibilities. For the buyer, the same is true. If you have already identified three or four businesses that you feel are attractive possibilities, going into discussions to investigate another is an entirely different matter than if you saw this as your last resort. Another alternative that the typical buyer has is conventional employment. It may not appeal to you if you have made up your mind to go out on your own, but having a job offer in hand can nevertheless change the way in which the negotiations proceed. The counterpart option for the seller is to have the business run by a professional manager. It may not be the owner's first choice, but it may be better than selling for too low a price.

3.6 Buying a Business and the Business Plan

When buying a business, many people may think a business plan is not necessary since the business already exists. However, the entrepreneur must still complete a business plan because many things will change when the new owner assumes control. In order to make sure that the business has been fully researched and that no surprises occur, it is best to complete a business plan detailing how the business will operate. Projected financial statements are essential since the expenses may increase if the buyer borrows money for the purchase price. Conversely, some expenses of the previous owner may be eliminated if they are not essential. Legal issues must also be addressed, such as whether or not the former owner has signed a non-compete clause, preventing him from opening a similar business nearby. For this reason, a detailed business plan is just as important when buying a business as when starting a new one

4.0 CONCLUSION

Buying an existing business can provide an entrepreneur with an expeditious route into small business. The processes of locating, selecting, and negotiating for the enterprise require preparation. The process of locating a business to buy should include businesses that are on the market as well as those that are not. In the search for a candidate for purchase that is not on the market, the prospective entrepreneur would likely ask a large circle of people whether they knew of any businesses that might be for sale, but have not yet been put on the market. After identifying the target for purchase, the entrepreneur must research the possibility to determine the current value of the firm and its future prospects. This information will give the entrepreneur a basis to negotiate effectively. Without solid information, the odds of striking a favourable deal diminish considerably.

5.0 SUMMARY

In this unit, we have

- listed the advantages of buying an existing business;
- enumerated the disadvantages of buying an existing business;
- stated the steps to identify the business;
- determined the price of a business;
- highlighted the negotiating process;
- determined whether a business plan is necessary when buying an existing business.

In the next unit, you will be introduced to another important ‘new product development’.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why is buying a business a less risky proposition than starting one?
2. How could you go about finding a business to buy if you didn't see anything in the classified advertisements that you liked?
3. Why is the negotiating process so important in the purchase of a business?
4. What are the two major determinant of the value of a business? Explain each of them.
15. Distinguish between price and value. What does it mean to say that the owner sets the price of a business, but the buyer sets its value?
16. Explain the sources of power for the parties in negotiations.

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UNIT 3 NEW PRODUCT DEVELOPMENT CONTENTS

- 1.0 Introduction
- 2.0 Objectives
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 - 3.3 Key Success Factors in New Product Development
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1.0 INTRODUCTION

In this last unit, we listed the advantages of buying an existing business, enumerated the disadvantages of buying an existing business, stated the steps to identify the business, determined the price of a business, highlighted the negotiating process, and determined whether a business plan is necessary when buying an existing business. In this unit, we shall examine the process of producing a new product.

2.0 OBJECTIVES

After reading this unit, you should be able to:

- define a new product;
- list and discuss the steps involved in new product development;
- enumerate and explain key success factors in new product development;
- describe what is meant by competitive reactions;
- highlight and discuss the legal protection available for new products and services;
- state the reasons for new product failure; and
- explain the relationship between new product development and the business plan.

3.0 MAIN CONTENT

Gana (2009) states that the life-wire of any manufacturing company is the 'Product' it produced. Products are of various types and qualities. A layman calls them generally products, but the professional is concerned about the level of stage and geographical location of such products. Hence, the issue of old and new products come to play. An old product is such a product that has been existing in a particular market and generally accepted by the target markets for period of time. It is regarded as old because the existing features have not changed or improved upon. However, as the needs of human beings are dynamic, and as well as the society transcend from one level to another/from one stage of development, then products cannot avoid remaining old or unchanged. Hence, the concept of new product comes in; this is in response to yearning and aspirations of consumers and the society at large. Therefore new definition varied from one place to another. This is because by definition some products are not new in real sense. This unit concerned itself with the various definitions of a new product, i.e. process of creating a new product.

3.1 A New Product

The life-blood of corporate success is bringing new products to the marketing place. Consumer taste is dynamic, leading to technological changes and competitive pressures among companies which make goods and services offered for the marketplace unstable.

It is no wonder that entrepreneurs are always looking for new products that would satisfy the needs of their target consumers as well as retain a sizeable market share of the industry.

However, some companies failed to embark on new product development because of its risky activities. When a new product that fails, it becomes a setback and a loss on the financial resources of the entrepreneur company. Notwithstanding, introduction of a new product into the market is important in order to satisfy the yearnings of existing loyal, potential and prospective customers. New product, according to Gana (2009), means “a set of tangible and intangible attributes, including packaging, colour, price, manufacturer’s prestige, retailer’s prestige and manufacture’s and retailer’s services, which the buyer may accept as offering want-satisfaction.

Armstrong and Kotler (1994 quoted in Gana, 2009) defined a product as anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need, it includes physical objects, services, persons, places organization and ideas.

In the light of the above, a new product can be defined as an original good or service made through the generation of an idea or innovation and which passed through all the transformation processes to become a final product. Such product may be an original product or an improvement through modifications and new brands developed by a firm through its own research and development efforts. Some products are regarded as new products as a result of invention and innovation.

Invention is the discovering of new ideas and methods, while innovation occurs when an invention is commercialized by bringing it to market. Gana (2009) observed that some new products are fundamentally different from product that already existed in the market. For example, the pocket calculator created a new market and hence made the slide rule obsolete. Coloured televisions created a new market and made the black and white television obsolete. Cable and satellite disc created a new market and made cinema and video viewing, obsolete in Africa, and Nigeria in particular. Booz, Allen and Hamilton (1982 quoted in Gana, 2009) classified a new product into four categories. These are thus explained below:

1. Product replacements – These accounts for about 45 percentages of all new products launched, and this therefore include revisions and improvements to the existing products. For example, the Ford Mondeo (replacing the sierra), repositioning (existing, products, such as Lucozade being targeted at new market segments) and cost reduction (existing products being reformulated or redesigned to cost less to produce).

2. Addition to existing lines: These accounts for about 25 percent of new product launched and take the form of new products that has been added to a company’s existing product lines. This produces greater product depth. For example the ‘Magic Number’ by MTN network communication services is an extension of its services; also Herbal close up is an extension of the main close-up- toothpaste.

3. New product lines – These totals around 20 percent of new product launched, and represent a move into a new market. For example, in Europe, Mars has launched a number of Ice-cream brands which is a new product line for the company.

4. New-to-the world products – This total around 10 percent of new product launched and create entirely new markets. For example, the video games console, the video recorder, satellite disc and internet have created new markets because of the highly involved customer benefits they provided. Clearly the degree of risk and reward varies according to the new product category. Notwithstanding to create successful new products, a company must understand its consumers, markets and competitors and hence develop products that deliver superior value to customers. It is equally important that to set up effective organizational structure for nurturing and handling new products. This therefore means that successful new-product development requires total-company effort commitment. The most successful innovating companies make a consistent commitment of resources to new-product development, design a new product strategy that linked that the strategic planning process and set up formal and sophisticated organizational arrangements for managing the new-product development processes.

3.1.1 A High-Risk Venture

The student that many small businesses started after the entrepreneur develops an idea for a new product or service. Although high-technology products get a lot of publicity, many highly successful, low-tech products and services become successful. It is in the light of this fact that Lambing and Kuehi (2007) submit that new product development is a high risk endeavour, since many new products and services fail. Even large companies with experienced research and development departments create many flops. Tait (2002) explained that Coca-cola introduced Surge, a caffeinated drink for teens and young adults in US and in spite of its incredible distribution system and millions of dollars spent on advertising, the product failed to reach the projected sales volume. Similarly, Berggren and Nacher (2000) recalled that 3M, which was known for its success with innovative products, developed a PC called Floptical and despite the fact that it stored 15 times more data than a floppy disk, it was not successful.

Power, Kerwin, Grover, Alexander and Hof (1993) in their study of 11,000 new products found that 56 percent of the products that reached the market were still being sold five years later, showing a failure rate of 44 percent. This means that the products which failed did not live up to expectations in some respects – in terms of performance in use, sales volume, profitability, distributor acceptance, or effect on corporate image.

3.1.2 Corporate Culture

The foundation for successful new product development is the creation of a corporate culture that promotes and rewards innovation. Unfortunately, many marketing managers, particularly Nigerians, regard their company's corporate culture as a key constraint to innovation. Managers therefore need to pay more attention to creating a culture that encourages innovation. Management team of an organization should look into this area in order to foster good relationship.

Figure 1: Creating and nurturing an innovation culture

Reward	Tolerate
Success	failure heavily
Give clear innovative	Give time off
Messages about culture or turn a blind	the role and eye to people
Importance of working on pet	Innovation projects
Back words	Be accessible
With resources	Resist
Automatic	Nay-saying

Source: Jobber, D (2007) Principles and Practice of Marketing 5th Edition, UK, McGraw-Hill Education Limited.

Figure 1 above shows the kinds of attitudes and actions that can foster an innovative culture. The surest way to kill innovation spirit is to conspicuously punish those people who are propagated to create and champion new product ideas through communication when things go wrong, and status quo. Such actions will breed the attitude.

Jobber (2007 quoted in Gana, 2009) observed that research has shown that those companies that have supportive attitude to rewards and risk, and a tolerant attitude towards failure, are more likely to innovate successfully. An innovation culture can be nurtured by senior management visibly supporting new product development in general and high-profile projects in particular. For example, British Rails, attempt to develop the ill-fated Advanced Passenger Train (APT) which involved new technology; was hampered by the lack of this kind of support. Hence, individual managers took a subjective view on whether they were for or against the project.

Besides sending clear messages about the role and importance of new product development, senior management should reinforce their words by allowing time off from their usual duties to people who wish to develop their own ideas, make available funds and resources for projects, and make themselves accessible when difficult decisions need to be taken.

Finally management at all level, should resist the temptation of automatic 'nay saying'.

Whenever a new idea is suggested the tendency by the listener is to think of the negatives. For example, suppose you were listening to the first ever proposal that someone at Nokia made concerning a move into mobile phones. Your response might have been; 'we know nothing about that business, we are not strong enough to compete against the American and Japanese, and if we succeed they will undercut us on price. All these aimed to de-motivate the proposer. The correct response is to resist expressing such doubts; instead the proposer should be encouraged to take the idea further through research and development.

3.1.3 Strengths and Weaknesses of Small Companies

There is need to point out one of the inherent strengths of big corporations and small businesses as observed by Lambing and Kuehi, (2007). According to them, small companies and individual entrepreneurs have an advantage in new product development because they are not caught up with all of the rules and regulations of large companies. The bureaucratic problems that plague large corporations are less likely to occur at a small business. Decisions are made much more quickly, and the entrepreneur is often more aware of customer needs.

Furthermore, one of the biggest weaknesses of small businesses, however, is the lack of financial backing. Large companies may lose enormous sums of money when a new product fails, but the companies have sufficient financial resources to absorb the loss. A small business, on the other hand, usually has very limited financial resources, and just the research and development costs of the product may exceed the funds available. If the product is not successful, it may cause the bankruptcy of the small business and/or the entrepreneur. Small businesses do not have the luxury of making a big mistake.

3.2 Steps involved in New Product Development

The following are the steps involved in new product development:

- (1) New product strategy
- (2) developing a new idea
- (3) Screening
- (4) Concept testing
- (5) Business analysis
- (6) Product development
- (7) Market testing
- (8) Commercialisation

3.2.1 New Product Strategy

Gana (2009) contended that in most cases, marketing executives value strategic guidance from senior management about their vision and priorities for new products development.

By providing clear guidelines about which products markets the company is interested in serving, senior management's staff can provide a focus for the areas in which idea generation should take

place. Also by outlining their objectives for new products they can provide indicators for the screening criteria that should be used to evaluate those ideas.

3.2.2 Developing a New Idea

There many ways to develop a new idea for a product or service. The figure below shows some of the most common ways.

From the figure, we can now discuss the steps on how to develop a new product idea:

(a) **Recognise a need** – many small businesses begin because the entrepreneur recognizes a need in the marketplace that is not being served. For example, because of the increasing number of immigrants, many entrepreneurs in the US have seen a need to develop businesses to cater for this target market. Also, some mothers have become successful entrepreneurs developing products for children after they realised there was nothing on the market to fill a specific need.

(b) **Improve existing products** – it may be helpful to identify products that have had no major improvements in recent years and then try to develop some needed changes. Many products in a normal classroom are good examples – rubber bands and staplers might be candidates for improvements.

(c) **Combine industries** – Nolan Bushnell, developer of the first home video game, believes that creating a new idea may just require taking something that is standard in one industry and applying it to another. Bushnell had worked at amusement parks during college and was able to combine his knowledge of the amusement industry with computers (Chu, 1993).

(d) **Recognize trends** – consider demographic trends such as the aging of the baby boomers. Recognize the fast pace of American lifestyles and design products to make life easier. In the Nigerian context, consider products which are capable of recreating jobs for millions in order to frontally address the unemployment problems in the country.

Figure 3.1 How to develop new products

Source: Lambing, P.A. and Kuehi, C.R. (2007). Entrepreneurship (Fourth Edition), USA: Pearson Education, Inc. Prentice-Hall, Upper Saddle River, pg. 106

(e) **Be aware of everything** – many ideas surround us on a daily basis, but most people are so busy with their normal lives that they are not truly aware of everything. Be interested in what goes on around you and it will surprise you that you can make something out of nothing.

(f) **Question assumptions** – One amusing and useful technique for developing new ideas is to take a product or service and question all of the assumptions we normally make about these products. First, list all of the assumptions, then negate, eliminate, or think of the opposite of each of these facts.

(g) **Name it first, then develop it** – while the normal procedure for new product development is to develop a product and then think of a name for it, it is sometimes helpful to reverse that process.

These methods are only a few of the many alternatives conducive to developing new product ideas.

It should be obvious that many concepts will not be viable and may be Improve existing products Recognise Combine a need industries Questions Be aware assumptions of everything

Name it first, Recognise then develop it trends

NEW PRODUCT IDEAS

ridiculous. However, during brainstorming sessions, ideas should not be closely scrutinized. These sessions are to create ideas; critical evaluation is a separate process.

3.2.3 Screening

Having developed new product ideas, these ideas need to be screened to evaluate their commercial value. Some companies use formal check list to help them judge whether the product ideas should be accepted or rejected for further evaluation. Whatever criterion used, the focus should be on the commercial worth of the ideas being screened.

3.2.4 Concept Testing

Once the product idea has been accepted as worthy of further investigation, it can be framed into a specific concept for testing such with a potential customer. In many instances the basic product idea will be expanded into several product concepts each of which can be compared by testing with target customers. Concept testing allows the views of customers to enter the new product development process at an early stage. Group discussion can also be used to develop and test product concepts. The concept may be described verbally or pictorially so that the major features are understood.

3.2.5 Business Analysis

Based on the results of the concept test and considerable managerial judgment, estimate of sales, costs, and profits will be made. This analysis will identify the target market, its size and projected product acceptance over a number of years. Consideration should be given to various prices and implication for sales volume. By setting tentative prices, this analysis will provide sales revenue estimates. Costs also need to be estimated to guide the management properly.

3.2.6 Product Development

At this stage, the new product concept is developed into a physical product. Here multidisciplinary project teams are established with the task of bringing the product to the market place. Product testing is also part of product development which focuses on the functional aspects of the product and on consumer acceptance. Functional tests are carried out in the laboratory and out in the field to check such aspects such as safety performance, and shelf life. For example, product testing of software products by users is crucially important in removing any 'bugs' that have not been picked up by internal testers. Besides, conforming to these functional standards, products need to be tasted with consumers to check acceptability in use. Here, paired comparison tests can be used along side with rival products. Alternatively two new product variants can be tested alongside one another. Questionnaire should be administered at the end of the test to gather overall performance information. Also experts can be used for product testing.

Another way of providing customer input development is through product clinics. For example, prototype cars, and trucks are regularly researched by inviting prospective drivers to such clinics where they can sit in the vehicle, and comment on its design, comfort and proposed features.

3.2.7 Market Testing

So far in the development process, potential customers have been asked if they intend to buy the product, but have never been placed in the position of having to pay for it.

Market testing concerned itself with the measurement of customer acceptance one crucial step further than products testing by forcing consumers to 'put their money where their mouth is'. The aim is to launch the new product in a limited way so that consumer response in the marketing place can be assessed. Two major methods can be used; namely:

- (a) The Simulated market test and
- (b) Test marketing.

The simulated market test can take a number of forms, but the principle is to set up a realistic market situation in which a sample of consumers' chosen to buy goods from a range provided by

the organizing company usually a marketing research company. Test marketing involves the launch of the new product in one or a few geographical areas chosen to be representative of its intended market. Test marketing is the acid test of new product development, since the product is being promoted as it would during a national launch, and consumers are asked to choose it against competitor products as they would if the new product went nationwide. It is more realistic test than the simulated market test and hence gives more accurate sales penetration and repeat purchase estimate.

The advantages of test marketing are that the information it provides facilitates the go/no go national launch decision and the effectiveness of the marketing mix elements. The shortcomings of test marketing is that the testing towns and areas may not be representative of the nationwide market, and thus sales projections may invalidate the market by giving distributor motives to stock their products, thereby denying the new product shelf space. Besides, distributors may refuse to cooperate with the manufacturer.

For example super market chains may refuse to take part in test marketing activities or charge a hefty fee for the services rendered.

3.2.8 Commercialization.

Test marketing gives/provides management the information needed to make a final decision about whether to launch the new product. An effective commercialization strategy relies upon marketing management making clear choices regarding the target market and the development of marketing strategy that provides a different advantage.

Therefore, commercialization means massification or producing new products in large quantities for the intended market identified, for example the whole states of Nigeria. In conclusion, superior commercialization of technology has been and will continue to be a key successful factor in many industries. For example company such as Canon, Sony, and Philips already have the capability to bring sophisticated high-tech products to market faster than other companies that treat the commercialization process in a less disciplined manner.

3.3 Key Factors for Success

The failure rate of new products even by large corporations is proof that there is no easy way to determine if a product will succeed. Although many attempts have been made by companies and academics to improve the success rate, no magic formula has yet been discovered. The critical factors for success for new product development are discussed below:

(a) Conduct adequate market research – This is essential if an entrepreneur wants to prevent a product failure. However, this step is often ignored. In fact, manufacturers tend to completely avoid market research, competitive analysis, pricing, or trends work before launching a product.

(b) Satisfy a need – One essential requirement of new products and services is that they must satisfy a real need of the customers. Many entrepreneurs are so thrilled about their idea that they cannot be objective enough to determine if it fills a real need of the consumer.

(c) Have a high product advantage – Kotler and Armstrong (1996) found from a study of 200 moderate-to-high-technology new-product launches that the number one success factor was a unique superior product – one with higher quality, new features, and higher value in use. They concluded that high-product-advantage products succeeded 98 percent of the time.

(d) Get quality, pricing, and customer experience right the first time – If quality is poor or pricing is too high when the product is introduced, the product may fail before it has a chance to succeed. Large corporations have found this to be true. Berggren and Nacher (2000) contend that the entire customer experience must be right the first time. If it is difficult to purchase or use it, customers will not continue to buy the product.

(e) Use the right channels of distribution – A critical decision for all designers and manufacturers of new products involves the channels of distribution through which the products will be sold. There are many options available; however, not all of the distribution channels will be equally effective in generating sales. The wrong choice might cause a financial failure (Power et. al, 1993).

3.3.1 Choosing a Distribution channel

Distribution channels are the marketing institutions and interrelationships responsible for the physical and title flow of goods and services from producers to consumer or industrial user (Boone and Kurtz, 1992). Companies develop distribution strategies to ensure that their products are available in the proper quantities at the right time and place. Here in Nigeria for instance, Nigerian Bottling Company had opened outlets in all the nooks and crannies of Nigeria by putting in place containers outlets in strategic spots as part of strategies to distribute their products to the greatest majority of consumers.

Many options available to entrepreneurs who develop a new product are:

1. **Direct marketing** – this is a system of marketing by which an organisation communicates directly with customers to generate a response and/or transaction (Belch and Belch, 1995). In the consumer market, this occurs through several methods. The first is through direct contacts between buyer and seller. The second is through catalogues and the increasing use of technology has added direct marketing options such as the home shopping services available through cable television. Finally, direct marketing through an internet site is possible.

2. **Wholesalers** – in consumer goods industries, it is common for the producers to sell to a wholesaler, who in turn sells to a retailer. The retailer then sells to the final consumer. For small companies with limited resources, a wholesaler is helpful in reaching hundreds of retailers nationwide (Boone and Kurtz, 1992).

3. **Agents** – if the wholesalers are necessary, the entrepreneur must determine how to reach them. The individual entrepreneur may find it impossible to contact and service the wholesalers without additional help. In many cases, manufacturer's representatives (or agents) contact the wholesaling or retailing companies and are paid a commission on their sales. Other agents, known as merchant wholesalers or agent wholesalers, are often used when products are produced by a large number of small businesses. The agents seek a market for the producer's goods or may help the buyers find sources of supply. In service industries, most contact is direct between the service provider and the customer. Agents are sometimes used, as with insurance agents and travel agents. However, because the item being sold is usually intangible, a less complicated distribution system exists.

Berggren and Nacher (2000) state that “seemingly superior products fail because a company's channel partners have no incentive to market or appropriately support them. It is important that entrepreneurs understand that companies in the distribution channel incur added costs when stocking a new product. These costs include costs such as training staff, but also ongoing costs like handling returns and running promotions.

Entrepreneurs must help the company in the distribution channel with these activities or the product may not succeed.

Factors influencing the Distribution Decision

When choosing a distribution channel, the following questions should be considered (Boone and Kurtz, 1992):

- **Will the product be sold in the consumer or industrial market?** Most industrial products are sold through direct sales; consumer products may also use this route, although they are often sold through retailers.

- **What is the geographic location and number of customers?** If the customers are located throughout the country, direct sales would be more complex than if they are in a small geographic area. Although direct sales would be possible, it would take more time and money to develop the network.

- **What are the product characteristics?** Perishable products must move quickly through channels. Complex, high-technology items are often sold through person-to-person sales.

- **What are the entrepreneur's resources?** If the entrepreneur has the financial resources to have a sales force or to market the product directly to the final consumer (like the Nigerian Bottling Company maker of Coca Cola drinks) does, this may be an alternative. However, because of limited

resources, many small businesses use intermediaries who have financial resources and a marketing network that is far more efficient than the small business's own system.

• ***How do competitors sell their products? Will the marketing intermediaries adequately promote the new product?*** Entrepreneurs must consider how their competitors sell products and whether the marketing intermediaries will promote the new product if it decreases sales of competing products. If the intermediaries will not promote the product adequately, the entrepreneur may decide on a different approach (Boone and Kurtz, 1992).

Obstacles to Securing Distribution Channels Although many distribution channels are available, entrepreneurs often find it difficult to get their product to market. For example, many who go directly to wholesalers or retailers with new products find that the intermediaries are not interested in taking on a new product. Entrepreneurs must realise that large retailers are constantly bombarded with new products, and they do not want to stock and display a product if it will not sell. Many want proof of a demand for the product – a successful market test – before they carry the item. It is often difficult to persuade someone to carry it even for a market test.

Many entrepreneurs with new product ideas are also surprised to find that direct marketing channels, such as catalogues or home shopping services, require a minimum inventory level before they will market the product. It may not therefore be possible to use the channel if the entrepreneur cannot muster enough financial resources to produce adequate units of the product to guarantee sales.

Some retailers will not accept a new product unless the entrepreneur can guarantee a minimum level of advertising to create demand among customers. Often this minimum is far in excess of the financial resources of the small firm.

Finally, because of the large number of new products, limited retail space, and the cost of inventorying new items, many retailers charge fees for carrying new products. Called ***slotting fees***, they can be substantial. Other fees may be charged if a new item does not meet sales projects. These additional fees are based on the costs of removing items from inventory and the lost revenue from the item. Retailers may also ask for an annual renewal fee to continue carrying an item, as well as trade allowances or other discounts. Obviously, for a new small business, these fees may be prohibitive. Many entrepreneurs find that these fees make it impossible to get their items on store shelves.

3.3.2 Licensing

If an entrepreneur develops a new product but does not have the time or funds to manufacture and distribute it, a licensing arrangement may be the answer. The entrepreneur licenses another company to manufacture and sells the product in exchange for a fee. Though it is much more difficult for an inventor to get a company interested in a licensed product, Debelak (1997) however states that companies who know how to market products usually have plenty of their own product ideas to introduce and will take on only truly novel, innovative products.

3.4 Competitive Reactions

Gana (2009) observed that new product launched may be in response to new product entries by competitors. Research suggests that when confronted with a new product entry by a competitor, incumbent firms should respond quickly with a limited set of marketing mix elements. Managers should rapidly decide which ones (product, promotion, price and place) are likely to have the most impact and concentrate their efforts on them. Competitors' reactions stem from four areas, namely:

1. Response is faster in high growth markets, given the importance of such markets, competitors will feel the need to take action speedily in response to a new entrant.
2. Response is dependent on the market shares held by the introducing firm and its competitors. Response time is slower when the introducing firm has higher market share.
3. Response time is faster in markets characterized by frequent product changes.
4. It is not surprising to find that response time is related to the time needed to develop the new product.

3.5 Legal Protection of New Products and Services

If an entrepreneur develops a new product or service, a major concern is that others will try to develop similar items. This comes about quickly when the entrepreneur needs advice and/or expertise during the research and development phase and when a prototype (the original model) is developed. Even discussing the idea with others may result in the concept being stolen. A simple form known as a *nondisclosure document* is often used in the early stages of development. Anyone who must be made aware of the idea is asked to sign the nondisclosure document, which states that the signator will not discuss the idea with anyone else, nor use the idea for personal gain (Lambing and Kuehi, 2007)..

In this section, we shall discuss patents, copyrights, trademarks and trade secrets as part of the issues that comes up under legal protection for new products and services.

3.5.1 Patents

A patent is the grant of a property right to the inventor(s) issued by the Patent and Trademark Office (Lambing and Kuehi, 2007). The patent excludes others from “making, using, offering for sale, selling”, or “importing” the invention in any part of the country. In the US, utility patents are granted for new useful process, machine, article of manufacture, or useful improvements. Design patents are granted for new original and ornamental designs of manufactured articles. Also, horticultural plant patents may be granted for new varieties of plants.

In order for an invention to be patentable, it must be new as defined by patent law. If the invention has been described in a printed publication anywhere in the world, or if it has been in public use or on sale before the date that the applicant made the invention, or more than one year before the patent is applied for, a patent cannot be obtained. Thus, if the inventor describes the invention in a printed publication, uses the invention publicly, or places it on sale, he or she must apply for a patent before one year has gone by; otherwise any right to a patent will be lost. Only the inventor may apply for a patent, with certain exceptions. A person who makes a financial contribution is not a joint inventor and cannot be named in the application as an inventor.

Problems with Patents

Patents often do not provide as much protection as the inventor originally believes. Unfortunately, competitors can sometimes circumvent patents by making minor changes in the design of new products and then selling them as different from the patented products. And, since ideas are not patentable, an idea for a new business such as selling balloon bouquets instead of flowers is easily copied once the first person starts operating. Even if a patent is obtained, this only gives the patent holder the right to a court fight. Obtaining patents and fighting infringement are often a costly process. Also, a patent does not protect the inventor from claims that his or her product infringes on an existing patent. Although patent searches can be completed before applying, such a search will not identify patents that are pending. Therefore, it is not an absolute guarantee that the product is unique (Lambing and Kuehi, 2007).

Finally, a US patent does not provide protection in foreign countries. In some countries, it is possible to obtain a patent of importation, which provides temporary protection.

However, a permanent patent must be obtained in every country in which protection is desired.

Patent Searches on the Internet

One of the first steps required is to complete a search of existing patents to determine if one exists on a similar product. Prior to the invention of the Internet, this could only be done in libraries or by hiring a search firm. With the development of the Internet, a substantial amount of patent information is now available free of charge (Lambing and Kuehi, 2007).

3.5.2 Copyrights

A copyright is a form of protection provided by the laws to the authors of “original works of authorship”, including literary, dramatic, musical, artistic, and certain other intellectual works such

as software. In addition, copyrights may be obtained on pantomimes and choreographic creations, pictorial, graphic, and sculptural works; motion pictures and other audio-visual works; and architectural accomplishments (Lambing and Kuehi, 2007).

A copyright gives the owner of the copyright the exclusive rights to produce the work and to prepare any other material derived from the work. In the US, for any works created after January 1, 1978, the work is automatically protected for the life of the author plus 70 years. In some cases, such as an anonymous work where the author is not known, the copyright will extend for a longer period (95 or 120 years) but the term will be based on the date of the publication or creation since the author's birth date is not known.

Copyrights may not be obtained on information that is common property and that does not contain original authorship. Therefore, items such as calendars, height and weight charts, and rulers may not be copyrighted.

A copyright is secured automatically when the work is created, and a work is created when it is fixed in written copy, videotape, microfilm, cassette tapes, or other tangible form. No publication or registration in the copyright office is required to secure a copyright. A copyright registration made with the Register of Copyrights in the issuing country is a legal formality to make a public record of the copyright.

3.5.3 Trademarks

A trademark is a word, symbol, name or device that a business uses to identify its goods and distinguish them from those of others. (A service mark is similar in that it is used to distinguish the services of one provider from another). The mark is granted when the design is used; however, an application can be filed as long as there is intent to use it. As with copyrights, it is not essential to register a trademark or service mark with the Patent and Trademark Office; however, it does provide several benefits, namely:

- notice nationwide of the trademark owner's claim;
- evidence of ownership of the trademark;
- ability to invoke jurisdiction of federal courts;
- ability to use registration as a basis for obtaining registration in foreign countries;
- ability to file registration with the US Customs Service to prevent importation of infringing foreign goods (Lambing and Kuehi, 2007).

The designations "TM" for trademarks and "SM" for service mark usually indicate that a company or individual claims rights to the mark. These designations are often used before a federal registration is issued. There are no federal regulations governing the use of these designations; however, there may be state or local laws. The federal registration symbol "®" may be used once the mark is actually registered with the Patent and Trademark Office (Davis, 1998 quoted in Lambing and Kuehi, 2007).

One of the biggest problems with trademark is that it is often vague and confusing, making it difficult to determine if trademark infringement will result.

3.5.4 Trade Secrets

Trade secret is a legal protection for information that cannot be patented, copyrighted, or trademarked (Lambing and Kuehi, 2007). If business has a process or information that cannot be patented, copyrighted, or trademarked, the entrepreneur may still wish to keep the information confidential. In this situation, a trade secret may be helpful. Employees are asked to sign a statement that they will not disclose the information. This becomes a legal contract and violation of that contract is illegal. The theft of a trade secret has been and still is subject to a civil law suit in many states and to criminal action in some states. However, now the theft of a trade secret may also be subject to federal criminal action (Lambing and Kuehi, 2007). With the passage by the US Congress of Economic Espionage Act of 1996, the theft of a trade secret is now a federal criminal offense. A person convicted under this law can be fined and imprisoned, and an organisation can be convicted and fined (Hodgson, 1998).

In order to make a trade secret contract binding, the entrepreneur should first define what is to be protected as narrowly as possible. If common information is included in the contract, it may be declared void. Second, the number of people who asked to sign it should be limited. If every employee is asked to sign the document, the agreement becomes less enforceable.

Finally, employees should sign the agreement when they are first employed. It is better if the entrepreneur can prove that the employee received something as a condition of signing the agreement. Therefore, if the entrepreneur waits until the employee has worked for the company for many years; the contract may not be upheld. Asking the employee to sign the document as a condition of a promotion or raise, however, may be upheld (Lambing and Kuehi, 2007).

3.6 Reasons for New Product Failure

Gana (2009) contends that commercializing of new product does not mean that such product is totally free from defeats. The new products may be accepted at the early stage, but reactions may stem from the competitors, changes in government policies, the cultural influence, etc. on the products would cause it to fail after commercialization. Stanton (1981 quoted in Gana, 2009) provides reasons why products still fail. Discussed below are the salient factors:

1. Inadequate market analysis – Over estimating potential sales of the new product inability to determine buying motives and habits, and misjudgment as to what the market unit is.
2. Product deficiencies – Poor quality and performance, complicated products and products that do not offer significant advantage over competitors products.
3. Lack of effective marketing effort – Failure to provide sufficient follow-up after introduction of the new products, and failure to train marketing personnel for new products and new markets.
4. Higher cost than anticipated – This led to higher prices, which in turn led to lower sales volume than anticipated.
5. Competitive reaction – Speed and ease of copying an innovation soon overcrowded the market.
6. Poor timing: - The usual mistake here is to introduce a product too late, premature entry, etc.
7. Production problems: - Companies that could not produce sufficient quantities to meet demand, thus competition gained an unanticipated share of market.

It should however be noted that the above factors is not exhaustive. Reaction and failures of new products depends on the nature of the product, technological availability and accessibility and knowledge of the market and consumer needs and wants.

3.7 New Product Development and the Business Plan

If the new business is dependent on a new product that has been developed or will be developed, a thorough explanation of the stage in the development process must be given in the business plan. If any copyrights, trademarks, patents, or trade secrets will be obtained, that information should be explained in the legal section of the plan.

Since new product development is a risky and time-consuming endeavour, banks will usually not be interested in reviewing business plans requesting financing for the early stages of the process.

Often, a business plan based on new products must be submitted to investors, or the entrepreneur must use his or her own funds. Banks will be more likely to provide financing once the product is developed and the entrepreneur can demonstrate that a demand for the product exists.

4.0 CONCLUSION

New product development is a high-risk endeavour, since many new products and services fail. Small companies can develop products more easily than large corporations can because they are less bureaucratic and can react quickly to market changes and situations. Small businesses are hindered by a lack of financial resources and obstacles such as minimum inventory levels and slotting fees. In addition, the entrepreneur may need to obtain a patent, copyright, trademark, or trade secret to provide legal protection for the new product.

5.0 SUMMARY

In this unit, we have

- defined a new product;
- listed and discussed the steps involved in new product development;
- enumerated and explained key success factors in new product development;
- described what is meant by competitive reactions;
- highlighted and discussed the legal protection available for new products and services;
- stated the reasons for new product failure; and
- explained the relationship between new product development and the business plan.

In the next unit, we shall discuss another topic titled “business growth and the entrepreneur”.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify two products or services that have failed and explain why you think they did not succeed.
2. Enunciate factors responsible for a new product failure.
3. Choose an item that is used in everyday activities (chair, desk, toaster, and so on). List all of the assumptions you can identify that are associated with this product. Then vary those assumptions to create new product ideas.
4. When cheaper, look-alike products are created to compete with original products, the look-alike items are often called *knock-offs*. Identify some products for which knockoffs have been created. Through library research, identify any legal action that was taken.
5. Many experts state that in order to be successful, a new product has to be the first of its kind on the market. Do you agree? Why or why not? Give examples to support your answer.

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UNIT 4 BUSINESS GROWTH AND THE ENTREPRENEUR

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Business Growth and Management Skills
 - 3.2 Matching the Company and the Entrepreneur
 - 3.3 Challenge of a New Business
 - 3.4 The Changing Role of the Entrepreneur
 - 3.5 Options for Growth
 - 3.6 Growth and the Business Plan
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit, we defined a new product, listed and discussed the steps involved in new product development, enumerated and explained key success factors in new product development and described what is meant by competitive reactions. We also highlighted and discussed the legal protection available for new products and services, stated the reasons for new product failure and explained the relationship between new product development and the business plan.

In this unit, we shall look into another interesting topic titled ‘business growth and the entrepreneur’.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- discuss business growth and management skills;
- describe how to match the company and the entrepreneur;
- highlight and explain the challenges of a new business;
- discuss the changing role of the entrepreneur;
- enumerate the options for growth; and
- discuss growth of a business in relation to the business plan.

3.0 MAIN CONTENT

Morrison, Breen and Ali (2003) observed that rapidly growing companies have been the subject of studies for many years. Researchers have tried to identify the factors that cause some businesses to grow rapidly while others remain small or grow slowly. Most researchers agree that growth is not automatic and is not the result of chance or luck. It is instead the result of “positively motivated business intentions and actions on the part of the owner-manager”. They posited that entrepreneur’s characteristics, educational level,

knowledge of business, and continued learning all affect the growth potential of the business. A company’s growth, according to them, is also affected by internal company factors, the resources available, and external factors. Therefore, if poor market conditions exist or if government regulation limits growth, the entrepreneur’s efforts may not be as successful.

3.1 Business Growth and Management Skills

Eggers and Leahy (1995) state that although it is commonly believed that company growth follows a simple linear progression, with sales and company size consistently expanding, often it is not that smooth. According to them, some firms grow and then backslide while some skip growth stages that others experience. They felt that though it was not always smooth, business growth stages can nevertheless be categories. One study by them identified six stages of business development,

namely: conception, survival, stabilization, growth orientation, rapid growth, and maturity. Eggers and Leahy also found that within each stage, the entrepreneur's leadership style and necessary skills were forced to change. This is because the problems faced during the start-up phase are not always the same ones the entrepreneur must tackle when the business has grown. Some of the biggest problem areas and, therefore, some of the skills needed by owners of growing companies are personnel management, financial management and marketing (Lambing and Kuehi, 2007).

Back home in Nigeria, this findings became manifest when I was invited to team up with an indigenous growing medium size press as the Executive Assistant to the Chairman. On studying the set up, I discovered that the whole activities in the press revolved around the Chairman/Chief Executive. As such, whenever he is not around operations were stalled. You will certainly agree that the business has outgrown the strength, ability, capability and character of the prime mover. Along the line he made some administrative decisions which impacted negatively on the day to day running of the firm and he was finding it difficult to cope with the situation. By the time, I studied the operational set up, I discovered that all he needed to do was to divest some of the powers and activities involving him. I also recommended that he would need to reverse those administrative decisions that led to the quagmire. Recommendations were made and a lot of positive changes had taken place in the firm, thanks to the listening ears of the entrepreneur and the readiness in him to accept and work with the recommendations.

The discussion in this section will centre on personnel management, financial management and marketing.

3.1.12 Personnel Management

The management problems of small businesses change greatly as the company grows. One study found that in the early years of the business, the entrepreneur's management problems focused on the entrepreneur's time management, goal setting, and performance measurement. As the business grew, time management continued to be an issue but finding, retaining, and motivating qualified employees became a major concern. Control in a small business is usually informal (Fuller-Love and Scapens, 1997). When there are only a few employees, job descriptions and rules and regulations are often not written down because the entrepreneur is closely involved in every aspect of the company and he or she can easily oversee everything. However, if the company grows, the entrepreneur must move from direct supervision of a few employees to indirect management when the number of employees increases.

Figure 4.1 below shows the typical changes that occur in the organisational chart as the company grows. Although this may appear to be a simple process, it is often a difficult transition for the entrepreneur and the employees.

Small businesses require employees to wear many different hats, but as the business grow this often changes. As additional personnel are added, loss or anxiety may occur among the original group of employees because someone else is now taking care of "their" issues. In some cases, employees may not be able to adjust to the growth and changes experienced by restructuring job functions. They not only lose control of tasks, they lose a sense of importance (Atherton, 2000).

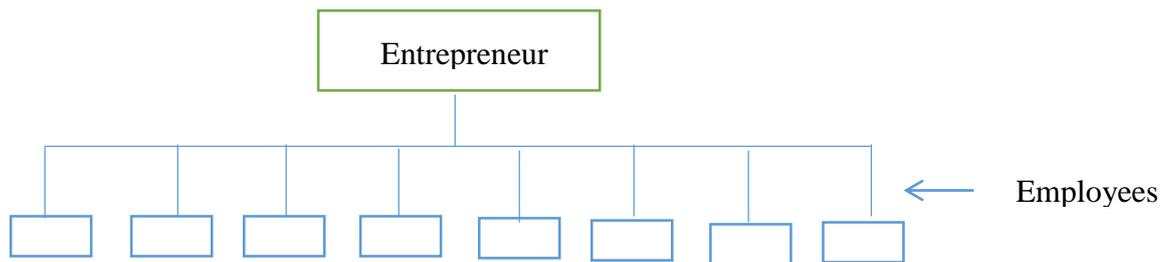
Many entrepreneurs tend to *micromanage* their businesses, trying to remain involved in every aspect of the company's operations even as it grows, but this can inhibit growth because it does not allow employees room for advancement and may result in high turnover. Micromanaging means involvement in all aspects of the company even as it grows. Sometimes, micromanagement occurs because micromanagement occurs because the entrepreneur, believing that the company cannot afford top-quality personnel, hires people at a lower level and constantly manages them. Hiring someone with aptitude costs a bit more but can make your company to earn more money in the end (Formichelli, 1997).

Small companies must also realise the need for training their employees. Often it is informal, on-the-job learn-as-you-work training. However, as the company grows, the entrepreneur must anticipate what skills the employees will need to do their jobs and plan for training needs. If training is not provided, the jobs will outgrow the skills of the employees.

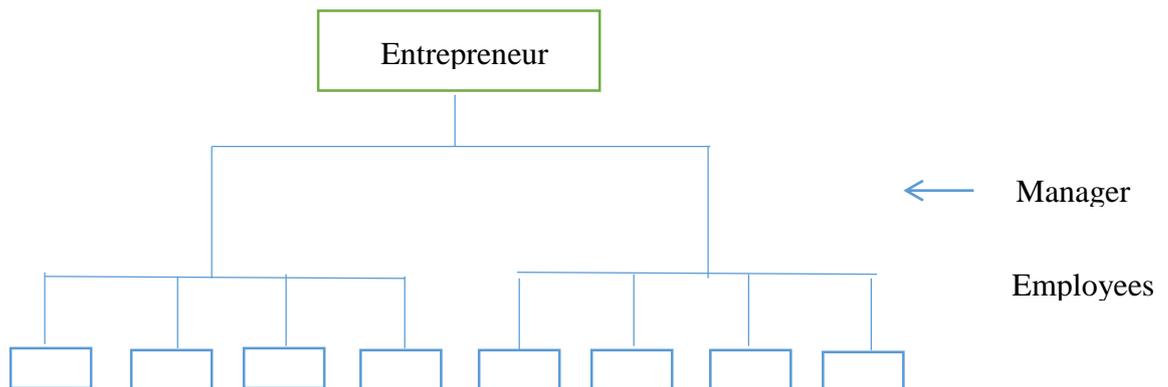
3.1.13 Financial Management

Cash flow problems are likely in rapidly growing businesses. To generate more sales, the company has to produce more inventories, spend more on labour, and possibly increase overhead expenses. When a company incurs short-term costs that it cannot meet while in the pursuit of growth, this is known as *overtrading*. The lack of working capital can cause profit margins to drop. The entrepreneur must therefore carefully watch the cash flow, or growth will not be sustained.

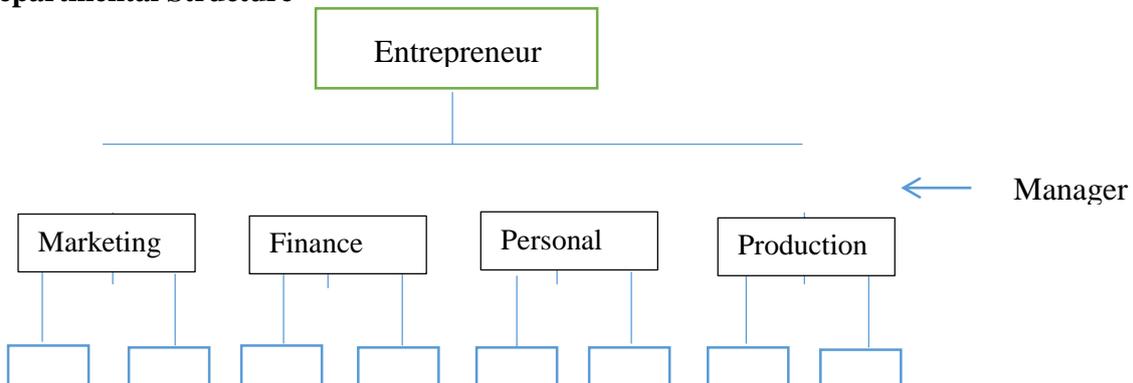
Figure 4.1 Typical changes that occur in the organisational chart of a consistently growing company
Simple Structure



Limited Growth Structure



Departmental Structure



Source: Fuller-Love, N. and Scapens, R.W. (1997). "Performance-Related Pay: A Case Study of a Small Business", *International Small Business Journal*, July/September, 48 – 63.

Because of the need for cash to fuel the growth, raising capital becomes an issue in the growth phase. Often this cash is needed in the form of equity since the company cannot borrow the large

amount of cash that is necessary. Surrendering equity in a company becomes a personal issue for the entrepreneur. It turns the “hands-on” owner/entrepreneur into someone who is no longer the sole decision maker and full financial risk holder. The Entrepreneur

Entrepreneur

entrepreneur now answers to a group of investors and potentially a board of directors (Outram, 1997).

Managing accounts receivable is also an issue. When companies are small, the entrepreneur often focuses on sales, without good controls on collecting payments in a timely manner. As the company generates more business, entrepreneurs often find that the sales volume is great but accounts receivable collection is not. At that point, it becomes obvious that it may be better to forgo a sale than to make one that will not result in payment.

3.1.14 Marketing

Marketing is also an ongoing concern for entrepreneurs, but as with management and finance, the specific issues may change. One study found that cost-effective advertising was a problem for start-ups and for mature businesses, but the mature businesses were also concerned about competition from big businesses and needed to find new opportunities (Lambing and Kuehi, 2007).

Entrepreneurs often start businesses in growing industries and the industry growth helps to propel the growth of the individual businesses. But as more businesses enter the industry, competition becomes intense. Demand for the product may also slow, and the company’s sales may reach a plateau. Efforts must then be made to find new products and/or new markets, or the business will stagnate.

3.2 Matching the Company and the Entrepreneur

The entrepreneur needs different skills in different phases of the company’s life cycle, and there are several options for addressing these needs. The entrepreneur can develop all of the skills that are necessary (personnel management, financial management, and so on), train existing employees, or bring in professionally qualified managers (Fuller-Love and Scapens, 1997). But many entrepreneurs find that their personalities can never allow them to feel comfortable delegating much responsibility.

Merrill and Sedgwick (1994) therefore recommend tailoring the size of the company to the entrepreneur’s personality. Some of their recommendations are described below:

- (i) Craftsperson;
- (ii) Coordinator;
- (iii) Classic entrepreneurial management;
- (iv) Employee teams

(i) Craftsperson

If the entrepreneur does not trust people easily or prefers not to delegate, then a one-person business should be considered. Although this will limit the size of the business, it may be the best choice.

(ii) Coordinator

Outsourcing, or subcontracting, many functions may also allow the entrepreneur to have a large business without many employees. Yaliam Press Limited in Abuja practices this policy very much, especially when there are lots of job orders on hand with short timeline. They therefore outsource work to the best candidates

available whenever projects with short timeframe are received. This has proved helpful because it allow the business to cope with the increased patronage from their clients.

(iii) Classic entrepreneurial management;

Another technique often used by entrepreneurs is to hire employees but monitor and supervise everything closely. This style, known as the classic style, works only if the entrepreneur admits that he or she controls everything and makes that clear to the employees.

(iv) Employee teams

If the entrepreneur feels comfortable with delegating substantial responsibility to other people, the company may grow by hiring an employee team, by bringing in a few other partners, or by bringing in partners for a big-team venture.

The key to success is to match the style of management with the entrepreneur's personality. If the preferred style is craftsperson, coordinator, or classic, the company should not be too complex. If the business is simple enough, the company can grow with these styles. If the business becomes too complex, it will grow successfully only if the entrepreneur is comfortable with giving up some control (Merrill and Sedgwick, 1994).

3.3 Challenge of a New Business

One of the most exciting times for an entrepreneur is the start-up or early ownership phase. Building a company from the idea stage takes creativity and vision and is a great challenge. Even for the entrepreneur who buys an existing business with plans to improve it, the early ownership phase requires innovation and presents the entrepreneur with exciting goals to be accomplished. For these reasons, the early years of ownership are usually very rewarding. However, once the start-up phase is over and the company is past the survival stage, the level of challenge may seem to decrease. Despite the constant problems to be solved, this is often not as enjoyable as developing for the company.

3.3.1 The Loss of the Family Atmosphere

If the company is small, in the first few years, the family atmosphere is an enjoyable experience for both the entrepreneur and employees. The entrepreneur knows the employees, works directly with each of them, and closely manages the daily company operations. His or her direct involvement is usually crucial for the survival of the business. As the company grows, however, the atmosphere of the company changes. The entrepreneur no longer works directly with all of the employees, and it may be more difficult to maintain the "family atmosphere". This is often a source of discontent for both the company founder and the original group of employees.

3.4 The Changing Role of the Entrepreneur

As stated earlier, the skills the entrepreneur needs will change as the business grows. He or she should no longer be involved in daily tasks but instead should concentrate on management and motivation. Despite the need for strong leadership and management skills, however, the entrepreneur often feels trapped in a less important role. Once other managers and salespeople are hired, the entrepreneur's job is less well defined.

A common complaint at this point is, "I don't know what my job is any more. I used to be the head salesperson and cheerleader for my company, but now I've got a sales manager who does that. What's my job?" (Barrier, 1995).

Another problem that often occurs is that a business grows much larger and faster than the entrepreneur expected which conflicts with personal goals. For example, Carolyn Blakeslee founded Art Calendar, a publication that lists grants, art shows, and other articles of interest to artists. She began the company believing that it would be a part-time venture that she could operate from her home while raising her new baby. For the first few years, the company experienced a growth rate of more than 100 percent per year, and the business consumed much more of her time than expected. She felt torn between a desire to grow the company and a desire to spend more time with her child. She admits that she "has a perfectionist streak" and "can see what the magazine ultimately could be".

On the other hand, balancing both a full-time, demanding job and a child was not what she wanted when she started the business. In such a situation, crucial decisions regarding personal and company goals need to be made (Brokaw, 1991).

3.5 Options for Growth

If the entrepreneur becomes unhappy with growth or finds that outside management skills are needed, he or she has several options, some of which are discussed below.

3.5.1 Keep the Company Small

When faced with a growing company, the entrepreneur often makes a conscious decision to limit company growth or even reduce the company size. Although the potential exists to own a large business, the entrepreneur forgoes the financial rewards in favour of a smaller, simpler one.

By limiting the customer base, the number of hours of operation, the number of outlets, and so on, the business remains at a given level for the entrepreneur's entire career.

3.5.2 Rediscover the Entrepreneurial Spirit

Some entrepreneurs adjust to the growing business and use their skills to build a company that is strong enough to let the founder be entrepreneurial again. This may be accomplished with the same company.

Entrepreneurs may develop a company to a mature phase and then hire a good team of managers to run the business on a daily basis. The entrepreneur can then use his or her skills to decide where the company is going next and what opportunities should be pursued. One entrepreneur says she believes that entrepreneurs should know their own strengths and build on them (Barrier, 1995). Mary Kay Ash, founder of Mary Kay Cosmetics (Lambing and Kuehi, 2007), gave similar advice to entrepreneurs. Her advice was to "stay in the area that you do best" and find qualified people to handle the other tasks".

The entrepreneurial spirit can also be rediscovered by keeping the larger business and starting a second one. This allows the founder to experience the challenge of a start-up while maintaining the larger, more profitable business. In one small study of entrepreneurs who had been self-employed for more than six years, 44 percent indicated that they owned more than one company (Ronstadt, 1984).

3.5.3 Cash In

Other entrepreneurs at the same stage may have different reactions. Cashing in is always an option, but even then there are several alternatives.

Some entrepreneurs realise that they do not want sole responsibility for the company's management but they still want to be involved. For many, the solution is to sell a portion of the company to a key employee. One entrepreneur who started an auto repair firm sold a portion of the company to an employee when the business became too large and time consuming for one person to handle. This provided additional management expertise and also gave the entrepreneur more time for family and leisure activities.

Others decide to sell the business to an outsider and take a break from self-employment.

One owner of a rapidly growing automotive equipment company found the business overwhelming. He chose to sell to another entrepreneur and then accepted a job at an engineering firm.

Still others sell one business and start another. One veterinarian's successful animal hospital became too demanding. His solution was to sell the practice to another veterinarian and start a muffler repair shop instead.

3.6 Growth and the Business Plan

The growth of the company is shown in the business plan through the financial projections. The entrepreneur must project future sales, expenses, and profit, and this is closely tied to growth plans. The projected growth of the company must seem achievable to bankers and investors or they will think the entrepreneur is being overly optimistic.

Many entrepreneurs have failed after expanding too rapidly, so the business must show consistent but manageable growth.

4.0 CONCLUSION

As a business grows, the skills the entrepreneur needs will change. The move will be from direct to more indirect management as the number of employees increases. Both personnel management and financial management are critical factors for a growing business. Many entrepreneurs become dissatisfied when a company grows because the family atmosphere no longer exists, the challenge of the start-up is gone, and the entrepreneur's role becomes less well-defined. One recommendation is to match the size of the company with the personality of entrepreneur. If the company becomes too large, he or she may choose to make the company smaller, start other ventures or cash in.

5.0 SUMMARY

In this unit, we have,

- discussed business growth and management skills;
- described how to match the company and the entrepreneur;
- highlighted and explained the challenges of a new business;
- discussed the changing role of the entrepreneur;
- enumerated the options for growth; and
- discussed growth of a business in relation to the business plan.

In the next unit, we shall examine another interesting topic titled 'law and its relevance to business operations'. It is particularly useful to entrepreneurs who are bound to encounter challenges during interaction with other people, businesses and government.

6.0 TUTOR MARKED ASSIGNMENT

1. What is outsourcing? Why does it lower start-up costs? Why does it make management simpler? What would be the disadvantages?
2. Do you think it is possible for a small business to grow quickly and still retain the family atmosphere? Why or why not?
3. How does the entrepreneur's role change as a company grows?
4. What options does an entrepreneur have if he or she becomes unhappy with the growth of the company?

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UNIT 5 LAW AND ITS RELEVANCE TO BUSINESS OPERATIONS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Impact of Law
 - 3.2 Legal Issues in Business – Sale of Goods
 - 3.3 Legal Issues in Business Law – Contract
 - 3.4 Principal and Agent
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

1.0 INTRODUCTION

In the last unit, we discussed business growth and management skills, described how to match the company and the entrepreneur, highlighted and explained the challenges of a new business, discussed the changing role of the entrepreneur, enumerated the options for growth, and discussed growth of a business in relation to the business plan. In this unit, we shall examine another interesting topic titled ‘law and its relevance to business operations’. It is particularly useful to entrepreneurs who are bound to encounter challenges during interaction with other people, businesses and government.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- have a grasp of laws relating to business operations,
- appreciate the impact of law between one individual and another;
- discuss some of the rules governing sale of goods and contract;
- the legal relationship between a principal and an agent;
- describe the methods by which agency can be created and terminated.

3.0 MAIN CONTENT

3.1 Impact of Law

Ige (2007) state that this topic is designed to indicate how law impacts on our personal daily lives and on business. According to him, the law controls and regulates, enforces and punishes. Two passages are used as illustration. The first concerns a tertiary student; the second, a simple example of a small family business. Both passages highlight the numerous areas of law that may affect our personal and business activities.

Instructions:

Read the following passages and for each, underline or highlight what you consider to be key words, which suggest to you that some legal issue is involved.

Passage 1

An hour in the life of Bayo Bada an undergraduate of Criminology and Security Studies’ NOUN. Bayo Bada (‘Bee-bee’ to her friends) peers at her electric alarm clock, shouts obscenities (the window is open and the neighbouring house is only three meters away), shuffles to the toilet (biodegradable type), then to the bathroom for a shower. While breakfasting, Bee-bee listens to the daily state news which *inter alia* catalogues traffic offences, break-ins, mysterious fires in four local schools and objections to a proposed juvenile detention center for wayward wenches and uncouth youths. Taking pride in being an informed citizen, Bee-bee, between bites of barley bread layered with made in England cheese, flips from the headlines ‘UN Funding Fouls’ to State news demanding jobs in an area designated for World Heritage.

A snippet on tertiary fees and delayed payment to the government catches her attention, which reminds her that her first tutorial looms soon. Catching the municipal bus, she pays only half fare despite being eighteen years of age. Because her rent is due tomorrow she takes the opportunity to write a cheque to the landlord. Alighting, she posts the cheques.

A large group of students just off campus on the footpath of the main road are demonstrating about inadequate infrastructure in the University. To show her displeasure,

Bee-bee expectorates on the footpath. Focusing on the ring-leader she shouts, Dele, you are a dimwitted No Hoper!' Dele responds by kicking Bee-bee's briefcase. Other students threaten her physically. Not wishing to be late for her favourite tutorial session she decamps without further ceremony.

Self Assessment Exercise 1

1. Give a suitable title to the picture above.
2. Describe the scene depicted in the picture.
3. Identify the legal impact of what you see.

Analysis of Passage 1

Now check your attempt at identification of key words relating to the legal issues against a lawyer's response: 'NOUN'

Universities operate under the provisions of their own individual statute, in this case the National Open University, Act 1983.

(a) **Bayo Bada (Bee-bee)** – One may change one's name by common usage or by Deed Poll.

(b) **'Electric Alarm Clock'** – Bee-bee to have electricity say, Power Holding Corporation of Nigeria (PHCN). She would need to contract for this service. A body such as the PHCN is a statutory board under a Federal Government Act.

(c) **'Shouts Obscenities'** – Note the proximity of neighbours. Possible tortious action (ie involves law of torts) for interference with the private rights of her neighbour. Calling for an injunction, ie here a prohibition against doing such acts.

(d) **'Toilet'** – *The Local Government Bye-law* will give sufficient power to each municipal council 'to make local laws for, and otherwise ensure, the good rule and government of its territorial unit...' The toilet in question would need to meet local government standards and approval.

(e) **'To Shower'** – If the service (here water) is provided by some local authority, Legal obligations will exist between the contracting parties, e.g. water rate charge on annual rate notice from the local council to the landlord, the owner of the premises.

(f) **'Radio News'** – Control will be exercised broadly under the Constitution and specifically under the *Broadcasting and Television Acts*. Whether the station is commercial or not.

(g) **'Traffic Offences'** – These are governed in Nigeria by the *Road Traffic Act 1999*.

Such offences would be heard in the magistrate court. Nigeria has a codified system laws for criminal offences. This means an attempt has been made to cover as fully as possible all law relating to crime in a piece of legislation known as the Criminal Code or Penal Code. Specifically, 'break-ins' may be referred to in the Code Burglary: Housebreaking: and like offences.

(h) **'Fires'** – See the note above on the Criminal Code but refer specifically this time to such offence as Arson. Barley bread, cheese, because these products are imports, they come under the aegis of NAFDAC.

(i) **'United Nations'** – International law as opposed to State (or 'Municipal') law.

(j) **'Logging and World Heritage'** – Constitutional law. If an inconsistency should arise between the law of the state and a law of the international law, the international law prevails, to the extent of the inconsistency, see section 109 of the 1999 Constitution.

(k) **'Municipal Bus'** – Again contract law: Bee-bee paid for the ride. Further, State standards contained in regulations are relevant to the bus.

(l) **'Eighteen Years of Age'** – In Nigeria this indicates full legal capacity, i.e. she is seen as and accorded the rights of an adult. She is *sui juris*. Under eighteen years of age she would be classed legally as a minor.

(m) ‘Rent’ – The payment of rent indicates a lease of some kind and leases fall within property law or Rent Control Laws. Further, a lease is another form of a contract. **(n) ‘Cheque’** – This is another example of the way in which contract law is vital to the business world. Here a contract is formed between the customer and the bank for the use of a negotiable instrument.

(o) ‘Student Gathering’ – Where? Footpath which is a public thoroughfare. Therefore a blockage of pedestrian traffic may be interpreted as a public nuisance. Regulation of gatherings on public byways may also be subject to administrative law, e.g. the municipal council is empowered generally to pass by-laws concerning matters with the municipality. Meetings and processing permits are required under the Public Order Legislations.

(p) ‘Name Calling’ – This falls within a sub-branch of the Law of torts: Defamation. Slander concerns a spoken attack on one’s reputation.

(q) ‘Kicking’ – This is a direct interference with the property of the student. In law this is a ‘trespass to property’ and falls within the law of torts. Further, under the Criminal Code there is an assault.

(r) ‘Threats’ – Again, both criminal law and the law of torts may be involved here.

Under the Criminal Code a threat is viewed as an ‘assault’. In torts, an action could be raised for assault as well.

Passage 2

Adamu, an electrician, together with his wife Mariam, who is a businesswoman, wishes to establish a family business in the sale and repair of electrical household goods. To establish their business they wish to lease space in a major shopping center complex in Abuja. They intend to advertise and trade under the name of ‘Live Wire’, but are uncertain as to whether they should incorporate a family owned company to conduct the business or trade as a partnership. Adamu and Mariam are prepared to sign a three year lease for the ‘right’ shop in the center.

And although their monetary savings will be sufficient to purchase initial stock for the business they have no ready capital to buy fittings and equipment essential for the sale and repair of electrical items. Consequently, they intend to lease certain fittings and equipment and to purchase other equipment under hire-purchase. They also intend to employ one junior in the business on a full-time basis.

Analysis of Passage 2

Again, check your attempt at identification of key words and concepts relating to the legal issues against a lawyer’s interpretation. Suggested response:

Adamu and Mariam Wish to Establish a Family Business’

(a) Company Law – If Adamu and Mariam, perhaps on the advice of an accountant, intend to incorporate a **company**, this process will be governed by the requirements of the *Companies and Allied Matters Act (CAMA, 1990)*.

Incorporating a company means the creation of an artificial legal person (i.e. the company) with an identity separate from Adamu and Mariam. This company will be able to own property, sue and be sued. It will have perpetual succession and a common seal. It may even commit criminal offences, and be persecuted. The company will be a party to all contracts associated with the business. The company will no doubt be limited by shares, which means that Adamu and Mariam, as shareholders, will have limited liabilities. Their liability will be limited to the unpaid amount of the nominal value of their shares.

(b) Partnership Law – If Adamu and Mariam decide to form a partnership this **partnership** will be controlled by the provisions of the *Partnership Act 1891 and CAMA, 1990*. The hallmark of a partnership is the fact that the partners (Adamu and Mariam) are the principals and agents of each other. Consequently, the law of principal and agent permeates the whole area of partnership law and the acts of any partner (e.g. entering into a contract) which are done in the usual way for carrying on business of the kind, which is carried on by the firm (the collective name for the partners) binds the other partners even if they were not aware of that partner’s acts. In the formation of the partnership, the partners can agree as to the rights and duties between them, but if they don’t, then the *Partnership Act/CAMA*

provides rules governing rights and duties between partners. **(c) Sale of Goods Act 1893** – If Adamu and Mariam form a **partnership** then the sale of electrical goods to consumers will be controlled by the provisions of the *Sale of Goods Act*. This Act ‘cuts across’ the old rule of *caveat emptor* (let the buyer beware) and provides for certain terms to be part of every contract for the sale of goods. These terms require, in certain circumstances, that the seller (Adamu and Mariam) provide goods that are of merchantable quality and which are reasonable fit for the purpose made known to the seller. Remedies are available to the purchaser against Adamu and Mariam should they breach such terms.

(d) Trade Practices and Fair Trading Legislations – If Adamu and Mariam decide to **incorporate** rather than form a partnership they will be subject in their business transactions to the provisions of the Restrictive Trade Practices Legislations. Part of these provisions related to the protection of consumers both with respect to misleading or deceptive conduct by the corporation (e.g. false advertising) in trade or commerce and with respect to transactions between the consumer and the corporation. For example, in every contract between Adamu and Mariam’s company and a consumer, for either the sale of electrical goods or the repair of electrical items, there will be certain terms implied by law (whether or not the parties to the contract agreed to such terms). These terms, which relate to the quality of the services and the goods supplied, and to their fitness for the purpose, will if breached by the corporation provide a remedy to the consumer against the corporation. As a result of constitutional limitations on the powers of the National Assembly, the Trade Practices Legislation will not apply to natural persons whether trading alone or in partnership provided such trade is confined within a State. Some State Assembly have legislation, which apply to sole traders and partnerships.

‘Trade under the Name Live Wire’

(a) Business Names Act 1961 and CAMA, 1990 – Whether or not Adamu and Mariam incorporate or form a partnership, since they wish to trade under the name of Live Wire’ it will be necessary for them to register the business name under the *Business Names Act/CAMA*. Registration would not be required if Adamu and Mariam in partnership traded under their individual names or if after incorporation the company traded under its incorporated name. It is only where a person trades under a name other than his/her own that registration is required.

(b) Taxation Law – It is necessary for Adamu and Mariam to contact the Commissioner for Taxes to indicate that they have commenced business and they would have an option either to have group tax registration or to purchase tax stamps. If Adamu and Mariam are selling goods subject to sales tax they should apply to the Commissioner of taxes for registration under the *Sales Tax Act*.

‘Wish to Lease’

(a) Retail Shop Leases – Adamu and Mariam’s **lease** of premises in the shopping complex in Lagos will be subject to provisions of the Retail Shop legislation, which give certain protections to tenants of retail shops against onerous clauses imposed in standard form leases. The legislations prohibit certain conditions being imposed in retail shop leases and also require that in specified circumstances certain implied conditions shall be part of the lease. Both these measures are designed to protect the tenant.

‘Shop’

(a) Factories Act – Adamu and Mariam are required to register their shop under this Act and to keep the premises registered as a shop. They cannot occupy or commence business in the shop until it is registered. Adamu and Mariam should also be familiar with the provisions of this Act which deal with safety, health and welfare.

(b) Local Government By-Law – Adamu and Mariam should be aware of local authority planning laws, which regulate the use of land (land includes buildings on that land, e.g. Adamu and Mariam’s shop). Use of land falls into three categories:

- Those uses which are prohibited;
- Those uses which are available as of right; and

- Those that require the consent of the Council, or other authorized Body. It is necessary for Adamu and Mariam to determine which category they fall into with respect to the proposed uses in their shop.

‘Three Year Lease’

(a) Contract Law - The importance of contract law in commerce is highlighted in the establishment and conduct of the family business. The initial **three year lease** of the shop is a **contract**. The lease of the fittings is a contract. The hire-purchase agreement for equipment is a contract. The agreement under which the junior is employed is a contract of service. Each time a customer buys an appliance or leaves an appliance for repair there is a contract. There is a contract relating to the advertisement of the business. Despite the fact that the common law principles of contract in some of the above contracts may be overridden by the provisions of specific legislation, e.g. *Hire-Purchase Act*, the importance of basic contractual principles cannot be underestimated. Consequently in this course, you will make a detailed study of contract from its genesis in the English Common Law.

‘Purchase of Other Equipment under Hire Purchase’

(a) Hire-Purchase Act – Adamu and Mariam wish to buy certain equipment but they have no funds available for this purpose. If they buy the equipment by method of **hire-purchase**, the transaction will be governed by the provisions of the *Hire- Purchase Act*. In essence, a hire-purchase contract consists of two elements, namely, a hiring agreement with an option to purchase. The option is exercised by the person hiring the goods, making the final payment at the end of the agreed period of the hire. There is only a hiring or leasing until this final payment.

‘Fittings’

Property Law

Though property law may affect one’s business in various ways, a simple application of property law relates to the distinction between

Fixings and Chattels

Adamu’s and Mariam’s proposed three year lease may contain a clause, that all fixtures on the rented premises will at the termination of the lease become the property of the landlord. Even without such a clause, land includes fixtures on the land. Consequently, the building and fixtures form part of the land owned by the landlord.

It is therefore important for Adamu and Mariam to be able to distinguish between fixtures and chattels. Fixtures include those things, which are attached or fixed to the building which is itself a fixture. Movable items not affixed are referred to as chattels. For example Adamu and Mariam in fitting out the shop should be advised to keep the distinction in mind.

‘Sale and ...of Electrical Household Goods’

(a) Law of Torts – Adamu and Mariam as the occupiers of premises to which the public are invited and as the **sellers of potentially dangerous products** should consider the implications of **tort law**. The main body of tort law which has implications for Adamu and Mariam is the law of negligence as it relates to the occupier of premises and the supplier of potentially dangerous products. Adamu and Mariam will have a **duty of care** cast on them as occupiers of the shop premises to take reasonable care to prevent damage from reasonably foreseeable risks to persons entering the shop. If a customer is injured as a result of **negligence** by Adamu and Mariam with respect to the static condition of the shop (e.g. slippery floor) that customer may sue the occupiers and recover compensation. Tort law may also cast a duty on Adamu and Mariam with respect to any dangerous items they may sell across the counter. For example where Adamu and Mariam are aware that the manufacturer has supplied no instructions with respect to the dangerous propensities of an item, and Adamu and Mariam are aware of those propensities but fail to warn a purchaser, they may be held liable to that purchaser for any injuries resulting from that dangerous propensity (e.g. risk of electrical shock when used in a certain way).

(b) ‘Repair of Electrical Household Goods’ – The common law principles of bailment will apply to the repair side of Adamu and Mariam’s proposed business.

Each time Adamu and Mariam or their company contract for the repair of an electrical appliance there will be a bailment of those goods from the consumer to the repairer.

The consumer is the bailor of goods for repair, to the repairer who is the bailee. In **essence**, a bailment is a **temporary parting with possession of goods by their owner to a person called a bailee**, for a specified purpose (e.g. repair) with an implied understanding that the goods will be returned to the possession of the owner (bailor) when that purpose is fulfilled. Where there is a bailment of goods (in this instance pursuant to a contract for repair) the bailee comes under a **duty to take reasonable care** in all the circumstances, of the goods of the bailor while they are in the possession of the bailee such that if they are damaged or destroyed or lost through negligence, while in the possession of the bailee, the bailor may sue for damages and recover the loss sustained from the bailee.

‘Intend to employ one junior ... permanent fulltime...’ Labour/Industrial Law

Adamu and Mariam intend to **employ** one permanent full-time employee. They will be required under the *Workers’ Compensation Act* to take out a policy of insurance against accident or injury occurring to that employee while in the course of his or her employment. Such compulsory insurance by the employer offers protection to the employee against accident or injury which is work related. The employer (Adamu and Mariam) will have certain **common law duties** to **safeguard** the **employee** from unreasonable risks in regard to the fundamental conditions of employment the safety of plant, premises and method of work. Adamu and Mariam will be required to take reasonable care to provide for the employee both a safe system of work and a safe place of work. Any breach of this duty by the employer may subject that employer to a claim for damages by the employee. Issues raised in the preceding pages are many but not exhaustive but they suffice to create an awareness of the impact of the law in many areas of life.

3.2 Legal Issues in Business – Sale of Goods

Sales of goods is one of the legal issues in business. This section therefore introduces you specifically to those agreements to sell, the importance of warranty to sales of goods and also discuss those breaches of contract in terms of sales and how they can be addressed.

This section shows that the business of sales has its legal implication for you as a buyer and the seller. Once you agree to sell and buy you are legally bonded. In case of failure you can face legal implication.

3.2.1 Sales and Agreement to Sale

Kurfi (2005 quoted in Ige, 2007) defined contract “as a contract where by the seller transfer or agreed to transfer the property to the buyer for money consideration, called price”. If you are into a business and you have an item to sell or willing to sell, it is either:

- (i) When you transfer the title of the goods to a buyer this contract is called sales.
- (ii) In a situation where an agreement is to pass on the possession of an item in a future date, with some conditions attached, it is called agreement to sales.

In a situation where the conditions are fulfilling, sales has taken place. If you sell and deliver well then, contract of sales has taken place and the first owner will cease to be the owner and the second party takes possession.

Goods that can be used for this sale are:

- Motor vehicles
- Ships
- Aero planes etc.

3.2.2 Sales and Other Contracts Distinguished

Contract of sales is different from the following:

(a) Bailment – This is an agreement between two parties that goods should be delivered to another party or that goods should be transfer from second party to the third party based on the instruction given by the first party.

(b) Hire Purchase – It is an agreement between two parties for the second party to have an item under some conditions, until such conditions are fulfilled, the item is still that of the first party.

(c) Exchange – It is a transfer of goods from one party to another. There may not be exchange of money. It could lead to contract, if where price is partly involved and party of goods are settled with goods.

Self Assessment Exercise 1

- (1) Give good example of bailment.
- (2) State a very good example of hire purchase.
- (3) Have you ever exchanged any good? State your experience.

3.2.3 Conditions and Warranty

These are terms commonly found in sales of goods:

- Conditions is a term used that if not fulfilled can cancel a contract.
- Warranty: It is a condition of sales that if discovered leads to a right of damage only or possible replacement.

Some conditions of warranty are:

(i) Stipulation as to the Time – In a commercial contract, time of delivery is necessary especially where perishable items are involved. If the time stipulated is breached, it means that the contract has been breached, the injured party can ask for refund.

(ii) Undertaking as to Title – Once a contract of sales is entered into, it is agreed that:

- You have a right to sales, subject to any agency agreement or sale by the holder of power of attorney.
- There is implied warranty from the seller that the buyer will enjoy “a quiet possession of the goods”.
- Warranty as to freedom of encumbrances that the goods bought shall be free from any disturbances by the third party that was not declared by the seller.

(iii) Sales by Description – If your sales goods are by description, the description should correspond to the description given, if not there will be a breach of contract.

(iv) Sales by Samples – It states that:

- There is an implied condition that the bulk shall correspond with the sample or quality and quantity.
- That the buyer should have an opportunity to compare the bulk with the sample.
- There is an assumed condition that the goods shall be free from any defect rendering them unmarketable which will not be apparent in the sample.

Self Assessment Exercise 2

Name five products that have warranty.

3.2.4 Transfer of Property

Once goods are sold they are to be transferred especially from one party to another. One of the reasons for doing this is to know the rights, duties or liabilities of the parties involved. Who is to pay for damages, destruction or loss of the goods because of these the difference between the following is necessary.

(1) Specific or Ascertain Goods – Kurfi (2005) quoted in Ige, (2007) says specific goods are goods identified and agreed upon at the time of the sale. Under this condition goods are to be transferred to the buyer at the time the parties intend it to be transferred. In this contract intention of the parties must be known there are from way in knowing the intention of the parties.

Kurfi (2005) states the form of the condition thus. Where there is an unconditional contract from the sale of specific goods in a deliverable stage the property in the goods passes to the buyer when the contract is made and it is immaterial whether the time of payment or of delivery or both postponed. If a seller is bound to do something for the purpose of putting them into a deliverable state, the property does not pass until such thing is done and the buyer has nothing thereof. If goods sold are to be weighed or measured for the purpose of ascertaining price, it must be done. If not, the buyer has nothing thereof. If all conditions are fulfilled the goods must be passed on to their buyer. It is established that:

- If the buyer signify approval
- If they do not singly approve

(2) Unascertained Goods – Kurfi (2005) states that in unascertained goods are “where there is a contract for the sales of unascertained goods, no property in the goods is transferred to the buyer unless and until the goods are ascertained.

3.2.5 Transfer of Title

In business law, it is believed that “no one is legally capable of giving what he does not have. It means that you can’t sell what you do not have, where there is an agreement to sell, you should have the right to sell at the time when the property or goods is to pass. It is only the owner of goods that has the right to transfer the title of such goods to another person. Sometime it may not always be so. In such cases we have:

(a) Sales by Agent – You can sell goods to another person with the consent of the original owner, you are now the agent. If you sell without his consent, he (the owner) can recover his goods. “However, the owner is liable to compensate the purchaser for any improvement he had affected on the goods while they are on his possession”.

(b) Estoppels – Kurfi (2005) Say a person by his conduct or acquiescence allows others to believe in a state of things and they acted to his detriment. Such a person will be excluded or denied the state things. He went further to say it is a situation whereby the owner of the goods by his conduct is precluded from denying the sellers authority to sell, and it applies in cases of agency by estoppels based upon the general representations made by the principal i.e. the seller has his authority to sell.

(c) Sale under Special Power – Goods can be sold under some special common law or any statutory power e.g:

- Liquidator of a company
- Unpaid seller of goods

(d) Sales in Market – Where goods are bought in a market place, you can buy from the market provided you buy in good faith.

(e) Sale by a Factor – Kurfi (2005) a factor is a type of mercantile agent entrusted with a sale of goods for sale only, and it is allowed by law to sell in his own name.

3.2.6 Performance of Contract of Spice

This involves delivery of goods sold, either on behalf of the seller and their acceptances and payment of the price on behalf of the buyer.

Delivery: Kurfi (2005) says it’s the voluntary transfer of possession from one person to another, this transfer may be actual or constructive”. Constructive delivery may be any of the following form:

- By affirmation i.e. the third party acknowledges to the buyer he holds the goods on his behalf;
- Transferring to the buyer;
- Possession passes to the buyer without actual delivery;
- Transfer of document of title.

3.2.7 Place and Time of Delivery of Goods

When an agreement is reach for delivery of goods, the time and place must be stated. If not stated, you deliver to his place of business, if he has more than one place of business, where the transaction took place, which is where to deliver. In case where time is not stated, you will deliver at a reasonable time.

3.2.8 Delivery of Wrong Qualities

It is expected that the seller, write delivery the exact goods agreed upon. If the goods are less or more, the buyer has the right to accept or reject such goods.

3.2.9 Breach of Contract of Sale and Remedies

Contract between a seller and a buyer may be breached. Disagreement may arise i.e. the form of refusal or rejection of goods and refusal to pay. In such situation the law will prevail.

- **Breach by the Seller**

The seller can breach a contract and you can react to such a breach in one of the following ways:

- Right to reject the goods
- You have the right to bring an action for damages as well as for specific performance.
- An action for money paid for the goods in the contract.

- **Breach by the buyer**

The following remedies are available to him:

- Failure to take delivery
- Failure to accept goods
- Failure to pay for the goods
- The seller has the right to resell

3.3 Legal Issues in Business Law - Contract

This section will help you to find out what contracts are in business. If you are doing business, contract is a serious agreement between two parties. Different types of contracts exist, that you will learn what constitute a contract. If contracts are violated, you will know how to handle such.

3.3.1 Definition of Contract

Kurfi (2005) define a contract as a promise or a set of promises, for the breach of which the law gives a remedy or the performance of which the law recognizes as a duty.

Contract is classified into two:

- Contract under seal
- Simple contract

Contract under seal is a written form of contract that, is signed by both parties and sealed on it.

Simple contract is an informal contract. This contract may be written, oral or mere conduct of the parties.

3.3.2 Classification of Contract

Kurfi(2005) Identify nine classes of contract, they are:

- 1. Expressed contract** – A contract is expressed when the parties manifest their agreement by words. Contract that is written, oral or under seal is called expressed contract.
- 2. An Implied Contract** – It is implied by the act or conducts of the parties and it is sanctioned by the law.
- 3. Quasi-Contract** – Quasi means something looking or resembling something. A Quasi contract can best be described by an example of a doctor who treats an accident patient brought in by a passerby. The doctor will recover his cost of services from the patient. In this case, it is to discourage one party from unjustly benefiting from a contract that was not expressed.
- 4. Bilateral Contract** – A contract where two parties are making a mutual promise.
- 5. Unilateral Contract** – It's a situation where an offer is made and acceptance is subject to legal obligation. For instance if you find my lost GSM Handset I will give you five hundred Naira (N500). If found, you are bound to give the finder N500.
- 6. Joint Contract** – It's a contract where two or more people are involved and jointly bound to fulfill the obligation.
- 7. Joint and Several Contracts** – It is a contract where by two or more people are not only equally bound together in a contract also individually bound.
- 8. Entire Contract** - It is a contract where the contract in question must be hundred percent completed before, the contract sum is given in full.
- 9. Several Contracts** – Contracts were the contract can be executed in pieces.

3.3.3 Essential Element in a Contract

Kurfi (2005) says there must be seven conditions fulfilled in a contract before it can be enforceable. They are:

1. Offer – It is a promise or a commitment to do or refrain from doing some specifying things in the future. An offer has also been defined as a proposition, made by one party called the offeror to another party called the offeree. Three conditions must be fulfilled for an offer to be legal:

- Offer must be definite and certain.
- Proposition must come from the person, liable to be bound should the said terms be accepted.
- The offer must be communicated to the offeree.

The following are limitations to treat; as such, they do not amount to an offer:

- Exhibition of goods for sales in a shop
- Advertisement of sales in catalogue or mass media
- An auctioneer's request for bids
- An invitation to tender
- Negotiating for sales of land and or other complicated contracts. Offer can be terminated by:
 - Rejection
 - Counter offer
 - Revocation
 - Lapse of time.
 - Occurrence – a non-occurrence of a condition
 - Death

2. Acceptance – If an offer is made, a reply to it is referred to as acceptance. The acceptance must not attach any other condition to accept the offer, if not, it will be regarded as a counter offer.

Acceptance is genuine, if the following are present:

- You must display an intention to accept,
- You must communicate the acceptance to the offeror.

In terms of communicating an offer, the following condition must prevail:

- Silence is not an acceptance
- In a special case you can waive an acceptance
- Communication will depend on the type of offer
- There are various rules under the post rules

3. Consideration – Kurfi (2005) define consideration as the price for which the promise is bought. All contracts must be supported by a consideration. A bare promise is not legally binding. The following four rules governing consideration must be observed:

- It must be sufficient and need not to be adequate.
- It must move from the promisee though not necessarily to the promisor.
- Consideration may be executory or executed but must not be past.
- It must not be illegal; immoral or contrary to public policy

4. Intention to Create Legal Relation – In business any contract should have an intention to have a legal intention. If not it will not be a contract. When there is an agreement that relates to commercial or business, it means, there is an intention to create legal relationship.

- Where the parties to a contract expressly exclude an intention to create legal relationship.
- Domestic, family or social affairs have no intention to create a legal relationship.

5. Legal Capacity of the Parties – To enter into any legal contract with anybody, you must exercise his capacity to do so. The following may have a limited capacity:

- Infants
- Persons of unsound mind or lunatic
- Drunkard persons
- Illiterate etc.

6. Formalities Required by the Law – The following formalities are required by law in respect of contract:

- Contract which must be under seal
- Contract which must be in writing
- Contract which must be evidence in working

7. Legality of the Object of the Contract – When if contract entered is illegal, the entire contract becomes null and void. A contract is illegal if any of the following happen:

- To Violation the law of the land
- If its contrary to public policy

Self Assessment Exercise

List five conditions, of rejection of offer.

3.3.4 Contractual Terms

Terms vs. Misrepresentation

Terms dictate the rights and obligations of the parties to the contract. Misrepresentations are statements that are not part of the contract and not binding on any of the party.

Condition and Warranties – Kurfi (2005) says condition is a very important contractual term if, breach the whole contract may be canceled. If a warranty just like condition is breached, damages might be paid. It does not lead to cancellation of contract.

3.3.5 Violating Elements in a Contract

A contract may be null and void depending on any of the following reasons:

(a) ***Mistake*** – it could come as a different mistake from both parties, ignorance by two parties on a contract agreement.

(b) ***Misrepresentation*** – Contract can be violated if there is misrepresentation.

Because of that, buyers must be aware and the sellers must deal with the buyers in an utmost good faith.

(c) ***Undue Influence*** – A contract is valid when it is discovered that there was no special relationship between the parties. However, when if you enter into any contract with your master and you can't fulfill it, if a case is taken up it could be assume to have been agreed upon because of undue influence. Other examples are:

- Lecturer and student, Doctor and patient etc.

(d) ***Illegality*** – Any contract that is not based on rule of law, is void and it cannot state the test of law

3.3.6 Remedies for Breach of Contract

The following remedies are expected to take place if there is a breach of contract between parties:

(i) ***Damages may be paid*** – If it is established as to who breach the contract, either the buyer or the seller.

(ii) ***Quantum meruit*** (as much as he desires) it could be claimed in a variety of, circumstances e.g.

- Where the defendant has abandoned or repudiated the contract.
- Contract done under a void contract.
- Where the parties have agreed to terminate the contract
- Where one party has obtained a benefit.

(iii) ***Specific Performance*** – Kurfi (2005) says it is a specific performance; it is an equitable remedy for breach of contract. It is a decree issued by the court ordering a defendant to perform a promise that he has made under the contract. It may be awarded in addition to or instead of damages.

(iv) ***Injunction*** – It is a decree by the court ordering a person to do or not to do a certain act.

3.3.7 Privity of Contract

It means here that a person, who is not a party to a contract cannot suffer or enjoy the burden of contract. There are exceptions to these:

- Agent-an agent can be brought into a contract
- Assignment of contractual obligations

- Certain comments concerning land.
- Statutory exception.

3.3.8 Discharge of a Contract

A contract may be discharged by the following way:

- Performance
- Express agreement
- Breach of contract
- Frustration

3.4 It is different from those of employment or independent contractors. In the contract law, two parties are directly connected in the law with each other either by the unilateral act of one or the mutual acts of both. In Agency Law, the Agent introduces a third party with whom he deals and whose conduct can affect the legal position of his principal. The use of a representative or agent enables one person to conduct multiple business operation and the problem and complication arising from the introduction of a third party that the special law of agency is directed to regulate and this is the subject matter of this section.

3.4.1 Principal and Agent – The Agency Relationship

Countless transactions in the commercial world are carried out through agents. Any decision to buy real estate, shares, commodities, goods, plant. Etc will almost invariably involve the use of agents by either the vendor or purchaser or both. Even in our personal lives agents are important, such as when we arrange a holiday through a travel agent, the agent will act on our behalf to make such bookings for hotels, airlines and tour operators, as we desire.

Bowstead on Agency (1985, p 1) defines agency as follows: “Agency is the fiduciary relationship which exists between two persons, one of whom expressly or impliedly consents that the other should act on his behalf, and the other of whom similarly consents so to acts or so acts”.

(Source: Bowstead on Agency 1985.p1)

The one on whose behalf the acts to be done is called the principal. The one who is to act is called the agent. Any person other than the principal and agent is referred to as a third party. (For ease of reference we shall refer to the principal as P, agent as A and the third party as TP.)

With regard to the acts which P consents that A shall do on P’s behalf, A is said to have authority to act and this authority constitutes a power of affect P’s legal relations with TP (e.g. bring about a contract between P and TP). Once this accomplished. A generally fades out of the picture.

However, if A has acted improperly (e.g. by exceeding his authority or otherwise breaching a duty owed to P), A may be involved in subsequent litigation. The agency agreement between P and A need not be contractual (e.g. there may be no provision for commission). Thus, A can act gratuitously. However, as we are studying agencies in a business law context we shall be concerned mostly with contractual agency.

3.4.2 Terminology

Often a true agent, legally speaking, might be described by another term such as ‘broker’, ‘factor’ or ‘representative. Conversely, some persons described as ‘agents’ are not really agents in the legal sense of the word but are rather dealers, consultants or intermediaries.

For example, a car dealer is often referred to as the ‘agent’ or ‘sole agent’ for the maker of a particular model of car. However, usually the dealer is not an agent in the legal sense because if he sells a car to a buyer, no legal relationship is thereby established between the buyer and car maker. Rather, the dealer buys the car from the maker and then sells it on to the buyer: the dealer does not sell the car on behalf of the maker. This is the substance of the relationship which is the determining factor as to whether or not one is an agent. Such a situation exists in: B had purchased from S a hay baler manufactured by T. Earlier, B had discussed about the hay baler at the Sydney Easter Show

with a representative of T who suggested B discuss the matter further with T's local 'agent'. After further enquiries for S, B signed an order form for S to supply the hay baler. The order form made no reference to T. The baler proved unsatisfactory and B made repeated complaints to S but S went into liquidation before B could obtain redress. B then sued T alleging inter alia that S had acted as T's agent in selling the baler to B.

Held – the High Court rejecting this – it was clear on the facts that S purchased T's equipment and resold it as principal to S's own customers. T's references to S as 'agent' were of no effect because, as the joint judgment observed for 'almost a century cases have appeared .. in the law reports illustrating the fact that the word 'agent' is often used in business as meaning one who has no principal but who, on his own account, offers for sale some particular article having a special name... no one supposes that the 'distribution agent' or 'exclusive agent' in a particular territory' for a commodity or specific kind of article or machine is there to put a 'consumer into contractual relations with the manufacturer'.

Thus, it is the substance of the relationship which is the determining factor as to whether or not one is an agent.

3.4.2 Creation of Agency

The relationship of P and A may be created by:

- Express Agreement:
- By deed or 'under seal'
- By writing
- By word of mouth
- Implied Agreement
- Holding Out or Estoppel
- Ratification

1. Express Agreement

By deed or 'under seal' – This formal form of appointment is termed a 'power of attorney'. Appointment by deed is necessary if P wishes to empower A to execute a deed on P's behalf. If A is to deal with land on P's behalf then the power of attorney is required

• In Writing

While generally there is no legal requirement that agency agreement be in writing, it is clearly preferable that they are, so that disputes can be reduced. Also statute requires that some agency agreements be in writing for example appointment of all auctioneers real estate agents and motor dealers must be appointed in writing before those agents may sue for their commission.

• By Word of Mouth

For whatever purpose A, may, in general, be appointed orally subject to statutory exceptions such as those referred to above.

2. Implied Agreement

Agency agreements, whether contractual or otherwise, may be inferred by the court from the circumstances. The test is whether a reasonable man, when assessing the conduct of the parties have agreed to act in relation to one another upon a basis that can be characterized as an agency.

While agency must ultimately derive from consent, the consent need not necessarily be to the relationship of principal and agent itself (indeed the existence of it may be denied) but it may be to a state of fact upon which the law imposes the consequences which result from agency. (Source: Lord Wilberforce in *Branwhite v Worcester Work Finance Ltd* [1969] 1 AC 552 at 587.)

Morgans v Launchbury [1973] AC 127

A family car was registered in the wife's (W's) name although the husband (H) often drove it to work. H assured W that when he stayed out late drinking, he would not drive the car, but would

arrange for a friend to drive. On such an occasion, the car was involved in an accident and both H and K, the friend who was driving, were killed. The three survivors sued W, alleging that K had acted as her agent in driving the car.

Held: by the House of Lords that on the facts, K was acting on behalf of H but not of W. But there was general agreement that a request from the owner of a car to do something on the owner's behalf (not being something the driver should do in any case, e.g. return a car borrowed without permission) would be sufficient to create an agency relationship. Lord Pearson observed at page 140 that for 'creation of the agency relationship it is not necessary that there should be a legally binding contract of agency, but it is necessary there should be an instruction or request from the owner and the undertaking of the duty or task by the agent. In addition to the general principles mentioned above there are three specific uses where agency will be implied.

- **Cases of Emergency**

See Great Northern Railway Co. v Swaffield (1874) LR 9 Ex 132 Sachs v Miklos [1984] 2 KB 23 where the plaintiff had been allowed by the defendant to store some furniture in a room belonging to the defendant. The plaintiff was not seen again for a long time. Wishing to let the premises, the defendant made repeated, but unsuccessful, attempts to contact the plaintiff by telephone and letter. The defendant then sold the furniture by auction. In answer to an action for conversion, the defendant attempted to claim a power to act as agent of necessity. This defence failed. Clearly there was no emergency threatening the safety of the furniture.

- **Married women**

This is an agency of necessity which applies to the position of a wife living apart from her husband as a result of his misconduct. She has implied authority to pledge his credit for necessities.

- **Cohabitation**

A wife, either legal or de facto, is presumed to have authority during cohabitation to pledge her husband's credit for household necessities suitable to her husband's style of living for such dependants in the household as the wife usually has under her control. Refer to the text for instances which may rebut this presumption.

3. By 'Holding Out' or 'Estoppel'

Where a person, by words or conduct represents or permits him/herself to be represented, that other person is his agent, he will not be permitted to deny the agency as against any third party dealing, on the faith of such representation, with the person held out as agent. The representation must come from the alleged P. TP is not entitled to rely on a representation of authority from the alleged agent only.

Thus, by operation of the doctrine of 'estoppel' or 'holding out', TP is entitled to assume from the conduct of the alleged P that the supposed A has authority even when this is not really so. Most cases concern persons who already have some authority to act as A but who are allowed by P to appear to have even more authority than they actually have. Another common instance is where P and TP have been dealing with each other in the past through A. P dismisses A but, in the **absence of notice** of the dismissal, TP may still deal with A and bind P to the deal even though A no longer has any real authority at all. Cases do arise where a person not hitherto an agent for P may bind P under the doctrine of estoppel. They are comparatively rare in contract situations.

However in one American case, *Lucken v Buckeye Parking Corp* 68 NE 2d 217 (1945) a company was held responsible to a car owner who left her car with a person standing on a parking lot which the company had recently vacated, but over the entrance to which the company's sign was still displayed. Although the defendant had never authorized the person at the car park to act on their behalf, the fact that they had for some time operated the car park, coupled with their failure to remove the sign, constituted a representation to the plaintiff that they still operated there, and that anyone apparently working there was employed on their behalf.

4. Ratification

Where A has acted **without P's authority**, but has nevertheless **purported to act as P's agent**, it is open to P subsequently ratifying the transaction. Ratification operates **retrospectively**, thus ratification relates back to the moment A and TP entered into the contract so that P is entitled to

enforce the contract against TP. Note the requirements of ratification concerning both A and P and note the interrelationship between this principle and that of non-disclosed principals.

Self Assessment Exercise

1. Distinguish an agent's actual, implied authority and apparent authority. Give an example of each.
2. For ratification to be effective, there are certain prerequisites, name them.

3.4.3 Nature and Scope of Agent's Authority

After deciding that agency has been created by one or more of the above modes of creation, it is now important to consider the nature of A's authority and the scope or extent of that authority. Being appointed, A now has power to affect P's legal position in relation to TP. However, P will only be bound by those acts of A which fall within the scope of A's authority. P will not be affected by what A does in excess of A's authority, unless P subsequently ratifies A's unauthorized act. Furthermore, if A acts outside his or her authority, A may be liable to P for breach of the agency contract, or to TP for breach of implied warranty of authority. Thus, it is of vital importance to be able to determine the nature and extent of A's authority.

1. Nature of Agent's Authority

The type or nature of A's authority may be:

- Actual Authority, ie either:
- Express actual authority; or
- Implied actual authority; or
- Apparent or Ostensible Authority

Actual Authority – arises from the agency agreement between P and A. It is termed **express actual authority** where P has given the authority to A expressly, that is, by word of mouth, deed or otherwise in writing. Thus, the same process by which P appoints A as agent, e.g. by power of attorney, will also delineate much or all of A's express actual authority. However, in addition to the express actual authority contained in the agency agreement, A may also have **implied actual authority**.

Bowstead on Agency (1985) states that the most obvious cases of implied authority arises as incidental authority (to do whatever is necessarily or normally incidental to the activity expressly authorized), usual authority (to do whatever that type of agent would usually have authority to do), customary authority (to act in accordance with such applicable business customs as are reasonable) and an implied authority arising from the course of dealings between the parties and the circumstances of the case. Thus, implied actual authority is often said to arise to give 'business efficacy' where a contract may be silent. For instance, P may give A (a real estate agent) express actual authority to find a purchaser for P's house at \$X. A will also have implied actual authority to describe the property and state any fact which may affect the value of the property so as to bind P.

Apparent or Ostensible Authority (the two expressions are synonymous) is 'the authority of an agent as it appears to others': *Hely- Hutchinson v Brayhead Ltd* [1967] 3 ALL ER 98 at 102 per Lord Denning MR. It comes not from the internal aspect of the relationship between P and A as does actual authority, but is an external matter affecting P and TP. Thus A may affect the legal position of P because P's conduct has made A appear to have authority which in fact A lacks.

As TP is generally unaware of the terms of the agency agreement, TP will usually rely on A's apparent or ostensible authority in order to bind P.

2. Scope of Agent's Authority

With **actual authority**, the **scope** or extent of A's authority is ascertained by applying ordinary principles of construction of contracts, including any proper implications from the express words used, the usages of the trade, or the course of business between the parties. With **ostensible authority**, A is taken to have as much authority as agents of that type **usually** have. Also see *Freeman & Lockyer v Buckhurst Park Properties (Mangal) Ltd* (1964) 2 QB 480 and *Panorama Developments (Guilford) v Fidelis Furnishin Fabrics* (1971) 2 QB 711.

Although actual authority and apparent authority are independent of each other, in certain circumstances they may co-exist. In such a case, A's ostensible authority is likely to be wider than A's actual authority which may be limited by the terms of the agency agreement. Nonetheless, P is bound by those acts of A which fall within the scope of A's apparent authority even if A has acted outside the terms of A's actual authority.

Self Assessment Exercise

1. What is a break of Warranty of Authority?
2. Suggest three circumstances where a person would be wise to appoint a power of attorney and briefly explain the function of the attorney.
3. Douglas, aged 15, purchased a gun for N50,000 from Hunter stores, Port Harcourt, Douglas placed the purchase on his fathers account. Enumerate the issues and discuss them.

3.4.4 Rights and Duties between Principal and Agent

1. Agent's Duties to Principal

These duties may be expressly enumerated in the agency agreement (as in a standard form of power of attorney) or they may be implied into the agency agreement. They may vary according to the nature of the agency and the terms of the agreement. Breach of the terms of an agency contract will lead to A being liable to P for breach of contract. A's major duties include:

- A duty to follow P's instructions. Failure to comply with P's instructions, except where they are illegal, will render A liable for the loss suffered by P as a result of the breach. Gratuitous agents would not be liable under this head.
- A duty not to exceed his/her authority If A has exceeded his/her actual authority having apparent authority only, A will be liable to P for any loss caused thereby.
- A duty to exercise reasonable care, skill and diligence.

If A breaches this duty, P may recover the loss by using A for breach of contract if there is an agency contract, or for negligence. If a duty is imposed by statute, P might also sue A for breach of statutory duty. For example CAMA, 1990 provides that directors and other executive officers of corporations shall at all times act honestly and exercise a reasonable degree of care and diligence in the exercise of powers and discharge of duties.

- **A Duty to Act in Good Faith** – The relationship between P and A is a **fiduciary** one. Because A has bound him/her self to act in the interests of P and because of the peculiar trust and confidence P reposes in A, equity has seen fit to supervise this relationship basically to prevent A from misusing A's position for A's own advantage. There is also authority that fiduciary duties are based on terms implied into all agency contracts. Thus is imposed on A a duty to act in good faith or honesty, loyally and single mindedly in P's interest. Hence A must:

- **Not Make a Secret Profit or Take a Bribe** – Any gain made by A whilst carrying out P's work which gain is kept from P, is a secret profit and recoverable by P. A will also lose his right to commission. However, if A has acted bone fide, A may retain his commission. In *Hovenden & Sons v Millhaff* (1990) 83 LT 41 at 43, Romer LJ said, 'If a gift be made to a confidential agent with a view to inducing the agent to act in favour of the donor in relation to transactions between the donor and the agent's principal and that gift is secret as between the donor and the agent – that is to say, without the knowledge and consent of the principal – then the gift is a bribe in view of the law.' A payment by TP to A still, a bribe although it does not succeed in inducing A to show any preference to TP. If P's agent has been bribed P may recover the bribe or sue A and TP for damages in the tort of deceit; dismiss A without notice; refuse to pay A commission or recover any paid; repudiate the contract with TP who has paid the bribe. The taking and giving of a bribe by A and TP may also amount to a criminal offence under statutes Criminal Code or other State.

- **Not Allow A's Own Interest to Conflict with P's** If there is a risk of conflict A must make full disclosure to P and obtain P's informed consent, otherwise A should decline to act as agent. A's duty is to disclose only material facts – those which a reasonable business person would consider material in the ordinary course of business. Breach of this duty may again render A liable to

disgorge the profit as an alternative to paying damages for breach of contract. Alternatively, P may rescind any contract with A. A also loses his/her right to commission on the transaction.

If A breaches this duty A may be liable in an action for damages or an action for an account of the profits and/or subject to injunction. In *Robb v Green* [1895] 2QB 315 the court granted an injunction against a former manager of a business to prevent him using, for his own purposes, a list of customers of a business obtained whilst he was manager of the business. After leaving the business, he used the list to set up his own business.

○ **A Duty to Act in Person and not to Delegate Authority** –

Exceptions include accepted trade or business usage, ministerial duties not involving the exercise of A's discretion or skill. If A delegated authority without P's permission, A will not be entitled to commission for the delegated acts and may be liable for any loss suffered through breach of contract. P will not be obliged to accept the contract.

○ **A Duty to Keep Accounts** – A must accurately and properly account to P for any money received or spent on behalf of P and must have any books of account available for inspection. With professional agents, legislation often reinforces this duty.

2. Principal's Duties to Agent

These include:

• **A Duty to Remunerate for his/her Services** – This duty only arises pursuant to the express or implied terms of the agency contract. Otherwise the agency is gratuitous. Before A is entitled to receive remuneration, there must be at least substantial performance of all work A undertook to do. Failure to pay will give rise to an action for breach of contract by A against P. As stated, some agents are statute barred from suing for commission if their appointment is not in writing.

• **A Duty to Indemnify and Reimburse A** – While acting for P, A may incur certain liabilities or may certain payments on behalf of P. In these circumstances, P is obliged to indemnify A against such liabilities and reimburse A for any payments made. Unless otherwise agreed, P is not liable to indemnify or reimburse A where A has acted outside the scope of his/her actual authority, where A has suffered loss through his/her own negligence or default or where the transaction is obviously or to A's knowledge, unlawful.

Breach of this duty will usually render P liable for breach of contract or, if there is no agency contract, then the law of quasi – contract where A's claim is for restitution.

○ A May Exercise a lien over such Property of P's as in A's Possession For recovery of remuneration due and reimbursement of expenses.

3.4.5 Liabilities of Agent (and of Principal)

A's purpose is to bring P into legal relations with TP. Once this is achieved, A retires from the transaction and, at that stage, the only parties with rights under the transaction are P and TP. However, there are occasions when A may not simply retire from the transaction and the agency (after collecting his/her commission if any) but may find liability attach either towards TP or P.

1. Liability of Agent (and of Principal) to Third Party Agent Acting with Authority

This will depend on A's method of contracting. Where A has authority and:

• A discloses the name of P. Normally only P and not A may sue and be sued on the contract.
• A discloses the existence but not the name of P. A's liability is the same as above provided A contracts as an agent.

• A does not disclose the existence of P, i.e. where A acts as if s/he were P. In this event, A becomes personally liable on the contract – **but** when TP discovers that TP has really contracted with A acting for an **undisclosed principal**, TP may elect to hold either A **or P** liable on the contract – although P is not liable if P has paid A. TP is bound by his/her election. Where TP sues

and recovers judgment from A, that is taken conclusively as an election. Merely commencing an action is evidence of election but not conclusive.

Undisclosed P may sue TP unless the transaction is entirely inconsistent with agency. The doctrine of undisclosed principal only operates where A has **actual** authority.

Breach of Warranty of Authority – This applies only where A acts in excess of, or otherwise without, actual or apparent authority. It follows that TP can not sue P on the contract but only A for breach of warranty of authority. In *Collen v Wright* (1857) 8 E&B; 647 the court found that where a purported agent represents either expressly or impliedly, that he or she has authority to enter into a particular transaction and TP relies on that representation of authority, the ‘agent’ is taken to warranty that such representation is true. Whether the representation is made innocently or knowingly. A will be liable to TP.

2. Liability of Agent – Principal inter see See duties of agent and principal

3.4.6 Termination of Agency

The appointment of A may be terminated:

- By act of the parties – by express revocation of authority by P or express remuneration by A;
 - By death, unsoundness of mind, or bankruptcy of P or of A;
 - By supervening illegality eg P becomes an enemy alien;
 - Where appointment was for a specific period, by the effluxion of that period;
 - By A becoming ‘*functus officio*’ i.e. having completed the assignment A was engaged to perform;
- or,
- By destruction of the subject matter of the agency rendering performance impossible.

“Simple buying and selling of any article which you regularly do has legal implications”. It may involve different classes of law, e.g. law of contract, tort law or even criminal law and other miscellaneous laws. So also is the common landlord and tenant relationship, partnership or other commercial transactions and business associations. A little understanding of the law therefore is important to every citizen as noted by Ige (2007).

Sales of good in business in particular as such it helps in areas of sales of goods, and agreement to sales. A sale of goods is a general guide to business men so that they can be ethical in their day to day business of selling. Once you are at fault as a buyer or seller you will know which action and how to rectify such a problem.

3.5 Other Legal Issues to be Addressed

The legal section of the business plan should also contain any information about contracts or legal arrangements with suppliers, customers, or employees. If the company has an agreement to service a specific geographic territory, or if there are contracts for jobs to be completed, this information should be included. Information concerning the company’s patents, trademarks, and copyrights should also be provided.

3.5.1 Insurance

Starting and operating a business involve risks of many kinds. Some risks are insurable while others are not. For example, a restaurant may be damaged by a fire; another one may be burglarized; still another may have a van damaged in an auto accident. These risks can be insured and are therefore considered controllable, not by purchasing insurance. This section lists the most common types of insurance a small business may need. The insurance checklist shown on figure 3.1 below summarises important insurance considerations.

Table 3.5. 1 Checklists: Insurance

Source: Lambing, P.A. and Kuehi, C.R. (2007). Entrepreneurship (Fourth Edition), USA: Pearson Education, Inc. Prentice-Hall, Upper Saddle River, pg. 149.

CHECKLIST: INSURANCE

Research the laws covering workers' compensation in your state to determine if the insurance will be required by law. Identify the greatest insurable risks that your business will face.

Identify other risks that you would like to insure.

Determine how much you can afford to spend on insurance.

Have you checked with an agent to determine the cost?

Is the local economy strong or in a recession?

Although a business may purchase many types of insurance, workers' compensation is required by law and entrepreneurs must make sure that the company is adequately covered.

3.5.2. Workers' Compensation Insurance

Workers' compensation provides income and payments for medical expenses to workers who are injured in job-related accidents. Because state laws govern workers' compensation, the laws and benefits vary greatly. In some states, workers' compensation is not required until the company has a certain number of employees or a minimum payroll amount.

The amount a company must pay for workers' compensation insurance depends primarily on the risk level of the job. For example, insurance for a construction worker would be substantially higher than for a clerical worker because the chance of injury is greater.

Costs are also determined by the level of payroll (more workers and a higher payroll result in higher insurance costs) and the safety record of the company. If many injuries are reported, insurance costs will increase.

Companies may find that they are unable to obtain workers' compensation insurance from private insurance firms if they are very small, if they have a high accident rate, or if they are in a high-risk industry. In these instances, they are often assigned to a statefunded insurance plan designed to cover these special cases (Steyer, 1993).

3.5.3 Property Insurance

Property insurance reimburses the company if the assets are damaged or destroyed. The most common types of property insurance are listed as follows:

Table 3.5. 2 List of Property Insurance S/N Property Insurance Losses Covered

1. Comprehensive vehicle insurance Damages to the insured vehicle caused by fire, theft, falling objects, storms.
 2. Liability vehicle insurance Damage to other vehicles and property; bodily injuries caused to others by traffic accidents involving the insured vehicles.
 3. Collision vehicle insurance Damage to the insured vehicle caused by traffic accidents.
 4. Uninsured-motorist insurance Damage to the insured vehicle or insured driver if an accident is caused by an uninsured driver.
 5. Fire insurance Damage to company assets caused by fire and smoke; may cover damage from riots.
 6. Flood insurance Damage to property caused by floods.
 7. Earthquake insurance Damage to property caused by earthquakes.
 8. Theft insurance Financial loss resulting from any illegal taking of property.
 9. Burglary insurance Financial loss caused from theft of forcible entry.
 10. Robbery insurance Financial loss from theft of property involving bodily harm or threat of bodily harm.
 11. Fidelity bonds Financial loss caused by employee theft.
 12. Ocean marina insurance Financial loss if assets are damaged, destroyed, or lost while being transported by ship.
 13. Inland marine insurance Financial loss if assets are damaged, destroyed, or lost while on a truck, plane, or train.
- Source:** Steyer, R. (1993). "State Makes Offer on Workers' Compensation", *The St. Louis Post-Dispatch*, December 29, CI, pg. 248.

3.5.4 Liability Insurance

Liability insurance protects against financial loss caused by injury to customers or employees. The most common types of liability insurance are listed as follows:

**Table 3.5.4 List of Liability Insurance
S/N Liability Insurance Losses Covered**

1. Employee liability Claims resulting from employee lawsuits charging discrimination or sexual harassment.
2. Workers' compensation Provides medical payment and an income to workers who are injured on the job.
3. Officers and directors Personal financial loss of officers and directors of corporations if sued for negligent decision making.
4. Surety bonds Financial loss that occurs if job contracts are not completed correctly and/or on time.
5. Completed-operations Damage to others' property caused while completing a job.
6. Premises and operations Financial loss resulting from claims by customers, suppliers, or others who are injured while on company property.
7. Professional liability Financial loss resulting from malpractice claims.
8. Product liability Financial loss resulting from claims by customers because of injury caused by the company product.

Source: Steyer, R. (1993). "State Makes Offer on Workers' Compensation", *The St. Louis Post-Dispatch*, December 29, CI, pg. 248.

3.5.5 Earnings Insurance

Though this type of insurance is not applicable in Nigeria but common the US, it is just to enrich your knowledge.

Although property insurance covers the loss of assets from fires, storms, and accidents, the loss of profits is not covered. Earnings insurance covers the loss of income and profits and includes the two types of insurance shown in the following table:

Table 3.6.1 List of Earnings Insurance S/N Property Insurance Losses Covered

1. Bad debt Financial loss resulting from a customer not paying for goods or services rendered.
2. Business-interruption Financial loss resulting from the temporary closure of the business.

Source: Steyer, R. (1993). "State Makes Offer on Workers' Compensation", *The St. Louis Post-Dispatch*, December 29, CI, pg. 248.

3.7.1 Health, Disability and Life Insurance

Health insurance for entrepreneurs and their employees has become very expensive, and many small firms cannot afford to cover their employees. Costs may be reduced by purchasing through associations that provide group rates. The following table lists the common types of insurance included in this category.

Table 3.7.1 List of Health, Disability and Life Insurance S/N Property Insurance Losses Covered

1. Health Medical costs incurred due to sickness or accidents.
2. Disability Lost income due to illness or accidents.
3. Key executive Life insurance that compensates the company for lost income or services if the owner or a vital employee dies.

Source: Steyer, R. (1993). "State Makes Offer on Workers' Compensation", *The St. Louis Post-Dispatch*, December 29, CI, pg. 248.

3.8 Suppliers

It is important to identify the suppliers of the business to obtain information concerning the products and services you will need. Suppliers generally can be categorised as follows (Baumback, 1988):

- **Producers** – they include manufacturers, miners, farmers, and processors of natural products. Many producers, though, sell only large quantities to wholesalers and do not transact business with small firms.

- **Wholesalers or merchants intermediaries** – Wholesalers buy from producers and take title to the goods. Wholesalers are a major source of supplies for small businesses. An excellent working relationship with the wholesaler is often essential for the small business to operate properly.

- **Functional (agent) intermediaries** – Some intermediaries operate as wholesalers but do not take title to the goods. They represent the manufacturer, take orders, and provide service to the customers. This group of suppliers includes manufacturers' representatives, who sell products for many manufacturers within a geographic area.

They usually have an ongoing relationship with the producers.

- **Merchandise brokers** – They are another type of agent intermediary and represent manufacturers by bringing buyer and seller together. They are usually located in large manufacturing areas.

- **Resident buying officers** – they are the third type of agent intermediary. They represent a group of retailers and offer a variety of services, including buying merchandise for those stores and furnishing market information and forecasts.

Resident buying offices are paid by the retailers.

After identifying possible suppliers, you will need to obtain the costs for their items as well as delivery schedules, their credit terms, and any minimum order quantities. It is common for suppliers to require new entrepreneurs to pay cash on delivery for several months until a track record of purchases and payments is established. Credit may then be extended for 30 days or longer. These credit terms are reflected in the cash flow projection by showing when payment for inventory would be made.

Some suppliers require a minimum order, since they do not want to bother with very small purchases. For this reason, it is important to check the minimum order amounts of suppliers to ensure that their required order amounts are not too large for your business.

Finding suppliers may be easy or difficult, depending on the types of goods and services needed. Possible sources for finding suppliers are as follows:

- Internet – the internet is an excellent source for finding suppliers of many items. Just by typing a category such as “restaurant equipment” in a search engine, an entrepreneur can identify many potential suppliers.
- Yellow pages – an easy way to find local suppliers is to check the Yellow Pages for your area. For some industries in major cities, all goods and services will be available locally. For example, a restaurant owner needing a local supplier of food may find companies listed under the category of “Food Brokers” or under the specific type of food such as “Fish and Seafood – Wholesale”.
- Encyclopedia of associations – the encyclopedia of associations lists organisations in many industries and is an excellent source of suppliers. For example, if a manufacturing firm in a small town needs to buy electronic components, the encyclopedia of associations lists several organisations that would be helpful.
- Thomas register – the Thomas register lists manufacturers of products and service-related companies throughout the United States. This resource is available in many libraries and has listings for many items. For example, when one entrepreneur needed to find a manufacturer of kazoos, she had no idea of how to find them. She was surprised to find a kazoo manufacturer listed in the Thomas Register, and a telephone call to the manufacturer provided her with the product information she needed.

The supplier checklist in the table below summarises the issues disclosed in this section.

Table 3.7 Checklists: Suppliers

Source: Baumbach, C.M. (1988). *How to Organize and Operate a Small Business* (Englewood Cliffs, NJ: Prentice-Hall), pg. 251.

3.9 Risks, Assumptions, and Conclusion

This section will be discussed under the following sub-sections. 3.4.1 Risks Every business faces two types of risks – controllable and uncontrollable. Controllable risks cannot necessarily be prevented, but the financial loss can be minimized by purchasing insurance. Therefore, the risks of fire, vandalism, damage from storms, and so forth are considered controllable because insurance is available to pay for the financial loss.

Uncontrollable risks, however, are those that would have a detrimental financial impact but cannot be covered by insurance. Uncontrollable risks that are common to many businesses include the following:

1. A new competitor locating nearby
2. A recessionary economy
3. New technology

CHECKLIST: SUPPLIERS

Identify your most important suppliers.

What are their credit terms?

How often do they deliver?

What are the minimum order quantities?

Are inventory shortages a problem in this industry?

Are there many suppliers for your business, or do you have to choose from only a few?

4. Changes in consumer tastes

5. A price war by competitors.

Each business faces risks that are unique to that business. You should consider these carefully and briefly describe what steps would be taken if the uncontrollable risk actually develops. For

example, if an entrepreneur believes that competitors would engage in a price war, the new entrepreneur may plan to differentiate the new business by offering products and services that the competition does not offer. If the risk of a recession would severely affect the company, the entrepreneur may consider what products or services could be offered that would not be as sensitive to a recessionary economy. See the uncontrollable risks checklist below.

Table 9.1 Checklists: Uncontrollable Risks

Source: Steyer, R. (1993). "State Makes Offer on Workers' Compensation", *The St. Louis Post-Dispatch*, December 29, CI, pg. 253.

3.9.2 Assumptions and Conclusion

The final section of the business plan will vary depending on whether the plan is for a new business or for an existing business.

If the plan was prepared to determine the viability of a proposed business, the conclusion answers the questions, "Is this business feasible?" Bear in mind that the conclusion was reached only by making assumptions throughout the report. The following assumptions are common:

- (1) A specific site
- (2) A certain amount of money for start-up costs
- (3) The ability to obtain financing
- (4) No new competitors opening.

Just as each business has unique risks, however, each depends on assumptions that are unique to that particular business. Therefore, you should identify the most important Uncontrollable Risks
What uncontrollable risks will affect your business?

The economy

The weather

New technology

Price wars

Changes in consumer tastes

New competitors

For each risk you have identified, explain what you will do to minimize the financial impact if the risk materialises. The assumptions you have made while completing the business plan. It is especially important to identify those assumptions that are critical to the conclusion of the report. For example, suppose an entrepreneur plans to open an ice cream parlour near a school. The parlour will have 10 tables, with four chairs at each table. Two assumptions are as follows:

1. The seating capacity of the ice cream parlour is 40 people.
2. The school will remain in operation with a steady or increasing enrolment.

If the seating capacity is sharply reduced for any reason, if the school enrolment decreases, or if the school closes, the proposed business may not be feasible.

If the plan was written for an existing business, assumptions were also necessary and should be started in this section. The conclusion will then state the future of the business based on the information in the plan. See the conclusion checklist below.

Table 3.9.2 Checklists: Conclusion

Source: Baumbach, C.M. (1988). *How to Organize and Operate a Small Business* (Englewood Cliffs, NJ: Prentice-Hall), pg. 254.

4.0 CONCLUSION

This unit gives you more or less a first aid when you have a problem with contract that you have entered into or you are about to enter into before any other action is taken. No business will ever progress without contract; this will assist in guiding your day to days activities in business so, that you will not waste your finances on contracts that are not legal in the sight of law.

Principal/Agent relationship is fiduciary wherein an agent acts on behalf of and instead of a principal in a contract or other multiple business transactions. In such a process, the agent may bind his/her Principal with a third party. It is important that the principal must have capacity, but the agent needn't. Agency may be created by agreement, ratification or by operation of the law. In the same way it may come to an end by the action of the parties (provided that notice is given by the party seeking to terminate it) and by operation of law. Principal may expressly or impliedly confer authority on her Agent (Actual Authority) or hold out his agent as possessing certain authority (ostensible authority). Duties, as to rights and liabilities are as per agreement or implied. The principal is entitled to every material information, loyalty (and there must be no secret profit), reasonable skill and diligence and any special skill his agent possesses. On the other hand, he must cooperate with the Agent and provide him with safe working condition. The agent may or may not disclose the existence or identity of his principal where there is breach, remedies lie in remedies for breach of contract, indemnification and ratification. You have come to the end of the course "Introduction to Law". Have you enjoyed it? We hope you did. Well done. Now attempt the following questions.

We stated the many forms of organisation available for small businesses, the tax consequences of each of them and the entrepreneur's liability on the choice of organisation. We discussed the risks involved in operating a business and how to mitigate the losses through insurance. We described the different types of suppliers, factors to consider in choosing them and sourcing for suppliers. Finally, we listed the risks inherent in business organisations and develop strategies to minimize the impact of uncontrollable events.

In all the cases, we provided checklists to guide an entrepreneur or the student in the preparation of a business plan for start-up and an existing business.

5.0 SUMMARY

In this unit, we have examined the

- laws relating to business operations,
- impact of law between one individual and another;
- rules governing sale of goods and contract;
- rules governing the relationship between a principal and an agency.
- Legal Section
- Insurance
- Suppliers

6.0 TUTOR MARKED ASSIGNMENT

1. Read Passages I and II over again and answer the following questions:

- (a) Name the classes of laws involved;
- (b) Discuss the objective of each of them.

2. Write short notes on the following.

- Hire purchase
 - Delivery of wrong quantity
 - Warranty
 - Sales by description
3. Discuss all the essentials of a contract.

1(a) If you engaged a plumber to come and replace the taps in your sink and you gave him no more specific instructions than that, would he be acting as your agent when he purchases taps from the local plumber wholesale to complete the job?

(b) would your answer be different if you handed the plumber N20,000 and instructed him that you wanted to install gold plated taps, advertised for sale in the latest Myer catalogue?

2. Antonio had picked his last crop of tomatoes for the season. He saw them safely onto Con's truck which was to transport them to an interstate market. In keeping with his promise to his wife and family Antonio flew out the next afternoon for the family holiday in Italy. Half way to his destination, Con's truck broke down and was unable to be repaired for a week. Con tried to contact Antonio to get instructions regarding the tomatoes but Antonio had left no contact address. In desperation con wired another carrying company speedy delivers to get the tomatoes to market on time?

4. If sole proprietorships have unlimited liability, why are most businesses in the United States established as sole proprietorships?

5. What is the difference between comprehensive, liability, and collision insurance for a vehicle?

6. What is the difference between theft, burglary, and robbery insurance?

7. Why may insurance companies not want to provide workers' compensation to very small companies?

8. Choose a specific type of business and state the type of insurable risk that is most likely to occur. Then state the type of risk that is not as likely but would be the most costly if it did occur.

9. Suppose a video game arcade is opened near a school. The outlet has video game machines, pinball machines, and pool tablets. What are some of the most important uncontrollable risks?

10. For the uncontrollable risks you identified in question (Q. 9), state what steps could be taken to minimize the financial impact if those risks occurred.

11. Identify three uncontrollable risks for a jewelry store.

12. Identify two uncontrollable risks for a manufacturer of auto parts.

13. Identify two common assumptions that would be made while completing a business plan for a car wash.

14. Identify two common assumptions that would be made while completing a business plan for a health club and/or gym.

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MODULE 4: ROLE OF SUPPORT INSTITUTIONS AND NATIONAL ASSOCIATIONS TO ENTREPRENEURSHIP DEVELOPMENT AND SMALL AND MEDIUM SCALE INDUSTRIALISTS

Unit 1: Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea) – I NEPC, NERF, DFRI AND NDE

Unit 2: Role of Support Institutions to Product Selection Process (Evaluation of Entrepreneur and Idea) – II RMRDC AND IDC

Unit 3: Contributions of National Associations to Entrepreneurship, Small and Medium Scale Industrialists – I NASSI, MAN AND NACCIMA

Unit 4: Government Policy on Financing and Small and Medium Scale Industries

UNIT 1: ROLE OF SUPPORT INSTITUTIONS TO PRODUCT SELECTION PROCESS (EVALUATION OF ENTREPRENEUR AND IDEA) – I NEPC, NERF AND NDE

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Nigerian Export Promotion Council (NEPC)
 - 3.2 National Economic Reconstruction Fund (NERF)
 - 3.3 National Directorate of Employment (NDE)
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

You are welcome to the fifth and last module of this course. In this unit, we shall examine the evaluation of an entrepreneur and his idea in product selection process. We shall also discuss the role of support institutions in this process.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- list the institutions established by the government to support entrepreneurs in product selection process;
- discuss the role of NEPC to entrepreneurship development in Nigeria;
- describe the role of NERF to entrepreneurship development in Nigeria;
- explain the role of NDE to entrepreneurship development in Nigeria.

3.0 MAIN CONTENT

3.1 Nigerian Export Promotion Council (NEPC)

NEPC is the main government organ directly sponsored to promote export trade in Nigeria. According to its pamphlet titled “Why Exports?”, it offers the following services to Nigerian entrepreneur/exporter:

- (i) Provides information on domestic and foreign markets and undertakes the development of markets for made-in Nigeria products;
- (ii) Advises on product design, quality, packaging and packing;
- (iii) Undertakes human resource training and development;
- (iv) Plans and organizes Nigeria’s participation in international trade fairs exhibitions;
- (v) Liaises with other international agencies on export matters.

It was established by Decree No. 26 of 1976 and was formally inaugurated in March, 1977 (quoted in Esezobor, 2009). Decree No. 41 of 1988 refined its functional responsibilities. These functional responsibilities are numerous but can be grouped into the following:

1. New Manufacture-in-Bond Scheme;
2. Trade Procedures and Documentation.

1. New Manufacture-in-Bond Scheme;

This scheme was a decision of World Trade Organisation (WTO) of which Nigeria is an active member, to consciously replace cash incentives with non-cash incentives in the promotion of exports among member countries. Nigeria adopted this scheme as was conveyed in the annual budget of 1999.

To qualify for this scheme, an exporter is required to obtain a Bond from either a bank, an insurance company or Nigeria Export-Import Bank which would be held by the NMIBD Committee until the

Central Bank of Nigeria confirms that the goods manufactured had been exported and the foreign exchange proceeds repatriated to Nigeria.

Where an exporter qualifies under any of the four sub-schemes we shall treat shortly, a Negotiable Duty Credit Certificate (NDCC) would be issued by the NMIBS Committee which could be utilised by the exporter in the payment of import duties on imported raw materials inputs or completely knocked down spare parts whether prohibited or not, for the production of export goods as stated or in the alternative, transferred to another exporter if the benefiting exporter has no use for it. Once again, no cash incentive is given.

The following four component schemes have their respective Committee with secretariat in the office of NEPC:

- (i) Manufacture-in-Bond Scheme
- (ii) Duty Drawback Scheme
- (iii) Export Expansion Grant Scheme (EEGS)
- (iv) Export Development Fund (EDF)

• **Manufacture-in-Bond Scheme**

The Manufacture-in-Bond Scheme is designed to encourage manufacturers to import duty-free raw material inputs and other immediate products whether prohibited or not for the production of exportable goods, backed by a Bond issued by any recognised Commercial Bank, Merchant Bank, Insurance Company or NEXIM. The Bond will be discharged after evidence of exportation and repatriation of foreign exchange has been produced.

Guidelines:

- The Manufacture-in-Bond Scheme (MIBS) shall be applicable to export manufacturers only.
- Interested manufacturers should apply to the Federal Ministry of Finance using the prescribed forms.
- For a manufacturer to enjoy the scheme, the factory premises must be approved for that purpose by the Nigeria Customs Service.
- Approval including the Import Requirement Certificate (IRS) should be obtained within a period of two months and transmitted to the Nigeria Customs Service for implementation.
- The Nigeria Customs Service will determine acceptable guarantee Bond issued by Commercial or Merchant Banks or NEXIM or Insurance Companies covering not less than 110 percent customs duty payable on each consignment.
- Under this scheme, manufacturers of export commodities will be entitled to import duty-free raw material inputs, CKDS and intermediate inputs whether prohibited or not for the manufacture of export commodities.

- The Manufacture-in-Bond Scheme shall operate on an annual (12 calendar months) importation basis as the export prohibited items. However, the scheme shall operate on Import by Import basis.
- The Bond which shall be effective from the date of its issuance by the Bank shall be discharged when the conditions stipulated therein have been fulfilled.
- The Nigeria Customs Service will periodically monitor the utilizations of raw materials imported under this scheme until the Bond is fully executed.
- In the event of inability of any manufacturer to fulfill the conditions stipulated in the Bond, the manufacturer shall apply to the Nigeria Customs Service through its approved dealer Bank, for an extension of the Bond particularly when the life of the Bond has expired. The extension of the Bond shall not exceed three months.
- Repatriation of the foreign exchange realised from the transaction shall be confirmed by the Central Bank of Nigeria before the Bond is discharged.
- Bill of Entry marked “Manufacture-in-Bond Scheme” shall be used for the clearance of goods under the Scheme.
- A Committee comprising the Ministry of Finance, representatives of the Nigeria Customs Service, Nigerian Export Promotion Council, Standards

Organisation of Nigeria and the Central Bank of Nigeria shall monitor the scheme. The Monitoring Body shall render a quarterly report to the NMIBS Committee.

- In the event of default by the Manufacturer, the Nigeria Customs Service shall redeem the Bond by calling on the guarantor to pay up the appropriate customs duties and other associated charges.
- In case of “Force Majeure”, the Company may be allowed to sell the goods in the local market with the approval of the Honourable Minister of Finance on condition that the appropriate customs duty and other associated charges have been paid.
- A manufacturer participating in the Manufacture-in-Bond Scheme is expected to designate a warehouse or store in his factory premises for the storage of inputs and finished goods; and
- Import Duty Report (IDR), Clean Report of Findings (CRF), shall be clearly marked “MIB Scheme”.

It is meant only for manufacturers of export goods to encourage exporters to boost their export market by issuing them NDCC if qualified for the payment of import duties on raw materials or parts whether prohibited or not but required or the manufacturing cycle of the export commodities. In order to prevent abuse by exporters, they are required to be bonded by their bank or an insurance company or NEXIM to the tune of 110 percent of the customs duty payable on each consignment.

• **Duty Drawback Scheme**

The Duty Drawback Scheme provide duties/surcharges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final product. The new Duty Drawback Scheme shall give automatic refunds (60 percent) on initial screening by the Duty Drawback Committee and upon the presentation of a Bond from a recognized Bank, Insurance Company or any other financial institution. The Bond will cover 60 percent of the refund to be made to the exporter and will only be discharged after the final processing of the application has been made.

At the end of the processing of exporters claims, the Duty Drawback Committee shall grant any balance where applicable or request for refunds for any overpayment made.

Duty Drawback Facilities

The Scheme provides for fixed drawback and individual drawback facilities. The fixed drawback facility is for those exporters/producers whose export products are listed in the Fixed Drawback Schedule to be issued from time to time by the Committee. When the import content of the export products is more or less constant, and import prices (including exchange rate), tariff rates and technology used are relatively stable or “fixed”, it is possible to calculate a standard Input-Output Coefficient Schedule (ICS) for these category of products on the basis of which a fixed drawback rate can be computed to be rebated per unit of export product.

Whereas the individual drawback is for producers/exporters who do not qualify under the fixed drawback facilities, it is therefore a straight forward traditional drawback mechanism under which duty is paid on all imported inputs. The duties are subsequently, rebated on inputs used for export production. As a general rule, the final exporter/producer can apply for the Scheme.

Eligibility

A trading company which collects industrial products from one or more manufacturers as well as a trading Company which imports raw materials inputs including packing and packaging materials used for the production of goods exported by him could also apply for the production of goods exported by him could also apply for the Scheme. Such trading Company must have entered into a contract with the final producer of the product in such a way that the Duty Drawback Committee can obtain necessary information and documents to enable the Committee act appropriately. Applicants must be Companies incorporated in Nigeria.

Time Limit

Duty Drawback application must be filled within a maximum of two years from the date of exportation. In order to qualify for the drawback payment (both individual and fixed drawback) exportation of the product which was produced with imported inputs must be completed 18 months after the importation of the inputs.

Application Procedures

Applicants for either Fixed or Individual Drawback Facilities should file the following documents to the Duty Drawback Committee.

1. Completed new application form for Duty Drawback Rate /Refund obtainable from the Duty Drawback Secretariat and all Zonal Offices of the Nigeria Export Promotion Council.
2. Attach clear photocopies of the following documents in triplicates:
 - a. Import Bill of Entry for Home use (Customs and Excise Form C 188) for the respective raw material inputs used for the export production.
 - b. Import Bill of Lading for the raw material inputs used for the export production.
 - c. Letter of Contract agreement between the Trading Company and producer in cases where the Trading Company is applying for the facility.
 - d. Current Registration Certificate with NEPC.
3. In addition to the above documents, all applications for refunds should be filed with the following in triplicates:
 - (i) Export Bill of Entry for Non-Domestic Goods (Customs and Excise Form Sale 98); and
 - (ii) Form NXP.
4. Bank Bond to be issued by a recognized Bank or Insurance Company to the tune of 60 percent upfront payment approved by the Committee as duty drawback refund and to guarantee the refund of any overpayment made to the exporter.

Rules for Duty Drawback Application and Processing

The following rules have to be observed to simplify the processing procedures:

- i. For the same export product defined in an export entry document, all inputs used to produce a given export article should be treated as part of a single application and therefore cannot be divided into separate duty drawback applications.
- ii. If imported inputs, registered in a single import entry document are subdivided and used for production of more than one export consignment, the import entry document should include information on the production of inputs and the balance remaining to be used.

From the above, you will note that the facility is in two states and it also provides for refunds where an export company collects locally (without importing), necessary raw materials including packing and packaging and tenders evidence of an export order. The refund shall only be for the duties/surcharges content of the cost of the local purchases in prosecuting an export order.

The Duty Drawback Scheme ceased in year 2003 since, according to the Committee, enough incentives already exist in the Export Expansion Grant Scheme.

• Export Expansion Grant Scheme (EEGS)

The Export Expansion Grant Scheme provides for cash inducement to exporters who have exported a minimum of five hundred thousand Naira (N500,000) worth of processed products.

Objective

The objective of this Scheme is to stimulate exporters to expand the volume of their exports and diversify export product and market coverage.

Eligibility

Exporters of duly processed products are entitled to 4 percent grant on their total annual export turnover subject to the receipt of confirmation of repatriation of export proceeds from the Central Bank of Nigeria and subject to the presentation of a Performance Bond from any of the recognized Banks, Insurance Company, NEXIM or Financial institution.

Procedure

1. Application Forms for the Scheme could be obtained from the Headquarters of the Nigeria Export Promotion Council (NEPC) or any of its Zonal Offices at Lagos, Port Harcourt, Enugu, Jos and Kano. All forms should be accompanied with the sum of N5,000 (Five thousand Naira) in bank drafts payable to the Nigeria Export Promotion Council, Headquarters, Abuja, as non-refundable fees for the application forms.
2. The NEPC Committee on Export Expansion Grant reserves the right to approve or reject an application and could subject a Company for inspection to confirm the status of the export product(s).

3. Please note that, to facilitate the administration of the scheme, Government has approved the deduction of a ten percent (10%) processing fee on each grant approved, subject to tendering of the mandatory bond, evidence of repatriation of export proceeds by CBN and an application fee of N25,000, the EEGS Committee would process the application form for the refund of 4 percent of the exporter's annual turnover in NDCC.

The following is the new guideline for submission and processing of application under the scheme published by NEPC on 17th November, 2003 in the Guardian newspaper (Esezobor, 2009):

New Guidelines:

1. All applications must be on prescribed application form not later than 6 months from the date of repatriation of export proceeds.
2. Completed applications to be supported with:
 - i. NXP form duly certified by processing bank and NCS;
 - ii. Single Goods Declaration (SGD) form, duly signed by NCS (both at front and back);
 - iii. Final commercial invoices;
 - iv. Bill of Lading;
 - v. Evidence of current registration with NEPC as an exporter;
 - vi. Evidence of incorporation with Corporate Affairs Commission.
3. Applicants are to pay a non-refundable processing fee of N25,000 per application in bank draft payable to NEPC.
4. To avoid delays, applicants are advised to ensure that their applications are vetted by the Schedule Officer at NEPC when application is being submitted.
5. Only accredited employees of the benefiting companies will be allowed to collect the Negotiable Duty Credit Certificate. The annual accreditation of a maximum of 2 employees of a company is put at a sum of N100,000. As from 1st January, 2004, only duly accredited employees of the benefiting companies will be allowed to collect NDCC from the Council.
6. Applicants are to submit video clips of their production process, production lines, packaging and export prices.
7. These guidelines are with immediate effect.

On Tuesday, 17th August, 2004, the Secretary to the Federal Government announced the suspension of the scheme on the ground that since inception in 1986, \$30 billion had been spent on it without any impact on the volume of exports. The suspension was lifted in 2006.

• **Export Development Fund Scheme (EDF)**

Export Development Fund Scheme is a scheme set up by the Federal Government of Nigeria to provide financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities.

(a) Participation in training courses, symposia, seminars and workshops in all aspect of export promotion. All local and overseas courses, study tours, including symposia, seminars, workshops, conferences, etc. in all aspects of export promotion organised by NEPC for the benefit of government agencies who have bearing with export promotion as well as exporting companies will be sponsored from the Fund.

(b) Advertising and publicity campaigns in foreign markets including Press Radio/Television, Catalogue, Brochures, etc. Grants may be made to exporting firms in the context of the total marketing plans towards the cost of advertising/promotional campaigns in overseas market, brand promotion, joint export market group promotion, point of sale materials and in store demonstration subject to the general conditions set out about and the regulations below:

(1) The scheme applies only to promotional campaigns.

(2) The Scheme applies to markets in which the brand products have not previously been advertised and promoted.

(3) A draft of the proposed advertisement must be submitted to NEPC in advance for approval and also the report on the results of the campaign must be submitted as soon as the project is completed.

(4) The maximum grant to any company will be 50 percent of the total direct costs approved subject to a N200,000 (Two hundred thousand Naira).

- (c) Export market research and studies.
- (d) Product design and consultancy.
- (e) Participation in trade missions, buyer-oriented activities, cost of collecting trade information.
- (f) Cost of collecting trade information, and
- (g) Backing up the development of export oriented industries.

Conditions for Financial Assistance

For any exporting Company to benefit, the following conditions must be satisfied: (i) The Company must be registered as an exporter with the NEPC.

(ii) It must be an exporter of any product of Nigerian origin or services e.g. Engineering, Consultancy, Shipping, Communications, etc.

(iii) It must have its marketing control in Nigeria.

(iv) All applications for EDF assistance must be made in the prescribed application forms and must be accompanied with a detailed work plan of the project and a project document.

(v) The Committee on EDF shall communicate to the exporter the amount of assistance that has been approved for the Company out of which 50 percent shall be paid on presentation of a bond covering that amount by the Company.

(vi) Exporters should submit a detailed report of their undertaken activities which should contain among other things evidence of expenditure related to the Company and arrange for the discharge of the Bond.

Export Market Research and Studies

Grants may be made to exporting firms towards the cost of undertaking market research studies in foreign markets and other studies related to export promotion subject to the general conditions set out above, and the regulations below:

- (1) The research proposal must be approved well in advance by NEPC.
- (2) A copy of the report of the research must be submitted to NEPC on return.
- (3) Grants up to 50 percent of the approved direct costs incurred or a maximum of N200,000.00 (Two hundred thousand Naira).
- (4) Where NEPC carried out the research/studies on behalf of the Company/groups of companies, the total cost of such research will be met from the fund.

Products Design and Consultancy Grants

Grants may be for exporters towards the cost of engaging experts for product adaptation and designing. (Size weight, composition, packaging, labeling) of the products depending on the demand of the export market. Apart from the general conditions listed earlier on, the exporter must:

- i. Submit to NEPC the project proposal well in advance for approval.
- ii. Submit to NEPC a copy of the consultant's report of the project.
- iii. Grants payable will be 50 percent of the approved consultant's fees and expenses subject to a maximum grant of N200,000 (Two hundred thousand Naira).

Participation in Trade Missions, Buyer Oriented Activities, Overseas Trade Fairs, Exhibitions and Store Promotion.

Grants to the maximum of N200,000 (Two hundred thousand Naira) may be made to exporting companies towards the cost of undertaking approved fairs or exhibitions, etc. subject to the general conditions set out earlier on and the regulations below:

- i. The activities must be manned by officials or agents of the company.
- ii. All products to be exhibited and promoted must be an exportable product.

The cost of NEPC participation in any of these activities will be borne by the

Fund. In case of buyer-oriented activities, the cost of sponsoring buyer from overseas to participate in local buyer-oriented activities will be borne by NEPC.

Backing up the Development of Export-Oriented Industries

The cost of undertaking studies in respect of setting up export-oriented industries will be covered from the fund. If NEPC is carrying out the studies, grant of 50 percent of the approved cost of studies or N200,000 (Two hundred thousand Naira) will be paid to exporting companies for the purpose of the studies.

2. Trade Procedures and Documentation.

The documentation aspect of exports which until recently, was handled solely by CBN, is now full-time job for an agent of NEPC called Nigeria Committee for Trade Procedures and Documentation (NITPRO). It is a committee comprised of representatives of NEPC, Customs and Excise, CBN and NEXIM with secretariat in the premises of NEPC.

NITPRO serves the following functions:

- (i) To simplify trade procedures and documentation not only for exports but imports as well. In other words, they take stock of the direction of exports in particular, the companies into it, the amount involved and the record of the overseas buyers. Expectedly, their main form of operation is the NXP (the non-crude oil export form) which is sent to them from Customs and Excise for documentary analysis.
- (ii) To educate Nigerian merchants on recent developments in the international markets.
- (iii) To guide Nigerian merchants through seminars, workshops and other training programs on trade information.
- (iv) To serve as an important link between merchants and government regulatory agencies.
- (v) To also serve as a link and in the process, smoothen relationship between foreign trade agencies, merchants and the government.
- (vi) To help Nigerian traders source dependable buyers for their products.

In performing the above-stated functions, the Nigerian economy gains in the following ways:

- (a) Diversification of the export base from petroleum products. There are yawning markets for natural products which richly abound in Nigeria like palm products, cocoa, cassava, gum Arabic, ginger, soya beans etc. as well as manufactured products like insecticides, leather products, body creams, homemade videos, medicines, plastic products, fanciful attires and many other products.
- (b) The public enlightenment program of Committee exposes traders to the requirements of foreign trade and how to go about it.
- (c) If more serious hands can be put into the export sector, the economy will witness improved employment and increased volume of trade.
- (d) Exports bring in foreign exchange; a scarce commodity needed to balance the equation of international payments.
- (e) That the Committee's Officers in Apapa and Abuja are open to the public is a good omen for the future of the Nigerian economy because under-employed persons in full-time employment and workers looking for alternative jobs in self-employment throng in for information especially as the banks now seem to soften on credit to the export sector with the hope to be considered in the annual award of the "Best Bank in Export Financing" of the Merit Award Committee of the Bankers Committee.
- (f) Their activities help to improve adherence to good ethical culture in international trade for Nigerian merchants which gradually will win for Nigeria, the respect it deserves in the international market.

3.2 National Economic Reconstruction Fund (NERF)

As part of the economic reconstruction under the Structural Adjustment Programme, the NERFUND was established by Decree No. 25 of 1988. The primary aim of this fund is to provide soft medium and long-term finance to small and medium scale enterprises that are 100 per cent owned by Nigerians.

As a financial intermediary, NERFUND sources its funds through the Federal Government, the Central Bank of Nigeria and Foreign Government, The Central Bank of Nigeria and Foreign Government and International Development Finance Institutions like the African Development Bank.

The fund so mobilised both from local and foreign sources are made available to small and medium scale industries provided they are 100% Nigerian owned.

3.3 National Directorate of Employment (NDE) Charter

In conformity with its mandate of job creation and in effect tackling the problems of unemployment in Nigeria, the National Directorate of Employment (NDE) trains unemployed youths and retired persons for Vocational Skills Acquisition, Entrepreneurship or Business Development, Labour Based Works, Rural Employment Promotion and Job placement guidance and counseling.

3.3.1 Purpose of the Charter

The NDE Charter is to ensure that NDE is committed to employment generation, poverty reduction, wealth creation and attitudinal change to enable Nigerian Youths to be selfemployed and contribute to the economic growth and development of the Nation.

Mission

The NDE mission is derived from its mandate as follows:

- (1) To design and implement programmes to combat mass unemployment;
- (2) To articulate policies aimed at developing work programmes with labour intensive potentials;
- (3) To obtain and maintain a data Bank on unemployment and vacancies in the country with a view to acting as a clearing house to link job seekers with vacancies in collaboration with other government agencies; and
- (4) To implement any other policies as may be laid down from time to time by the Board established under sections of its enabling Act.

Vision

Job for all. To create pool of artisans and entrepreneurs among the unemployed through skills acquisition of youths who will promote economic development of the nation.

3.3.2 NDE Customers

The customers of the National Directorate of Employment are:

- (a) School Leavers
- (b) School Drop outs
- (c) Youths with little or no education
- (d) Artisans
- (e) Graduates of tertiary Institutions
- (f) Retired Public/Private workers (Mature Persons)
- (g) Women Groups

3.3.3 Service Provision

Unemployed Nigerian Youths or retired persons who require the services of the NDE are assured of at least being trained in their chosen vocations. However, due to financial constraints only very few of them would benefit from NDE resettlement packages for them to start their own micro business.

Under the Vocational Skills development Programmes, the NDE will train 1,000 unemployed youths per state every year for the next 5 years. Under Small Scale Enterprises through Start Your Own Business (SYOB), 500 graduates will be trained every year for the next 5 years.

Also, 500 Unemployed youths will be recruited under Rural Employment Promotion and Special Public Work every year for 5 years respectively. However, due to fund constraint, between 1% and 4% of those trained will be resettled with tools and cash to start their own business (Micro Credit)

3.3.4 Service Delivery

The NDE customers would be well equipped with marketable skills that would enable them to be self-employed (i.e.) to establish their own business or get wage employment if need be. This will involve:

- (1) Recruitment
- (2) Selection
- (3) Posting/attachment
- (4) Counselling
- (5) Training
- (6) Assistance to prepare feasibility studies
- (7) Graduation
- (8) Linkage to financial Institutions

3.3.5 Monitoring and Publishing

The NDE training programmes and projects sponsored would be monitored periodically at least once in three months (3 months) to ensure good performance. The activities would involve:

- (1) Monitoring
- (2) Verification
- (3) Inspection and reports prepared and submitted promptly for management consideration.
- (4) All observations and clientele complaints would be taken note of and prompt action initiated for management attention.

3.3.6 Grievance Redress Mechanism

The customer complains to Inspection Officers who will channel the complaints to complaints designated Officer. The complaint can also be one on one basis. Written complaints will also be sent to the complaint desk officer to the NODAL Officer and the Chief Executive for prompt action. It is expected that within 48 hours action must be taken. The complainant will be informed officially of the action taken either in writing or invited personally through his/her address or telephone number.

3.3.7 OBLIGATIONS/EXPECTATIONS

Members of the NDE Staff and management at all times should be:

- (1) Polite, attentive and friendly to customer;
- (2) Recognize the need to preserve the privacy and dignity of customers
- (3) Staff should treat customers with sensitivity; and
- (4) Consideration should be given to the actual needs of customers rather than staff convenience and routine.
- (5) No Office of any staff should be classified as out of bound to customers.
- (6) Information on NDE should be made available to customers without prohibition.

3.3.8 Existing Limitations

(1) Macro – Economic Policy Problem. The unstable macro-economic policy environment in Nigeria has made the business of employment generation a more difficult task. For instance, various policies of government on exchange rate, deregulation of the economy, globalization and commercialization have had impact directly or indirectly on the labour market.

(2) Large number of unemployed persons: the number of unemployed persons in the labour market is rising astronomically every year due to a combination of factors which include the large turn-out from the school system and some economic policies like right-sizing, down-sizing, commercialization and privatization. The number to be catered for apparently out-weights resource support.

(3) Attitudinal change: NDE Job Creation programmes principally focus on the informal sector for self-employment creation. However, poverty and other social factors are responsible for lukewarm attitude of unemployed school leavers and graduates in particular to embrace skill acquisition training for self-employment.

Some are still insisting on wage employment to meet their immediate needs.

3.3.9 NDE Collaboration with Stakeholders

1. NDE/UNDP/ ILO Collaboration

The NDE, since its establishment in 1986, has received technical assistance/support from the United Nations Development Programme (UNDP) and International Labour Organisation ILO for capacity building and training in Labour based light equipment road projects.

2. NDE/GTZ Collaboration

The German Government through its aid agency GTZ has been providing technical assistance to the NDE since July 1991. The assistance is aimed at strengthening the National Open Apprenticeship Scheme (NOAS)

3. NDE/NACRDB Collaboration

In an attempt to link beneficiaries of NDE training Programmes to credit facilities for enterprise creation, the NDE signed a memorandum of understanding with the Nigerian Agriculture Cooperative and Rural Development Bank. Therefore, the graduates of vocational skills and entrepreneurial training programmes of the NDE are being assisted by the Bank to set up their own enterprises

4. NDE/ NEXIM Collaboration

NDE/ NEXIM entered into memorandum of understanding (MOU) with the aim of training unemployed graduates on export management and entrepreneurial skills for engaging in non oil export business for job and wealth creation.

5. NDE/Nigerian Export Promotion Council (NEPC) Collaboration

The collaboration with NEPC is to compliment that which the NDE has established with NEXIM to ensure that our graduates have adequate knowledge of the non-oil export sector of the economy.

6. NDE/NYSC Collaboration

NDE in collaboration with NYSC provides training in entrepreneurship Development at NYSC orientation camps. The EDP is given to corps member at the orientation camps nationwide as a sensitization exercise to present self – employment as a viable option.

7. NDE/NIPC Collaboration

By this collaboration, the NIPC links up graduates of the NDE skills acquisition programme to foreign investors to take advantage of the job opportunities available in the new industries

8. NDE/Nigerian Railway Corporation Collaboration

The Nigerian Railway Training Schools at Ebute–Meta, Lagos and Enugu have been involved in the training of the NDE’s youths under the National Open Apprenticeship Scheme (NOAS) since 1987.

9. NDE/SPDC Youth Training for the Niger Delta

The Shell Petroleum Development Company of Nigeria SPDC Collaborates with the NDE in the training of youths in the Niger Delta Area. This training programme is instituted by SPDC to develop the youths in the area especially amongst the host communities.

The NDE provides training in the following: Vocational trades, Welding, Fabrication, Auto-Mechanic, Electrical Installation, Computer Operation, Secretarial Studies, Catering and Confectioneries, Fashion Designing, Hairdressing etc.

10. NDE/Nigerian Building and Road Research Institute

The Nigerian Building and Road Research Institute (NBRRRI) has been an NDE partner since 1998. The Collaboration is aimed at exploiting the employment potentials in the production of stabilized Soil Bricks (SSB) and Fiber Cement Roofing tiles. The arrangement provides sources of employment for youths and cheap materials for housing construction.

11. NDE/IITA Collaborations

The NDE collaborates with the International Institute for Tropical Agriculture in the acquisition of agricultural skills and empowerment of young farmers as well as Capacity-Building for NDE Staff.

12. NDE/Local Government Councils

The School – On- Wheels Scheme is an integral – part of the NDE’s Vocational Skills Development Programme. It is designed to carry out training of school leavers and unemployed youths in rural

areas. In achieving this objective, the NDE takes fully equipped Mobile Training Workshops (MTWs) to rural areas. In order to reduce the funding demands, the NDE collaborates with LGAs in such a manner that the LGAs bear some costs, especially consumables, and allowances for trainees while the NDE provides, the equipment and training facilities and anchor men,

13. NDE/NAPEP Collaboration

The National Poverty Eradication Programme (NAPEP) was designed to fund, coordinate and monitor activities of all agencies involved in combating poverty which includes NDE. To this end, NDE and NAPEP collaborated in the Vocational Skills acquisition training of 25,000 youths.

4.0 CONCLUSION

We have in this unit discussed the role of NEPC, NERF and NDE in the development of entrepreneurship.

5.0 SUMMARY

In this unit, we have

- list the institutions established by the government to support entrepreneurs in product selection process;
- discuss the role of NEPC, NERF and NDE.

In the next unit, we shall continue with discussion in respect of institutions that support the development of entrepreneurship.

6.0 TUTOR-MARKED ASSIGNMENT

Write short notes on the following:

- (a) Nigeria Export Promotion Council
- (b) National Economic Reconstruction Fund
- (c) National Directorate of Employment.

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UNIT 2: ROLE OF SUPPORT INSTITUTIONS TO PRODUCT SELECTION PROCESS (EVALUATION OF ENTREPRENEUR AND IDEA) – II RMRDC AND IDC

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Raw Materials Research and Development Council
 - 3.2 Industrial Development Centres
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we examined the evaluation of an entrepreneur and his idea in product selection process. We shall also discuss the role of support institutions in this process.

In this unit, we shall continue with our discussion on the role of support institutions for entrepreneurship development. We shall touch on Raw Materials Research and Development Council as well as Industrial Development Centres.

2.0 OBJECTIVES

At the end of this unit, you should be able to discuss the role of RMRDC and IDC.

3.0 MAIN CONTENT

3.1 Raw Materials Research and Development Council

1. Preamble

The Service Charter of RMRDC is tailored towards assisting in the exploitation and utilization of raw materials, development and survival of Nigerian's industries and consequently improves the standard of living of its citizens. The Council was established in 1987 through the recommendations of a workshop on Industrial Matters organized by the Manufacturers Association of Nigerian (MAN) and the Nigerian Institute of Social and Economic Research (NISER) held in 1983. RMRDC was envisioned by the organizers of the workshop to be Nigeria's focal point for the development and utilization of the nation's vast industrial raw materials that facilitate the establishment of the new resource-based industries thus providing new job opportunities and contributes to the nation's gross domestic product (GDP).

The clarion call of these quick thinking Nigerians informed the development of a corporate vision and mission for the council as well as its service charter.

2. Mandate

RMRDC was established by Decree No. 39 of 1987 though it commenced operation on February 10, 1988 and the primary mandate includes:

- ☞ To draw up policy guidelines and action programmes on raw material acquisition, exploitation and development.
- ☞ To review from time to time, raw materials resource availability and utilization with a view to advising the Federal Government (FG) on the strategic implication of depletion, conservation, or stock piling of such resources.
- ☞ To advise on adaptation of machinery and process for raw materials utilization;
- ☞ To provide special research grants for specific objectives and design awards or systems for industries that achieve break-through or make innovations and inventions; and
- ☞ To encourage the publicity of research findings and other information relevant to local sourcing of raw material.
- ☞ To encourage growth of implant research and development capabilities

∞ To organize workshop, symposia and seminars from time to time designed to enlighten people on new developments and solutions discovered

3. The Mission

The Council's mission is to promote value-added transformation to Nigeria's Raw Material Resources as a strategy for sustainable industrial Development.

4. Vision

To be an indispensable catalyst for industrial growth and development with a view to making Nigeria an internationally Competitive Economy.

5. Our Clients

Industrialists, Scientists, Engineers, Researchers and Technologists. Inventors and Innovators, Agricultural Development Project, Tertiary and Research Institutions. Others includes Federal, State and Local Governments and International communities

6. Expectations from Clients

Clients should access and make use of the industrial support services and the promotion of new resource-based investments opportunities as occasionally identified by the council.

Clients should capitalize on the Council's research and development sponsoring policy to research on raw materials that would add value and boost the economy of Nigeria generally.

Clients should tap the benefit of visiting the RMRDC Zonal and liaison offices in their locality for up-to-date information on;

- Raw materials availability and location
- Sourcing of process equipment
- Materials sourcing, development and utilization
- Investment opportunities
- Financial advice

Clients should capitalize on RMRDC's publicity and awareness campaign (Techno expositions, investment forum, seminars, workshops etc) in order to put machinery in place that will ensure the optimum harnessing, exploitation and utilization of the endowed raw material resources abundant in the country.

Clients should critically appraise the services provided by the Council vis- a- vis its performance on projects, activities, plans, programmes and service delivery mechanism to the public (especially where such services provided do not meet standard).

Clients are expected to draw meaningful suggestions for possible improvement. Staff expect that for effective and efficiency service delivery to thrive, management should provide conducive working environment and adequate facilities/tools that would enhance performance.

Staff expect that adequate training programme should be packaged from time to time.

Management expects that staff should be committed to discharge their duties diligently, timely, effectively and efficiently with all honesty and courteousness.

7. Services to Clients

RMRDC's services to the clients are as follows:

- Provides industrial support services and promotes new resource-based investments through the net working of its liaison offices located in all the states of the federation.
- Public policy advisory support
- Upgrading of Research facilities and promoting science and Technology in Nigeria.
- Serving as Nigeria's focal point for international collaboration on Raw Materials Development.
- Promoting industrial Raw Materials, Research Innovations and utilization through merit awards.
- Promoting investment in Research based Industries.
- Promoting new resource based investments through joint venture projects and Technical support service.
- Providing advisory and Technical support services to investors.
- Promoting the Development of Indigenous Technology. Sponsoring Research and Development (R&D) activities For Raw Materials utilization and new products.

- Promoting local Engineering capabilities in design and manufacture of plant machinery for raw materials processing.
- Reviewing from time to time, raw materials resources availability and utilization.
- Support Agro Industrial Raw Materials Production.
- Publicizing, creating awareness and sensitization on Raw Materials Resources Potential.

3.2 Industrial Development Centres (IDC)

The Industrial Development Centers (IDCs) are established to provide extension service to SMEs in such areas as project appraisal for loan application, training of entrepreneurs, managerial assistance, product development as well as other extension services.

The Industrial Development Centre in pursuance of its mandate of coordinating and monitoring all investment activities facilitate investments by maintenance of liaison between investors and Ministries, Government departments and agencies, institutional lenders and other authorities concerned with investments ;provision and dissemination of up-to-date information on incentives available to investors; and assisting incoming and existing investors by providing support services including assistance to procure authorities and permits required for the establishment and operation of enterprises;

Hassan and Olaniran (2011) stated that the Industrial Development Centres (IDCs) were established by the Federal Government of Nigeria across the country with the aim of promoting small and medium enterprises. According to them, the IDCs were essentially established to provide extension services to the SMEs in such areas as project appraisal for loan application, training of entrepreneurs, managerial assistance, product development, production planning and control as well as other extension services. The first IDC was established in Owerri in 1965 by the former Eastern Nigeria government, Ministry of Trade and Industry, and was taken over in 1970 by the Federal government including the one in Zaria, Northern Nigeria, which was established in 1969. The emergence of the Industrial Development Centres was as a result of the Nigerian government's yearning to strengthen small and medium enterprises (SMEs) in the country. Experts carried out feasibility studies and recommended that government concentrate on five (5) areas namely; wood work, metal work, automobile repair, textiles and leather work (Business Day, 21st December, 2009 quoted in Hassan and Olaniran, 2011).

Subsequently, more IDCs were established at Maiduguri, Abeokuta, Sokoto, Benin City, Uyo, Bauchi, Akure, Port Harcourt, Ilorin, Kano, Osogbo and Ikorodu. Through IDC, entrepreneurs are expected to learn about new production techniques, new types of machinery and their usage, how to develop a feasibility plan as well as establishing small scale businesses for self sufficiency and self reliance.

Ceramics Department – Entrepreneurs are being trained on daily basis on how to make materials like tea-cup, pot, jug, interior decoration materials and so on. The major raw material is clay which must pass through various processes before it can be used for the aforementioned materials.

Food and Chemical Department – This is where interested individuals and groups are trained on how to use chemical to produce various products like soap, pomade, candle, ice-cream, preservation of fruit juice, among others. This department also conducts training on food and chemical products for corporate organizations on consultation. The major raw materials being used here include caustic soda, palm kernel oil, salt, raw fruits, among others.

Metal Department – In this department, various machines are being produced for industrial use. These machines include, soap making machine, candle making machine, welding machine, heat treatment machine, absorber machine, Ticknessing machine, and Hydrolic press. People are also trained on how to use these machines to produce what they are meant to produce in industrial settings.

Wood-work Department – This department has two broad sections: the machine section, where machines are being used to manipulate wood into various sizes and shapes in order to bring out materials like wooden hanger, wooden chair, and interior decorating materials. The second section is assembling where wooden materials already produced are being assembled together. This

department as well trains people on how to use wood for furniture making and interior decorating materials as many outstanding furniture makers and interior decorators in Nigeria have their success traced to the centre.

Textiles Department – This is where people are trained on how to produce textile materials of all sorts. This department also has two units. The first unit is where textile materials are being weaved together before taken into the second unit that is dyeing section for dyeing. Various African fabrics like campala, Adire, Batik are also produced in this section.

Leather Department – This is one of the patronized sections of IDC. The reason is not far-fetched. Leather forms part of the materials that man uses everyday. This department trains entrepreneurs on how to use animal skin to produce materials of all kinds such as leather bag, shoe, and belt, among others. The major raw material for leather production in this section is animal skin called “Hide” and “Skin”. Hide is the outer covering of large animals like elephant, cow, and lion while skin is derived from small animals like goat, sheep and the likes.

4.0 CONCLUSION

We have discussed the role of raw materials research and development council as well as the industrial development council in the quest to support entrepreneurship development in Nigeria.

5.0 SUMMARY

In this unit, we discussed the second part of the institutions established to support the development of entrepreneurship in Nigeria.

In the next unit, we shall examine the role of national associations to the development of entrepreneurship, small and medium scale industrialists.

6.0 TUTOR-MARKED ASSIGNMENT

What are the roles of RMRDC and IDC in the development of entrepreneurship in Nigeria? Discuss briefly.

7.0 REFERENCES/FURTHER READINGS

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UNIT 3: CONTRIBUTIONS OF NATIONAL ASSOCIATIONS TO ENTREPRENEURSHIP, SMALL AND MEDIUM SCALE INDUSTRIALISTS – I NASSI, NASME, NACCIMA MAN, NECA AND SMEDAN

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Definition of Industrial Associations
 - 3.2 Industrial Associations and their Roles
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we discussed the second part of the institutions established to support the development of entrepreneurship in Nigeria.

In this unit, we shall examine the role of national associations to the development of entrepreneurship, small and medium scale industrialists.

2.0 `OBJECTIVES

At the end of this unit, you should be able to:

- define industrial associations;
- list and describe the role of the industrial associations to the development of entrepreneurship.

3.0 MAIN CONTENT

3.1 Definition of Industrial Association

An industrial association can be defined as an association that supports and protects the rights of a particular industry and the people who work in that industry.

Industrial associations lobby and urge governments or its agencies to take stronger action on things affecting their members or their line of interests. Modern industrial associations were formed to provide the needed supports and enabling environment to promote the growth of entrepreneurship culture.

3.1 Industrial Associations and their Roles to Entrepreneurship Development

The industrial associations include:

1. Nigerian Association of Small Scale Industrialists (NASSI)
2. National Association of Small and Medium Enterprises (NASME)
3. Nigerian Association of Chamber of Commerce, Industries, Mines and Agriculture (NACCIMA)
4. Manufacturers' Association of Nigeria (MAN)
5. Nigerian Employers Consultative Association (NECA)
6. Small and Medium Enterprises Development Association of Nigeria (SMEDAN)

3.1.1 Nigerian Association of Small Scale Industrialists (NASSI)

This association was established in 1978 to cater for the needs of the Small Scale business industrialists through the provision of socio-politico economic support for the members. It has numerous functions which include:

- organizing workshops, conferences, exhibitions, trade-fairs, study tours and providing advisory services to the members;
- providing information on sources of raw materials, market situations, plants and equipment and the required manufacturing standard;
- granting micro credit facilities to members and sometimes standing as sureties for bona-fide small and medium enterprise (SME) in their relationship with development finance institutions;
- linking up its members with various opportunities and development assistance both at home and abroad;

- serving as the mouthpiece of members in advocacy capacity against unfavourable public policies.

3.1.2 National Association of Small and Medium Enterprises (NASME)

NASME is a private sector organisation in Nigeria which brings together Small and Medium Scale Enterprises (NASME) across the country. It was registered in 1996 as a *Business Membership Organisation* (BMO) to coordinate and foster the promotion of Micro Small and Medium Enterprises (MSMEs) in Nigeria. It is devoted to networking, capacity building, policy advocacy and promotion of the performance of its member firms and operators. It works consistently to improve the welfare of its members.

3.1.3 Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA)

NACCIMA was founded in 1960 as a voluntary association of manufacturers, merchants, mines, farmers, financiers, industrialists, trade groups who network together for the principal objectives of promoting, protecting and improving business environment for micro and macro benefits. The body performs many functions which are as follows:

- it provides a network of national and international business contacts and opportunities;
- it promotes, protects and develops all matters affecting commerce, industry, mines and agriculture and other form of private economic activities by all lawful means;
- it promotes, supports and oppose legislative and other measures affecting commerce, industry, mines and agriculture in Nigeria;
- it encourages an orderly expansion and development of all segments of community;
- it contributes to the social political and economic development of Nigeria.

3.1.4 Manufacturers' Association of Nigeria (MAN)

This was formed as a company limited by guarantee to perform important roles on behalf of its members as well as the development of the country. Its sector groups include food, beverages and tobacco, chemicals and pharmaceuticals, domestic and industrial plastic, rubber and foam, basic metal, iron and steel and fabricated metal products, pulp, paper and paper products, printing and publishing, electrical and electronics, textile, wearing apparel, carpet, leather and leather footwear, etc. The Manufacturers' Association of Nigeria (MAN) performs so many functions, among which are:

- it encourages a high standard of quality for members' products through the collection and circulation of useful information and the provision of advice;
- it encourages the patronage of Nigerian made products by Nigerians and by consumers in foreign countries;
- it develops and promotes the contribution of manufacturers to the national economy through government;
- it provides the manufacturers in the country with information on industrial, labour, social, legal, training and technical matters.

3.1.5 Nigerian Employers Consultative Association (NECA)

It is the umbrella organisation for employers association of Nigeria and was founded in 1959 with its memberships drawn from the private and public sector employers associations. It performs many roles in Nigeria. These roles include:

- it promotes and encourages any technical or other forms of education for the development of employees;

- it assists in the maintenance and promotion of good relations between members and their employees;
- it encourages the payment of equitable rates of wages and salaries to the employees;
- it promotes, influences, modifies or seeks the repeal of legislative and other resources affecting or likely to affect the employers.

3.1.6 Small and Medium Enterprises Agencies of Nigeria (SMEDAN)

This is a “One stop shop” for micro small and medium enterprises development. SMEDAN was established by the SMEDAN Act of 2003 to promote the development of Micro Small and Medium Enterprises (MSME) Sector of the Nigeria economy. Its mission is to facilitate the access of micro, small and medium entrepreneurs/investors to all the resources required for their development.

It compiles; reviews and updates all existing economic policies, regulations, incentives and legislation affecting MSME operation within the state. Other institution established was the Industrial Development Centers (IDCs) which is to provide extension service to SMEs in such areas as project appraisal for loan application, training of entrepreneurs, managerial assistance, product development as well as other extension services.

These industrial associations provide increased support for entrepreneurial development in the forms of training, logistics and funding for their members.

Emerging entrepreneurs are therefore encouraged to join any of these associations in order to access the numerous benefits they provide.

4.0 CONCLUSION

We have defined as an association that supports and protects the rights of a particular industry and the people who work in that industry and listed the associations as:

- (b) Nigerian Association of Small Scale Industrialists (NASSI)
- (c) National Association of Small and Medium Enterprises (NASME)
- (d) Nigerian Association of Chamber of Commerce, Industries, Mines and Agriculture (NACCIMA)
- (e) Manufacturers’ Association of Nigeria (MAN)
- (f) Nigerian Employers Consultative Association (NECA)
- (g) Small and Medium Enterprises Development Association of Nigeria (SMEDAN).

5.0 SUMMARY

In the last unit, we have defined industrial associations, listed and described their roles to entrepreneurship development in Nigeria.

In the next unit, we shall examine the role of government support agencies for the development of small and medium scale industrialists.

6.0 TUTOR-MARKED ASSIGNMENT

1. What is an industrial association?
2. List and describe the role played by three of these associations to support entrepreneurship development in Nigeria.

7.0 REFERENCES/FURTHER READINGS

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UNIT 4: GOVERNMENT SUPPORT AGENCIES FOR THE DEVELOPMENT OF SMALL AND MEDIUM SCALE INDUSTRIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
- 3.1 Role of Government in Entrepreneurship Development in Nigeria
- 3.2 Government Support Agencies for Entrepreneurship Development
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we defined industrial associations, listed and described their roles to entrepreneurship development in Nigeria.

In this unit, which brings us to the end of this course, we shall examine the role of government support agencies for the development of small and medium scale industrialists.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- describe the role of government in entrepreneurship development in Nigeria;
- list the support agencies for the development of small and medium industrialists;
- describe the role of these support agencies to the development of entrepreneurship.

3.0 MAIN CONTENT

3.1 Role of Government in Entrepreneurship Development in Nigeria

Economic growth rates are often attributed to the role of the duo of government and entrepreneurs which is complementary and not mutually exclusive. In Nigeria, like some other economies, government helps to develop transportation, power, financial inducement, subsidies and other utilities to encourage entrepreneurship development. Furthermore the government provides security to safe guard life and property; maintaining law and order and freedom to do business.

The role of government in entrepreneurship development in Nigeria became significant only after the Nigeria civil war (1967-70) (Esiomo, 2010). Since the mid-1980s there has been increased commitment of government to entrepreneurship development especially after the introduction of the Structural Adjustment economic Program (SAP) in 1986. Added to this, is the establishment of the National Directorate of Employment (NDE),

National Open Apprenticeship Scheme (NOAS), Small and Medium Enterprise Development Association of Nigeria (SMEDAN), SMEEIS etc.

Fundamentally Nigerian government promotes entrepreneurial culture through initiatives that builds business confidence, positive attitude, pride in success, support and encouragement of new ideas, social responsibility, providing technological supports, encouraging inter-firm linkages and promotion of research and development. Others are cheap financial resources, free access to market, prompt registration/advisory service to businesses, promotion of entrepreneurial skills acquisition through education and manpower development, production of infrastructure, export incentives, stable macroeconomic environment, security of investment, stable political climate etc.

In early 2000s, entrepreneurship studies have been introduced into the Nigerian educational system especially higher institutions as a mandatory course. The Centre for Entrepreneurship Development (CED), which has the objective of teaching and gingering students of higher institutions (especially in science, engineering and technological (SET)) to acquire entrepreneurial, innovative, and management skills, was established.

This is to make the graduates self-employed, create job opportunities for others and generates wealth.

UNESCO-TVE Programmes in Nigeria is aim at fostering linkage and cooperation between higher institutions and industries such that academic research findings can readily be taken up by industries for production and product development.

Table 1: Entrepreneurship Development Program/Activities in Nigerian (1999–2006)

ITEM YEARS	1999	2000	2001	2002	2003	2004	2005	2006
Unemployment (%)	-	-	-	2.7	2.7	2.6	12.6	12.3
Entrepreneurship development program (EDP) beneficiaries	105000	95000	39551	21551	36000	N/A	N/A	N/A
Vocational skills development of national open apprenticeship scheme (NOAS) participants	20649	20877	9300	11624	15354	N/A	N/A	N/A
Unemployed youths trained under NOAS -	-	-	-	15255	36105	30211	38219	2500
Trained youths provided with tools to Establish their own businesses	-	-	-	20	120	13	1901	1480
National open apprenticeship scheme (NOAS):								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	37000	15265
	37000	36105	37000	30211	37000	38223	37000	25000
School on wheel:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	2 625	1205
	2250	615	-	-	4500	1468	1125	407
Entrepreneurship development program (EDP):								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	111000	50502
	111000	58000	111000	106000	111000	63000	111000	-
Start your own Business:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	7400	185
	7400	370	34229	34229	25706	25706	7400	203
Women cooperatives:								
(a) Registered	-	-	-	-	-	-		
(b) Beneficiaries	-	-	-	-	-	-	3700	500
	3700	3700	3700	3700	3700	3700	3700	-
Rural agricultural development and training Scheme:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	12580	1222
	12580	3867	12580	4977	12580	9737	12580	1020
Rural handcraft scheme:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	-	5550
	-	5330	3791	11100	9285	-	-	-
Environmental beautification scheme:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	3700	540
	-	3700	1850	3700	1850	3700	1850	3700
Graduate attachment program:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	5550	-
	-	5550	-	5550	-	5550	-	5550
Community development scheme:								
(a) Registered								
(b) Beneficiaries	-	-	-	-	-	-	925	-
	-	925	925	925	925	925	-	925

Source: NBS (2007) Annual Abstract of Statistics Pg 216 – 226 (quoted in Esiomo, 2010).

A look at the above table shows that various entrepreneurship programmes are supported by government. The number of participants registered over the period of analysis (1999- 2006) is constant while the number of beneficiaries out of the total number of graduates of the programs is however very low.

3.2 Support Agencies in Small and Medium Scale Industrial Development in Nigeria

Some supportive agencies are established by the government at all levels to facilitate the promotion of entrepreneurship in Nigeria. These agencies are established to cope with the dynamics of the economy at a particular time. Their basic functions can be discussed under these roles: participatory; regulatory; and facilitating.

3.2.1 Participatory Agencies

The agencies in this category aid in providing goods and services which are best produced by the government. They provide goods and services that are highly subsidized or goods produced below the average cost. The services provided by these agencies are essentially to encourage entrepreneurship. Examples are:

- Federal Road Maintenance Agency (FERMA),
- Public Corporations such as Power Holding Company of Nigeria (PHCN formerly known as National Electric Power Authority, NEPA), National Emergency Management Agency (NEMA), Federal Airports Authority of Nigeria (FAAN), etc.

Student may wish to visit the library and internet in order to familiarize himself with the functions of the above listed institutions.

3.2.2 Regulatory Agencies

These are agencies established for regulating business. They are involved in inspection facilities, laboratory test of products, approval of facilities and product, etc. They include:

- Standard Organisations of Nigeria (SON);
- National Agency for Food and Drugs Administration and Control (NAFDAC);
- National Drug Law Enforcement Agency (NDLEA);
- Federal Environment Protection Agency (FEPA); and
- State Environmental Project Agency (SEPA).

Student is expected to visit the library and internet in order to familiarize himself with the functions of the above listed agencies.

3.2.3 Facilitating Agencies

These agencies are set up to facilitate the establishment and successful existence or sustenance of small scale industries. They are saddled with the responsibility of ensuring conducive environment for SMEs. Their functions may include providing specialised fund for SMEs or others. In this category, we have such institutions as:

- The Industrial Training Fund (ITF)
- Federal Institute of Industrial Research, Oshodi (FIIRO)
- Bank of Industry (BOI)
- The Industrial Development Centre (IDC)
- Universities and Polytechnics
- Nigerian Export Promotion Council (NEPC)
- The National Directorate of Employment (NDE)
- National Poverty Eradication Programme (NAPEP)
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

Student is expected to visit the library and internet in order to familiarize himself with the functions of the above listed institutions.

3.2.4 Other Support Agencies

Federal Government especially is in collaboration with some international bodies to promote small and medium scale industries. Just as they do in other sectors, their functions cover funding, research and development, etc. These bodies include:

- The World Bank,
- United Nations Children’s Fund (UNICEF)
- United Nations Industrial Organisation (UNIDO)
- African Development Bank (ADB).

(a) World Bank

It is more popularly known as the World Bank. It stands as the parent body in the World Bank group of banks made up of IBRD, IFC and IDA. Membership is open to any sovereign state, who is already a member of the International Monetary Fund (IMF).

The fundamental difference between IBRD and IMF (Ezesobor, 2009) is that while IBRD grants long-term project loans for core developments in construction, agriculture, water supply, electricity, mining, trade etc. essentially to fight poverty, IMF steps in to provide needed short-term and medium-term funds especially in the balance of payments.

IBRD grants loans to governments or to organisations having their government’s guarantee. Loans span over 20 years with 5 years of grace. Like any street bank, IBRM does not sponsor a project 100 percent but expects the borrower to provide some stake of up to 50 percent in the proposed project. Its assistance could also be in the form of consultancy or technical assistance in conducting economic survey or providing expertise. Some of the loans entail the provision of heavy duty equipment which provides juicy export market for American manufacturers.

Largely, the bank’s objectives are as follows:

- (i) to assist in the reconstruction and development in member countries through project-tied loans;
- (ii) to encourage international investments for long-term growth in international trade;
- (iii) to attend to the urgent sectoral needs of any country in its loan disbursement.

The bank was designed to pool, borrow, and channel long-term funds from member nations and the major financial markets to the less developed countries.

(b) United Nations Children’s Fund (UNICEF)

The United Nations Children’s Fund (UNICEF) is the main UN organization defending, promoting and protecting children’s rights. It also works towards protecting the world’s most disadvantaged children. UNICEF believes that children have the

- Right to Adequate Nutrition,
- Right to Education,
- Right to Health,
- Right to Participate,
- Right to Protection, and
- Right to Clean Water.

UNICEF is the world’s leading advocate for children, with strong presence in 190 countries. The heart of UNICEF’s work is in the field. Each country office carries out UNICEF’s mission through a unique programme of cooperation developed with the host government. The overall management and administration of UNICEF takes place at the New York headquarter, where global policy on children is shaped. In addition, UNICEF operates the Innocenti Research Centre in Florence. Specialized office such as the Supply Division in Copenhagen, and two Public-Sector Alliances and Resource Mobilization Offices (PARMO) in Brussels and Tokyo. Furthermore, UNICEF have 36 National Committees, that promote children’s rights, raise funds, sell UNICEF greeting cards and products, create key partnerships, and provide other support.

The UNICEF Innocenti Research Centre

UNICEF Innocenti Research Centre in Florence, Italy, was established in 1988, to strengthen the research capability of the United Nations Children's Fund (UNICEF) and to support its advocacy for children worldwide.

The Centre, formally known as the International Child Development Centre, has as its prime objectives to improve international understanding of the issues relating to children's rights, to promote economic policies that advance the cause of children, and to help facilitate the full implementation of the United Nations Convention on the Rights of the Child in industrialized and developing countries.

The programme for 2006–2008 was approved by UNICEF Executive Board in September 2005. It reaffirms the Centre's academic freedom and the focus of IRC's research on knowledge gaps, emerging questions and sensitive issues which are relevant to the realization of children's rights, in developing and industrialized countries. It capitalizes on IRC's role as an interface between UNICEF field experience, international experts, research networks and policy makers and is designed to strengthen the Centre's institutional collaboration with regional academic and policy institutions, pursuing the following four goals:

- Generation and communication of strategic and influential knowledge on issues affecting children and the realization of their rights;
- Knowledge exchange and brokering;
- Support to UNICEF's advocacy, policy and programme development in support of the Millennium Agenda
- Securing and strengthening the Centre's institutional and financial basis.

Three interrelated strategies will guide the achievement of these goals:

- Evidence-based analysis drawing on quantitative and qualitative information, the application of appropriate methodologies, and the development of recommendations to assess and inform advocacy and policy action.
- Enhanced partnerships with research and policy institutions and development actors, globally and at regional level, in developing and industrialized countries.
- Communication and leveraging of research findings and recommendations to support policy development and advocacy initiatives through strategic dissemination of studies and contribution to relevant events and for a (Horton, 2004).

(c) United Nations Industrial Organisation (UNIDO)

The United Nations Industrial Development Organization (UNIDO), French/Spanish acronym ONUDI, is a specialized agency in the United Nations system, headquartered in Vienna, Austria. The Organization's primary objective is the promotion and acceleration of industrial development in developing countries and countries with economies in transition and the promotion of international industrial cooperation. It is also a member of the United Nations Development Group (Wikipedia, 2011).

UNIDO believes that competitive and environmentally sustainable industry has a crucial role to play in accelerating economic growth, reducing poverty and achieving the Millennium Development Goals. The Organization therefore works towards improving the quality of life of the world's poor by drawing on its combined global resources and expertise in the following three interrelated thematic areas:

- Poverty reduction through productive activities;
- Trade capacity-building; and
- Energy and environment.

Activities in these fields are strictly aligned with the priorities of the current United Nations Development Decade and related multilateral declarations, and reflected in the long-term vision statement, business plan and mid-term programme frameworks of UNIDO.

In order to fulfill these objectives, UNIDO

- assists developing countries in the formulation of development, institutional, scientific and technological policies and programmes in the field of industrial development;

- analyzes trends, disseminates information and coordinates activities in their industrial development;
- acts as a forum for consultations and negotiations directed towards the industrialization of developing countries; and
- provides technical cooperation to developing countries for implementing their development plans for sustainable industrialization in their public, cooperative and private sectors.

UNIDO thus works largely in developing countries, with governments, business associations and individual companies. The Organization's "service modules" are Industrial Governance and Statistics, Investment and Technology Promotion, Industrial Competitiveness and Trade, Private Sector Development, Agro-Industries, Sustainable Energy and Climate Change, Montreal Protocol, and Environmental Management.

Thematic focus of UNIDO

UNIDO explains its thematic focus areas as follows (UNIDO, 2010):

- (a) Poverty reduction through productive activities;
- (b) Trade capacity-building;
- (c) Energy and environment.

(1) Poverty reduction through productive activities

As a primary driver of economic growth and employment creation, the private sector has a central role in poverty reduction and the achievement of the Millennium Development Goals. Private sector-led industrial development makes a significant contribution to bringing about the much needed structural changes that can set the economies of poor countries on a path of sustained economic growth. UNIDO's services therefore focus on encouraging the creation of decent employment and income to overcome poverty. These services are customized for developing countries and range from industrial policy advice to entrepreneurship and SME development, and from investment and technology promotion to the provision of rural energy for productive uses.

(2) Trade capacity-building

The technical ability of developing countries to produce competitive exportable products that comply with international standards is key to their successful participation in international trade. UNIDO is one of the largest providers of trade-related development services, offering focused and neutral advice and technical cooperation in the areas of competitiveness, industrial modernization and upgrading, compliance with international trade standards, testing methods and metrology.

(3) Energy and environment

Fundamental changes in the way societies produce and consume are indispensable for achieving global sustainable development and fighting climate change.

UNIDO therefore promotes sustainable patterns of industrial consumption and production to de-link the processes of economic growth and environmental degradation. UNIDO is a leading provider of services for improved industrial energy efficiency and the promotion of renewable sources of energy. It also assists developing countries in implementing multilateral environmental agreements and in simultaneously reaching their economic and environmental goals.

(d) African Development Bank

This bank was established on 10th September, 1964 after the meeting of Ministers of Finance in Africa took the recommendation of the United Nations Economic Commission for Africa (ECA) that such a bank was overdue in accelerating the economic development of the African continent.

It commenced operation in July, 1996 with head office in Abidjan, Cote d'Ivoire.

The bank's principal functions are as follows:

- (1) to make loans and equity investments for the economic and social advancement of the Regional Member Countries (RMC);
- (2) to provide technical assistance for the preparation and execution of development projects and programs;
- (3) to promote investment of public and private capital for development purposes;

(4) to respond to requests for assistance in coordinating development policies and plans of RMCs. In its operations, the bank is also required to give special attention to national and multinational projects and programs which promote regional integration.

The Bank's loans are tied to specific projects in major sectors like agriculture, public utilities, transportation, electrification and poverty alleviation endeavours. The maturity tenor for its loans ranges up to 20 years including 5 years grace period. Its interest rate is adjusted twice a year; in January and July to reflect the average cost of funds.

The apex authority is the Board of Governors that approves all loans, guarantees, equity investments and borrowings. It also sets the operational and financial policies as well as the guidelines for borrowing.

Egypt currently has the highest voting power as the highest subscriber of the bank's capital followed by Morocco and Nigeria. In 1982, membership was extended to non- African countries without compromising the "Africanness" of the bank, which is primarily to support the poor countries in Africa. The Presidency of the bank was still retained for Africa while African members retained two thirds of the voting rights.

The bank pools its funds from the following sources:

- (i) Contributions in capital from member countries;
- (ii) Loans and floating of bonds in the international capital market;
- (iii) Loans from Bretton Woods Institutions like IBRD, IMF and IFC;
- (iv) Tenor placements by international institutions;
- (v) Proceeds of interest on loans granted;
- (vi) Proceeds of interest on investments in multilateral institutions at Central Banks of member states;
- (vii) Bad debts recovered; and
- (viii) Solidarity aids and gifts from members and other international bodies.

4.0 CONCLUSION

We traced and described the role of government in entrepreneurship development in Nigeria. We also listed the support agencies established by the government for the development of small and medium scale industries.

Finally, we described the role of the support agencies with which the federal government collaborates to the development of entrepreneurship in Nigeria.

As stated at the beginning of this unit, we have come to the conclusion of this course. We congratulate you on the successful conclusion of the course and urge you to study your material thoroughly and try your hands in other materials in the library and internet to improve your knowledge and assist you in your preparation for your examination. We wish you all the best.

5.0 SUMMARY

In this unit, we

- described the role of government in entrepreneurship development in Nigeria;
- listed the support agencies for the development of small and medium industrialists;
- described the role of these support agencies to the development of entrepreneurship.

6.0 TUTOR-MARKED ASSIGNMENT

1. List the agencies created by the government to support entrepreneurship development under regulatory, participatory and facilitating roles.
2. List the institutions to which the federal government collaborates to support entrepreneurship development in Nigeria and briefly discuss their roles.

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