COURSE GUIDE

ENT 702
THE NIGERIAN ENTREPRENEURIAL ENVIRONMENT

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INTRODUCTION

ENT702: The Nigerian Entrepreneurial Environment is a first semester year one, two credit level core course. It will be available for all students offering undergraduate programme in PGD Entrepreneurship in the Department of Entrepreneurial Studies at the Faculty of Management Sciences.

This course introduces learners to the components of the environmental variables of the concept of entrepreneurship. It is aimed at identifying the environmental factors that affect entrepreneurial development. Also to be considered are types of environmental factors; and adaptive mechanisms to entrepreneurial environment.

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.

WHAT YOU WILL LEARN IN THIS COURSE

The course ENT702 consists of 17 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.

Environmental variables of the concept of entrepreneurship.

Identifying the environmental factors that affect entrepreneurial development.

Types of environmental factors; and

Adaptive mechanisms to entrepreneurial environment.

COURSE AIMS

The aim of the course can be summarized as follows:

This course aims to give you an understanding of the component of the concept of entrepreneurship. It is aimed at identifying the environmental factors that affect entrepreneurial development. Also to be considered are types of environmental factors; and adaptive mechanisms to entrepreneurial environment.

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 component of the environmental variables of the concept of entrepreneurship. It is aimed at identifying the environmental factors that affect entrepreneurial development. Also to be considered are types of environmental factors; and adaptive mechanisms to entrepreneurial environment.

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.

Course Materials

Major components of the course are:

Course Guide

Study Units

Textbooks Assignment

Presentation Schedule.

STUDY UNITS

The study units in this course are as follows:

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

Unit 1: Definitions of Entrepreneurship as a Business Activity

Unit 2: History of Entrepreneurship Development

Unit 3: Functions of an Entrepreneur

Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

MODULE 2: BISINESS ENVIRONMENT (1)

Unit 1 The Internal Business Environment

Unit 2 The Task Environment

Unit 3 The Political Environment

Unit 4 The Legal Environment

MODULE 3: BUSINESS ENVIRONMENT (2)

Unit 1: The Cultural Environment

Unit 2: The Demographic Environment

Unit 3: The Technological Environment

Unit 4: The Economic Environment

Unit 5: Environmental Analysis

MODULE 4: FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

Unit 1: Sole Proprietorship

Unit 2: Partnership

Unit 3: Co-operative Society

Unit 4: The Company

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.

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.

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.

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.

FINAL EXAMINATION AND GRADING

The final examination for ENT702 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.

Unit	Title of work	Weeks activity	Assessment (end of unit)
	Module I		
1	Definitions of Entrepreneurship as a Business Activity	1	Assignment 1
2	History of Entrepreneurship Development	1	Assignment 2
3	Functions of an Entrepreneur	1	Assignment 3
4	Characteristic, Advantages and the Role of Entrepreneurship in Economic Dev. Development National Economy	1	
	Module II		
1	The Internal Business Environment	1	Assignment 4
2	The Task Environment	1	
3	The Political Environment	1	Assignment 5
4	The Legal Environment		
	Module III		
1	The Cultural Environment	1	
2	Demographic Environment	1	
3	The Technological Environment	1	Assignment 6
4	The Economic Environment	1	
5	Environmental Analysis	1	
	Module IV		
1	Sole Proprietor	1	
2	Partnership	1	Assignment 7
3	Cooperative Society	1	
4	The Company	1	
	Revision	1	

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.

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**

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.

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 suit you best. 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 given at the end of each unit. 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 text 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 text 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 and confirm that you have achieved them at the end of your study. 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.

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.

SUMMARY

As earlier stated, the course ENT702: 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.

MAIN CONTENT

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

Unit 1: Definitions of Entrepreneurship as a Business Activity
Unit 2: History of Entrepreneurship Development
Unit 3: Functions of an Entrepreneur
Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

MODULE: 2 BUSINESS ENVIRONMENT (1)

Unit 1 The Internal Business Environment
Unit 2 The task Environment
Unit 3 The Political Environment
Unit 4 The Legal Environmental

MODULE 3: BUSINESS ENVIRONMNET (2)

Unit 1: Cultural Environment
Unit 2: Demographic Environment
Unit 3: Technological Environment
Unit 4: Economic Environment
Unit 5: Environmental Analysis

MODULE 4: FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

Unit 1: Sole Proprietorship
Unit 2: Partnership
Unit 3: Co-operative Society
Unit 4: The Company

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

Unit 1: Definitions of Entrepreneurship as a Business Activity
Unit 2: History of Entrepreneurship Development
Unit 3: Functions of an Entrepreneur
Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

UNIT 1: DEFINITION OF ENTREPRENEURSHIP AS A BUSINESS ACTIVITY

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1.0 INTRODUCTION

You are welcome to a new course; ENT 702 (The Nigerian Entrepreneurial Environment) is a first semester, two 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;
- Identify and describe the characteristics and objective of Business
- Discuss certain key concepts as they relate to entrepreneurship development .

3.0 MAIN CONTENT

You would have learned in ENT102, Principles of Economics, 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 harnesses all the human and material resources, provides the finance required, takes risk, initiates 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, "entreprende" which means "to undertake" (Akanni, 2010). In business context, it means to start a business, identify a business opportunity, organize 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.

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

In the Science of Economics, we learn how to optimize the factors of production and at the same time seek to attain equilibrium in the distribution of wealth. In other words, we strive to get the most out of the existing resources and to establish equilibrium. The entrepreneur is someone who sees change as normal and healthy. Usually, the entrepreneur does not bring about change. Rather, he "searches for change, responds to it, and exploits it as an opportunity.

Entrepreneurs are characterized by the need to be independent, to create value, to contribute to family and society, to become rich or, quite often, not to be unemployed. Potential entrepreneurs display initiative and ambition, have business sense and foresight, and are decisive. They are agents of change who accelerate the generation, application and spread of innovative ideas (UNDP, 2010).

UNIDO (1999) defined entrepreneurship as the process of using initiative to transform business concept to new venture, diversify existing venture or enterprise to high growing venture potentials.

The entrepreneur 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

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 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. 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.

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 Rechard Cantillon who was then living in France. On the extreme, it is a term used broadly in connection with the innovation of modern industrial business leader, which describe an originator of a profitable business idea (Akanni, 2010). According to Joseph Scheumpeter, 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. Hisrich and Peters (1992) state that entrepreneurship is a continuous process of creating something different that has value to the users.

3.1.3 The Concept of Entrepreneurship

Our narratives so far have shown that entrepreneurship is largely defined differently by scholars and theoreticians. This is however not all together strange as the concept is often seen from different prisms. In this module attempt will be made to enhance the understanding of students and readers by introducing recent studies by researchers that will throw more light on the meaning of entrepreneurship.

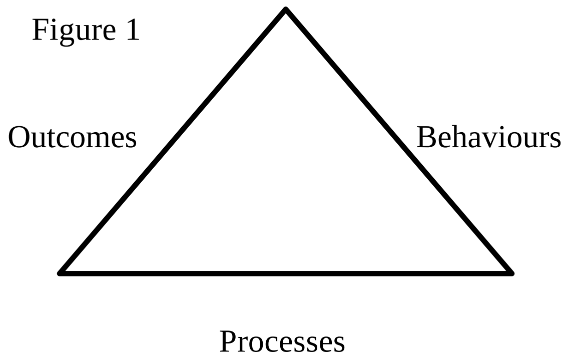
We shall therefore proceed to explain entrepreneurship using Stokes, Wilson and Mador (2010) three-dimensional framework.

3.1.4 The Three Dimensions of Entrepreneurship

Entrepreneurship is viewed as a critical factor in our contemporary socio-economic and political platforms because of its capacity to dealing with issues of value creation, opportunity creation, and wealth creation. Therefore, Stokes. Wilson and Mador have argued that all the numerous definitions associated with entrepreneurship can be categorized into three dimensions – namely:

- Behaviours
- Processes
- Outcomes

Figure 1



3.1.5 Process of Entrepreneurship – Some of the definitions given fall under this category which is largely concerned with what is involved in entrepreneurship and why it is relevant to all segments including individuals, organizations and society in general.

The main thrust of the process dimension is in the development of new ventures or innovation strategy and designing a framework that supports the entrepreneurship process. some of the definitions that capture this perspective is that Hisrich, Peters and Shepherd, (2005). They define entrepreneurship as "the process of creating something new of value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks and the resulting rewards of monetary and personal satisfaction and independence". Another definition is Mazuyka and Birley (2002), which is define entrepreneurship "as any novel activity which creates organizational change and economic value". The processes involved in this definition according to them includes:

- Identifying and developing an opportunity in the form of a vision

  Validating and conceptualizing a business concept and strategy that helps attain that vision.
- Marshalling the required resources to implement the concept
- Implementing the business concept or venture
- Capturing the opportunity through the growth of the enterprise
- Extending the growth of the enterprise through sustained entrepreneurial activities
- Capturing greater value in the market place.

3.1.6 Behaviours required in Entrepreneurship – The definitions under this category highlights the behaviour as a basis of differentiation. Some examples of such includes Timmons and Spinelli (2004) which states that "Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity based, holistic in approach and leadership balanced". Another definition in this category is Kuratko (2002) which sees Entrepreneurship "as the characteristics of seeking opportunities, taking risks beyond security and having the tenacity to push through an idea into reality".

3.1.7 Outcomes of Entrepreneurship – These definitions are predicated on the results or outcomes of entrepreneurship as a process or sets of behaviours. Outcomes are generally viewed in the context of new products and services, innovation, new ventures and or creation of value for society. One of the definitions in this category is Timmons and Spinelli (2004) that define Entrepreneurship "as the act that results in the creation, enhancement realization and renewal if value not just for the owners but for the participants and stakeholder. Also, the definition of Hisrich, Peters and Shepherd (2010) is in this category. It sees Entrepreneurship "as the dynamic force that facilitates the creation of incremental wealth"

3.1.8 Key features of Entrepreneurship Definitions

Some features which seems to run through many of the definitions are:

- The environment within which entrepreneurship takes place
- The people engaged in entrepreneurship
- Entrepreneurial behaviours displayed by entrepreneurs
- The creation/establishment of organisations by entrepreneurs
- Opportunities identified and exploited
- Innovation, whether incremental, radical or transformative
- Assumption of risk at personal, organisational and societal levels
- Value addition by entrepreneurs

Our conclusion in this regard is that an acceptable definition of entrepreneurship must capture three key parameters namely value, opportunity and wealth creation.

3.1.9 Types of Entrepreneurs

It is generally assumed that there are two types of entrepreneurs which Smith (1967) identifies as:

i. Craftsman entrepreneur – makes use of personal relationship in marketing its products and services
ii. Opportunistic entrepreneur – is market-oriented and continually seeks new opportunities possibilities

Meanwhile, firms founded by opportunistic entrepreneurs tends to experience much higher growth rates than those founded by craftsmen entrepreneurs. However, both opportunistic and craftsman entrepreneurs need some marketing insights to make a success of the entrepreneurial journey.

3.1.10 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.

3.1.11 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. 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.

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.

3.3 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.

3.3.1 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 must strive to gain greater control of its marketl 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 satisfaction is 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 their 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.

3.3.2 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.

3.3.3 Concept of corporate entrepreneurship

Corporate entrepreneurship is defined as a process whereby an individual (or a group of individuals) in association with existing organisation, creates a new organisation or instigates renewal or innovation within the organisation. Corporate entrepreneurship represents a company effort at renewal through innovation and new busines development and through venturing. According to Burns (2008), it allows existing firms to revitalize by providing an antidote to fossilization.

Meanwhile, scholars such as Morris, Kuratko and Covin, (2008) have identified two empirical phenomena as constituting the domain of corporate entrepreneurship. These are corporate venturing and strategic entrepreneurship.

a) Corporate venturing – it has as its main feature the addition of new businesses (or a portion of new businesses by way of equity investments) to the corporation. This can be accomplished through three implementation modes:
   i. Internal corporate venturing
   ii. Cooperative corporate venturing
   iii. External corporate venturing
b) Strategic Entrepreneurship – it has as its main feature the exhibition of large scale or otherwise highly consequential innovations that are adopted in the firm's pursuit of competitive advantage. However, these innovations may or may not leads to new busines for the corporation. With strategic entrepreneurship, innovation can be in any of the following five areas
   i. The firm's strategy
   ii. Product offering
   iii. Served markets
   iv. Internal organisation (i.e structure, processes, and capabilities)
   v. Business model.

Many organisations today are appreciative of the need for corporate entrepreneurship. Large organisations are deliberately trying to remain entrepreneurial by encouraging managers to innovate by which some have succeeded in sustaining entrepreneurial tendencies. The need for this has arisen in response to a number pf pressing problems, including rapid growth in the number of new and sophisticated competitors, intense global competition and the speed of technological advancement (Ramachandra et al, 2006)

4.0 CONCLUSION

Entrepreneurship development is vital for National Economic development. The entrepreneurs both at individual and corporate levels play an important role in the developmental process.

They mobilize human, financial and material resources in the establishment of business organizations. These provide goods and services to satisfy human needs and contribute to GNP and GDP.

5.0 SUMMARY

Entrepreneurship Development is a viable alternative to economic development. Entrepreneurs are individuals that undertake this risk of establishing, running and growing a business. On the other hand, entrepreneurship is the process which the entrepreneur undergoes in a establishing a business. The primary objective of business is to make profit through the provision of goods and services. Other objective includes; market share growth, social responsibility among others. Entrepreneur can also be viewed as investor who by means of parting with his money adds value to goods and services to satisfy consumers, prosper himself and the Nation at large.

6.0 Self Assessment

Exercise 1.1

1. Briefly define the terms 'entrepreneur', and entrepreneurship.

2. Distinguish the terms Development and entrepreneurship Development.

3 How does Entrepreneurship contribute to National Development

4 Discuss the activities the Entrepreneur undertake to add values to products

7.0 Tutor Marked Assignments

1. List and Discuss Five Characteristics of Business

2. Write Explanatory Notes on the following:
   a. GNP
   b. The Entrepreneur as an investor
   c Entrepreneurship as a Business Activity

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UNIT 2: HISTORY OF ENTREPRENEURSHIP DEVELOPMENT

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1.0 INTRODUCTION

3.3 The Nigerian Entrepreneurial Environment

In performing any activity, it is important to understand the factors that can impact it one way or the other. It is in the same way that the entrepreneurial environment is affected by the general business climate in the country. This is to say that the ability of the people to create business ventures or remodel existing ones is largely depended on the prevailing business environment.

Basically, business environment refers to the external factors that influences or affects a business. Specifically, the success of any business is largely dependent on how it adapts to dynamics in its environment. For example, changes in government policy requires an entrepreneur to adapt to the new reality if its future is not to be compromised.

The business environment refers to all the external factors that provide opportunities and threats to the business community.it is therefore necessary for entrepreneurs to design appropriate strategy that will enable them to thrive successfully.

Koon (2011) identifies some environmental factors which are political, economic, social, technological, ecology and legal also known as **PESTEL.** The PESTEL analysis is considered to be a good starting point for doing business and conducting environmental analysis. This is the approach that will be adopted in this module.

Political Factors

- Taxation Policy (Tax rates and administration)
- Trade regulations
- Political stability
- Security of Life and Property
- Corruption index

Economic Factors

- Inflation rate
- Growth in spending power
- Rate of pensionable age
- Recession or Boom
- Access to finance and cost of finance
- Production factor costs
- Per capital income
- Monetary/Fiscal policies

Socio-cultural

- Age distribution
- Education levels
- Income levels
- Diet and nutrition
- Local custom
- Religion

Technological Factors

- Technological changes
- New or improved distribution channels

- Improved communication and infrastructure
- Knowledge transfer and;
- Technology absorption

Environmental/Ecological Factors

- Laws and local regulations on
  - **a)** Waste disposal
  - **b)** Energy consumption
  - **c)** Pollution monitoring etc.

Legal Factors

- Legal system
- Registration of business and business premises
- Licenses and permits
- Product safety standards
- Advertising regulations

From the above it is important for government to create an for ease of doing business and enabling environment for businesses to thrive. Government policies should design in such a manner that it will support the creation of new ventures while also supporting existing businesses. Therefore, government political power should be exercise in such a manner that it will engender a favourable business climate that will attract local entrepreneurs/investors and also give foreign investors' confidence to invest in the economy.

It is the responsibility of government to ensure an enabling environment for businesses to thrive by providing necessary infrastructure, institutional systems and regulatory services. These will help to reduce cost of doing business and support business growth. Let us now discuss each of the factors earlier highlighted.

3.4 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, un-organized 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 Olusegun Obsanjo 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 Millennial 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

Osalor (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 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:

i. Constrained access to local and international markets that stunt entrepreneurial expansion and proliferation.

ii. Severe infrastructure deficits (mainly of power and electricity) that hamstring both new and existing businesses.

iii. 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.

UNIT 3 FUNCTIONS OF AN ENTREPRENEUR

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1.0 INTRODUCTION

In the last unit, we defined discussed the character traits of entrepreneurs, the advantages, disadvantages and role of entrepreneurship in economic development. The focus of the unit will be on the functions of the entrepreneurs. In order for the entrepreneur to meaningfully contribute towards economic development some essential functions must be performed. The successful performance of these functions is a prerequisite for the entrepreneur to effectively contribute to economic development. The efficient and effective performance of these functions will sustain the flow of income from the satisfaction of consumer needs.

2.0 OBJECTIVES

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

1. Describe the role of an entrepreneur as a risk bearer;
2. Discuss the management decision making function of an entrepreneur;

3. Explain the production function of an entrepreneur;
4. Discuss the strategic planning function of an entrepreneur; and
5. 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 convinced 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 the result of the research is positive, 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. According to Brown (199): an entrepreneur calculates his risks by asking the following questions:

(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

Decision making covers all the management functions, namely: planning, organizing, decision making, staffing, leading, motivating, communicating, and controlling.

3.2.1 Planning Function

Planning is a must for every business enterprise operating in a dynamic environment. This more important now that today's world is a global village. 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, a unifying framework within which such organisation are guided, reveal future opportunities and threats, means of minimizing risks, provides performance standard, and so on.

1. Definition of Planning

Weihrich 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? Weihrich 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 reduce 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 answer the following questions as:

a. What product(s) or services will be provided?
b. To whom will we sell? That is, who 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 Organizing 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.

3.2.3 Decision making

Cornell (1980 quoted in Ikharehon, 2006) defines a decision first of all as an act, but an act requiring judgment. He also went further to explain that a judgment 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 inter-personal 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. In formation 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.

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 counseling, 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.

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 posses ideals and broad visions, which they impress on their supporter 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 or 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.

3.2.7 Communicating

Enterprises exist through communication and without communication there would be no organisations. In modern enterprises, 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, corrective and integration. Sometimes controls are resisted due to the following reasons: unnecessary bossing, over control, non- seriousness, rewarding inefficiency and mediocrity and accountability.

3.3 Production

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

Aghedo (2010) 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; nonprofits 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.

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 shown 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 to 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

5.The societal marketing concepts posits that key achieving to organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors well as meeting the needs in line with the expectations of the society.

4.0 CONCLUSION

It is evident that entrepreneurs need to perform some essential activities in other to function effectively. The performance of risk bearing, management, production, strategic planning and marketing functions will result in the successful management of a business.

5.0 SUMMARY

One of the most important functions of the entrepreneur is risk taking. The entrepreneur takes the risk of investing time, energy , money among others in a business with no guarantee of success. In addition to risk taking, the entrepreneur undertakes the management decision making functions of planning, organizing, controlling, decision-making, communicating, staffing, leading etc. Of equal importance are the production function of an entrepreneur, strategic planning and the marketing management function of the entrepreneur.

6.0 SELF-ASSESSMENT QUESTIONS

1 Distinguish between the staffing and planning management function of an entrepreneur. .

2 Discuss the management decision making function of an entrepreneur, 3 List and explain the core areas of strategy

4 Is want and Need the same thing?

7.0 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.

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UNIT 4 CHARACTERISTICS, ADVANTAGES THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

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1.0 Introduction

Management experts have preoccupied their time with search for universal traits of successful entrepreneurs. The questions often asked are;, is the entrepreneur a different kind of person with distinct character traits? Are entrepreneurs born or made?

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.

2.0 Objectives for unit 2

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

- List ten character traits of entrepreneurs
- Discuss any five of character traits of entrepreneurs
- List and discuss the advantages of entrepreneurs
- List and discuss the Role of entrepreneurship in Economic development

3.0 MAIN CONTENT

3.1 Characteristics of an Entrepreneur.

Several character traits have been identified with successful entrepreneurs. Some of the most important ones are discussed below.

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 imagination and can environ 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 se 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).

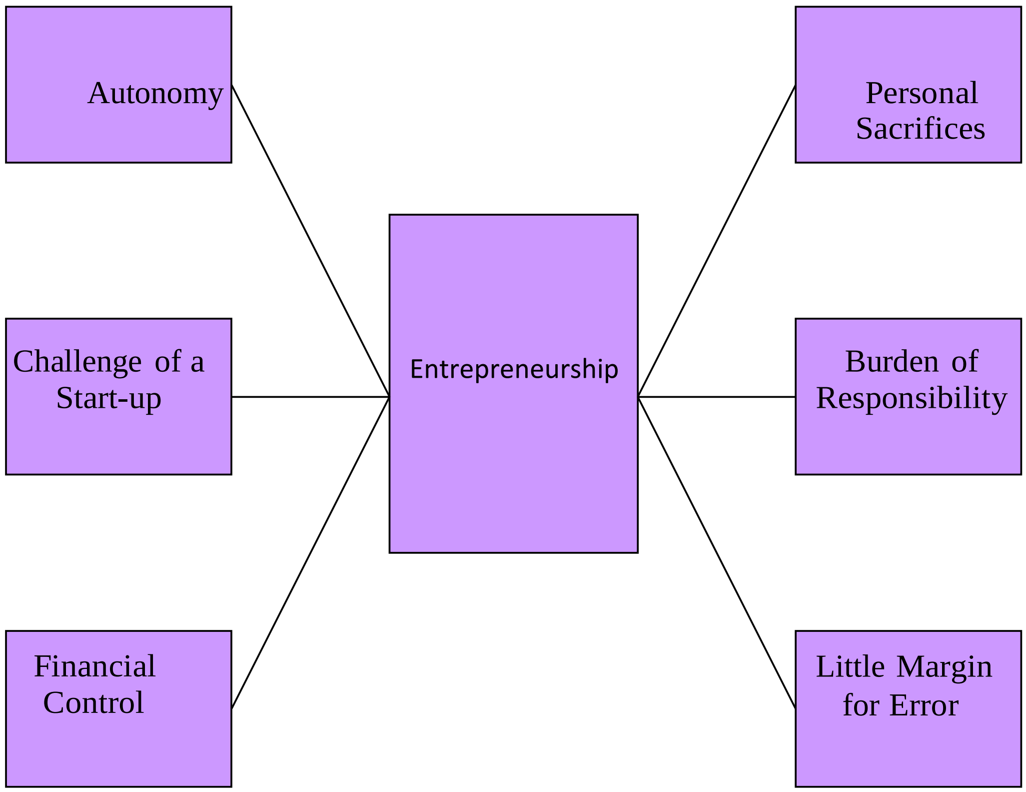
A separate study looked at the concept of thought self-leadership (TSL) and self-efficacy. TSL states that people develop functional and dysfunctional habits in the ways they think. This in turn influences their “perceptions, the way they process information and the choices they made”. Thus, entrepreneurs 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 seen 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.

3.2 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), Upper Saddle River: Pearson Education, Inc. Prentice-Hall, pg. 23.

3.3.1 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.

3.3.2 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.

4.1 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

The success of entrepreneurship depends on the possession of certain character traits. These traits are required for successful business initiation, management and growth. Entrepreneurship have both the negative and positive sides. So intending and practicing entrepreneurs should be ready to bear both burdens and benefits of entrepreneurship.

5.0 SUMMARY

Entrepreneurs possess some peculiar character traits which include desire for independence, self-confidence, willingness to take risk and ability to recognize opportunity, high need for achievement, creativeness and innovativeness among others. The advantages of entrepreneurship include; autonomy, feelings of accomplishments and full financial control. The dark side of entrepreneurship are; little margin of errors, personal sacrifices and full responsibility. The contributions of entrprenurship towards economic development are manifested tin employment or job creation, poverty alleviation, income generation for government and social responsibility.

6.0 SELF-ASSESSMENT QUESTIONS

1.Write short notes on the following entrepreneurial Traits:

a. Ability to spot Opportunities

b. Innovation and Creativity

c. Passion for the Business

2 List and Discuss the advantages of entrepreneurship

3 What are the contributions of Entrepreneurship to economic Development?

7.0 TUTOR MARKED ASSIGNMENT

1. ‘ Entrepreneurs are born and not made’ Discuss.
2. Discuss three factors that may discourage you from becoming an entrepreneur

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MODULE 2 BUSINESS ENVIRONMENT (1)

Unit 1 The Internal business environment
Unit 2 The Task environment
Unit 3 The Political environment
Unit 4 The Legal environment

UNIT 1 THE INTERNAL BUSINESS ENVIRONMENT

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1.0 INTRODUCTION

Business organizations operate in an environment where they compete with other organizations for resources. Organizations operate not only locally at home but also internationally in countries around the world. Operating in business environment is uncertain and the environment itself is also uncertain and unpredictable because it is complex and constantly changing. In this unit we are going to explore the nature of the business environment and the internal environment

2.0 OBJECTIVES

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

1. Explain the nature of the business environment

2. Explain the difference between the internal and external business environment.
3. Discuss the internal environment of business

3.0 MAIN CONTENT

3.1 The Nature of the Business Environment

The business environment is a set of forces and conditions within and outside the organization's boundaries that have the potential to affect the way the organization operates. These forces and conditions change from time to time. The business environment presents opportunities which organizations can take advantage and threats that the organization should avoid. For example changes in the environment such as the introduction of new technology or the opening of global markets, create opportunities for managers to obtain resources or enter new markets and thereby strengthen their organizations. In contrast, the rise of new competitors, a global economic recession, or an oil shortage poses threat that can devastate an organization if managers are unable to obtain resources or sell the organization's goods and services. The quality of managers' understanding of organizational environmental forces and their ability to respond appropriately to those forces are critical factors affecting organizational performance.

Structure of the Business Environment

The environment of business is divided into two sections: the internal and external environment. The difference between the external and Internal environment is based on whether or not the factors are outside or inside the organization and whether or not it is within the immediate control of the organization.

INTERNAL ENVIRONMENT

This consists of a set of forces and conditions within the organization's boundaries that have the potential to affect the way the organization operates. It consists of the owners, board of directors, employees, the organization's culture, the physical work environment and the various departments that make up the organization (the organizational structure). Let us briefly discuss these factors.

Owners

The owners of business are those who have legal property rights to the business. Owners can be a single individual who establishes and runs a small business, partners who jointly own the business, Individual investors who buy stock in a corporation, or other organizations. These sets of people have a stake in the business and are mindful of how the business is being managed.

Board of directors

A corporate board of directors is elected by the stockholders and is charged with overseeing the general management of the firm to ensure that it is being run in a way that best serves the stockholders interest. Some boards are relatively passive. They perform a general oversight function but seldom get actively involved in how the company is really being run. But this trend is changing, however, as more and more boards are more carefully scrutinizing the firms they oversee and exerting more influence on how they are being managed.

Employees/managers

An organization's employees are also a major element of its internal environment. The employees are the workers who perform the day to day operations of the organization and ensure that work is being accomplished to achieve the organization's desired goals. These sets of people are being supervised and managed by the managers of an organization. Managers are responsible for combining and coordinating the resources of an organization including the workers to ensure that organizations achieved their goals.

There are many types of managers depending on their levels in the organization. We have the top managers, the middle managers and first-line managers. The top managers are relatively small group of executives who manage the overall organization. Some top managers are addressed as the chief executive officer (CEO). Others are called presidents or vice presidents. The next sets of managers are the middle managers. They are usually very large at least more than the top managers in most organizations. They are primarily responsible for implementing the policies and plans developed by the top managers and for supervising and coordinating the activities of lower-level managers. Examples of middle managers are the operations managers, plant managers, the last sets of managers we are going to consider are the first- line managers who are sometimes also called the supervisors. They supervise and coordinate the activities of the operating employees.

Physical work environment

An important part of the internal environment is the actual physical environment of the organization and the work that people do. Some firms have their facilities in downtown skyscrapers, usually spread across several floors. Others locate in suburban or rural settings and may have facilities resembling a college campus. Some facilities have long halls lined with traditional offices.

Organizational structure

Business organizations are characterized by a division of labour which allows employees to specialize in particular roles and to occupy designated positions in pursuit of the organizational objectives. The resulting pattern of relationships between individuals and roles constitutes what is known as organizational structure and represents the means by which the purpose and work of the organization is carried out.

3.2 The external business environment.

This consists of a set of forces and conditions outside the organization's boundaries that have the potential to affect the way the organization operates. The external environment can further be sub divided into tasks and general environments.

The task environment which is an aspect of the external environment and is also referred to as immediate or operational environment is the set of forces and conditions that originate with suppliers, distributors, customers, and competitors .these forces and conditions affect an organization's ability to obtain inputs and dispose of its output. The task environment contains the forces that have the most immediate and direct effect because they pressure and influence managers on a daily basis. When managers turn on the radio or Television, arrive at their offices in the morning, open their mail, or look at their computer screens, they are likely to learn about problems facing them because of changing conditions in their organization's task environment. In unit 2, we shall discuss more about these factors.

On the other hand, the general environment consists of factors such as legal, economic, political, socio- cultural, technological and ethical factors which affect business organizations operations and which emanate from local, national and international sources. We shall explore more about this later in module 2.

4.0 CONCLUSION

Managing the business environment is an important aspect of managing business organizations as this can impact greatly on the success or failure of any business. Organizations must be careful in dealing with its business environment as this will affect their overall performance.

5.0 SUMMARY

The business environment is everything around the business organization which can impact on the performance of the organization. As we saw, in examining the business environment, we distinguished between the internal and the external factors which can affect the operations of an organization. The internal environment consists of the management team, employees, structure of the organization consisting of the various departments of the firm.

6.0 SELF-ASSESSMENT QUESTIONS

1. Explain the term ' Business Environment'

2. What is the difference between the Internal and external environment of Business?

3. Discuss how consumers influence Business Organizations.

7.0 TUTOR-MARKED ASSIGNMENT

1. List and Discuss the elements of the internal environment

2. Discuss the internal and external factors of business environment.

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UNIT 2 THE TASK ENVIRONMENT

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8.0 References/Further Reading

1.0 INTRODUCTION

The task environment, which is also called the immediate or operational environment, has profound impact on the operations of a firm. It has direct impact on the activities of a Business. For most firms includes suppliers, competitors, distributors, customers, labor markets, and financial institutions. We shall briefly discuss some of these factors.

2.0 OBJECTIVES

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

1. Understand how the activities of suppliers affect Business

2.The role of Distributors in enhancing Business Performance

3 How the activities of Consumer affect Business

4 Explain the impact of competitive rivalry on Business

3.0 MAIN CONTENT

3.1 Suppliers

Suppliers are individuals and companies that provide an organization with the input resources (such as raw materials, component parts, or employees) that it needs to produce goods and services. In return, the supplier receives compensation for those goods and services. An important aspect of a manager's job is to ensure a reliable supply of input resources. An organization may need some resources which make it dependent to a large degree on the suppliers of those resources, some of whom operate in markets which are structured to a considerable extent. The activities of a supplier can have a fundamental impact on an organization's success. The success of suppliers is often intimately connected with the decisions and/or fortunes of their customers. Some organizations may seek to gain an advantage in price, quality or delivery by purchasing resources from overseas, while others might consider dealing with suppliers within the country of its operation.

3.2 Distributors

Distributors are organizations that help other organizations sell their goods or services to customers. The decisions that managers make about how to distribute products to customers can have important effects on organizational performance.

The changing nature of distributors and distribution methods can bring opportunities and threats for managers. If distributors become so large and powerful that they can control customers' access to a particular organization's goods and services, they can threaten the organization by demanding that it reduce the price of its goods and services.

3.3 Customers

Customers are individuals and groups that buy the goods and services of an organization. A customer may be an individual, an institution such as a school, hospital, and other organizations or government agency. Customers are important to all organizations. The ability to identify and meet customers' needs is the main reason for the survival and prosperity of an organization. Customers are often regarded as the most critical stakeholder group since if a company attract them to buy its products, it cannot stay in business. Organizations must work towards achieving customers' satisfaction and attract new ones. They can do this by producing goods and services effectively and efficiently. By so doing they will be able to sell quality goods or services at a fair price to customers.

Many laws are there to protect customers from companies that attempt to provide dangerous or shoddy products. Laws exist that enable consumers to sue companies whose products cause them harm such as a defective vehicle or tire. There are laws that force companies to disclose the interest rates they charge on purchases. Companies may be prosecuted for breaking such laws.

When customers are so powerful, they can influence or force down prices or demand higher quality and better service, which will increase an organization's operating costs and reduce their profitability. However when customers are weak, this might give a company the opportunity to increase prices and make more profit.

3.4 Competitors

Competitors are organizations that produce similar goods and services to an organization. In other words, competitors are organizations compete for the same customers. For example, Dell's competitors include other PC manufacturers such as Apple, Compaq, Sony, and Toshiba. In the Nigerian communication industry, MTN competes with other communication firms such as Etisalat, Glo, and Airtel. Competition both direct and indirect is an important part of the environmental context in which firms operate. How firms respond to competitive forces affect their market share and their overall performance.

Rivalry between competitors is potentially the most threatening force that organizations must deal with. A high level of rivalry often results in price competition, and fallen prices reduce access to resources and lower profits. Competition is not only limited to existing firms in the industry rather it also includes potential competitors which are organizations that are not presently in the task environment but have the capability to enter the industry if they wish. In general, the potential for new competitors to enter a task environment and thus boost the level of competition within the industry depends on the barriers to entry. Barriers to entry are factors that make it difficult and costly for an organization to enter a particular industry. It is important to note that the more difficult and costly it is to enter an industry; the higher are the barriers to entry. In other words, the more difficult and costly it is to enter the task environment, the higher are the barriers to entry, the fewer the competitors in that industry and thus the lower the threat of competition. With fewer competitors, it is easier to obtain customers and keep prices high.

Barriers to entry result from three main sources: economies of scale, brand loyalty, and government regulations that impede entry. Economies of scale are cost advantages associated with large operations. Economies of scale result from factors such as manufacturing products in very large quantities, buying inputs in bulk, or making more effective use of organizational resources than do competitors by fully utilizing employees' skills and knowledge. Large Organizations who are already in the industry and who operate with economies of scale will enjoy lower costs than the costs of potential entrants; this will discourage potential entrants from entering the industry. Brand loyalty is customers' preference for the products of organizations currently existing in the industry. If established organizations enjoy significant brand loyalty, then a new entrant will find it extremely difficult and costly to build customer awareness of the goods or services they intend to provide. Some government regulations may be a barrier to entry. Many industries that were deregulated experienced a high level of new entry after deregulation. This will force existing companies in those industries to operate more efficiently or risk being put out of business.

4.0 The task environment is the immediate constituency of a business that is in a reciprocal relationship with business. The managers and students should identify these groups and how their actions and decisions impact on business and vice versa. The business is expected develop appropriate strategies to manage this groups.

5.0 SUMMARY

The task environment consists of the suppliers, customers, distributors, and competitors. These institutions affect the operations and every day activities of the firm. Suppliers are those organizations which supply the raw materials the organization uses to produce its goods or services. Customers are people around the organization who buy the goods or services provided by the organization. Competitors are organizations within the business environment that produce the same or similar goods and services to the set of customers. They compete with other organizations in similar business for the same customers.

6.0 SELF-ASSESSMENT QUESTIONS

1. How do the activities of suppliers affect Business?

2. What role does Distributors play in enhancing Business Performance?

3How does the activities of Consumer affect Business?

4 What is the impact of competitive rivalry on Business?

7.0 TUTOR MARKED ASSIGNMENT

The task environment is an important dimension of the business environment, discuss.

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UNIT 3 THE POLITICAL ENVIRONMENT

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7.0 Tutor marked Assignment

8.0 References/Further Reading

1.0 INTRODUCTION

The political environment is an important dimension of the business environment which affects business enterprise in a number of ways. In this unit we shall discuss some of the key aspects of the political environment which includes the political systems, government in democratic states, branches and functions of government and how they impact on business activities.

2.0 OBJECTIVES

Having read this unit, you should be able to:

1 Discuss the political systems and how it affects business organizations.

2 Explain the functions of government and its impact on business activities.

3 Demonstrate how political environment influences business environment

4 Understand Political Systems

3.0 MAIN CONTENT

3.1 The Nature of the Political System

The political environment is mainly concerned with the type of leadership a nation adopts. Political processes shape a society's laws, which constrain the activities of organizations and thus create both opportunities and threats. Politics is concerned with those processes which help to determine how conflicts are contained, modified, postponed or settled, and as such can be seen as a universal social activity. Politics tends to be associated with activities at state level where the resolution of conflict often involves large numbers of people.

UNIT 4 THE LEGAL ENVIRONMENT

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7.0 Tutor marked Assignment
8.0 References/Further Reading

1.0 INTRODUCTION

The legal aspect of the general environment includes the legislation, regulation and court decisions that govern and regulate business behavior. In this unit we shall consider types of laws, sources of law, the legal system, business organizations and the law, contract law and agency.

2.0 OBJECTIVES

After reading this unit, you should be able to;

1. List and explain the Types of laws
2. Discuss the sources of laws
3. Describe the legal System
4. Explain the influence of law on Business

3.0 MAIN COTENT

3.1 Types of laws

Laws relating to both individuals and organisations can be classified in a number of ways: international and national, public and private, criminal and civil. In practice there are no hard and fast rules to classification and some categories may overlap (e.g. where a person's behaviour is deemed to infringe different areas of law). Nevertheless, distinguishing laws in these terms serves as an aid to explanation and commentary, as well as helping to explain differences in liabilities and in legal remedies in Nigeria (e.g. a child under the age of 10 cannot be held criminally liable).

3.1.1Public and private law

Put simply, **public law** is the law which concerns the state, whether in international agreements or disputes or in the relationship between the state and the individual. Thus public law consists of international treaties and conventions, constitutional law, administrative law and criminal law. In contrast, **private law** is law governing the relationships between individuals and comprises laws in respect of contract, tort, property, trusts and the family.

3.1.2 Criminal law

Criminal laws relate to a legal wrong (criminal offence) — a breach of a public duty, punishable by the state on behalf of society.

3.1.3 Tort

A **tort** is a civil wrong other than a breach of contract or a breach of trust and is a duty fixed by law on all persons (e.g. road users have a duty in law not to act negligently). The law of tort, therefore, is concerned with those situations where the conduct of one party threatens or causes harm to the interests of another party and the aim of the law is to compensate for this harm. The most common torts are negligence, nuisance, defamation and trespass.

3.1.4 Trusts

A **trust** is generally defined as an 'equitable obligation imposing on one or more persons a duty of dealing with property, over which they have control, for the benefit of other persons who may enforce the obligation'. This property may be in the form of money or stocks and shares or in other types of asset, particularly land, where trusts have become a very common way of permitting persons who are forbidden to own legal estates in land to enjoy the equitable benefits of ownership. Partnerships, for example, cannot hold property as legal owners, so often several partners will act as trustees for all the partners (as a partnership has no separate corporate identity it cannot own property. Similarly, minors may not hold legal estates, so their interests must be protected by a trust, administered by an individual or an institution.

3.2 Sources of law

Laws invariably derive from a number of sources including custom, judicial precedent, legislation and international and supranational bodies.

3.2.1 Custom

Early societies developed particular forms of behaviour (or **customs)** which came to be accepted as social norms to be followed by the members of the community to which they applied. In Nigeria many of these customary rules ultimately became incorporated into a body of legal principles known as the common law. Today customs would be regarded as usage recognised by law, whether by judicial precedent **(case law)** or through statutory intervention and hence they are largely of historical interest. Occasionally, however, they are recognised by the courts as being of local significance and may be enforced accordingly as exceptions to the general law (e.g. concerning land usage).

3.2.2 Judicial precedent

Much of Nigerian law is derived from **judicial precedent** (previous decisions of the courts). In essence, judicial precedent is based on the rule that the previous decisions of a higher court must be followed by the lower courts - hence the significance of the court structure.

Cases cited must be considered carefully by judges to determine whether there are material differences in the case before the court and the earlier decision. To reach a decision, the court must find what is termed the *ratio decidendi* of the previous case. Put very simply, the *ratio* of a case are the essential steps in the legal reasoning which led the court to make that particular decision. Anything which cannot be regarded as a *rationes* is termed *obiter dicta* or 'things said by the way'. The whole of a dissenting judgment in a case is regarded as *obiter*. *Obiter dicta* are not binding but may be regarded as persuasive arguments if the facts of the case permit.

Clearly there are times when, perhaps because of the position of a court in the hierarchy, decisions are not to be regarded as binding precedent. However, if the judgment has been delivered by a jurisdiction which has a common law system or, most importantly, by the Judicial Committee of the Privy Council, then those decisions will be regarded as being of persuasive precedent, and may be used to help the court reach its own decision.

3.2.3 Legislation

A substantial proportion of current law - including laws governing the operations of business organizations are derived from legislation or statute. The initiative in this sphere lies effectively with the government of the day which can virtually guarantee a bill will become law, if it has a working majority in the House.

The vast majority of legislation emanates from government and takes the form of Acts of Parliament or delegated legislation. Acts of Parliament are those bills which have formally been enacted by Parliament and have received presidential assent and, they represent the supreme law of the land. In addition to creating new laws (e.g. to protect the consumer), statutes may also be used to change or repeal existing laws.

As its name suggests, **delegated legislation** is law made by a body or person to which Parliament has given limited powers of law-making

3.3 The legal system:

A country's legal system can be said to have two main functions: to provide an enabling mechanism within which individuals and organizations can exist and operate (e.g. companies are constituted by law) and to provide a means of resolving conflicts and of dealing with those who infringe the accepted standards of behaviour. These functions are carried out by a variety of institutions, including the government and the courts, and a detailed analysis of the legal system within a state would require consideration of the interrelationship between politics and law. The focus here is on the courts as a central element of a country's legal system, with responsibility for interpreting the law and administering justice in democratic societies. It is worth remembering however, that political and governmental activity take place within a framework of law and that framework is itself a product of the political process at a variety of spatial levels.

3.4 Business organizations and the law

Business organisations have been described as transformers of inputs into output in the sense that they acquire and use resources to produce goods or services for consumption, all aspects of this transformation process are influenced by the law.

It is important to emphasis from the outset that the law not only constrains business activity (e.g. by establishing minimum standards of health and safety at work which are enforceable by law), but also assists it (e.g. by providing a means by which a business unit can have an independent existence from its members), and in doing so helps an enterprise to achieve its commercial and other objectives. In short, the legal environment within which businesses operate is an enabling as well as a regulatory environment and one which provides a considerable degree of certainty and stability to the conduct of business both within and between democratic states.

Given the extensive influence of the law on business organisations, it is clearly impossible to examine all aspects of the legal context within which firms function. Accordingly, in the analysis below attention is focused primarily on contract law, agency, and some of the more important statutes enacted to protect the interests of the consumer, since these are areas fundamental to business operation.

Below are examples of business activities and the legal influences.

Business activity	Examples of legal influences
Establishing the organisation	Company laws, partnerships, business names
Acquiring resources	Planning laws, property laws, contract, agency
Business operations	Employment laws, health and safety laws, contract agency Consumer laws contract

3.5 Contract Law:

The Essentials

All businesses enter into contracts, whether with suppliers or employees or financiers or customers, and these contracts will be important — and possibly crucial — to the firm's operations. Such contracts are essentially agreements (oral or written) between two or more persons which are legally enforceable, provided they comprise a number of essential elements. These elements are: offer, acceptance, consideration, intention to create legal relations and capacity. Let us briefly consider these elements.

3.5.1 Offer

Before parties enter into a contractual relationship, they usually engage in an informal relationship which may or may not result in a contract depending on whether the parties were able to reach a mutual agreement or not. To have an agreement, two or more persons must arrive at a mutual understanding with one another; a party makes a proposition and another accepts the proposal.

An **offer therefore** is a declaration by the offeror and the offeree that they intend to be legally bound by the terms stated in the offer if it is accepted by the offeree (e.g. to supply component parts at a particular price within a specified time period). This declaration may be made orally or in writing or by conduct between the parties and must be clear and unambiguous. Furthermore it should not be confused with an 'invitation to treat', which is essentially an invitation to make an offer, as is generally the case with advertisements, auctions and goods on display. Tenders are offers; a request for tenders is merely an invitation for offers to be made.

Termination of an offer can happen in several ways. Clearly an offer is ended when it is accepted but, that apart, an offer may be revoked at any time up to acceptance. It is of no consequence, legally, that an offer may be kept open for a certain time. It is only when some consideration is paid for 'buying the option' that the time factor is important and this 'buying the option' would generally be a separate contract in any case. If an offer is for a certain length of time, then later acceptance is ineffective, and even where there is no specified time limit, the courts will imply a reasonable time. Thus, in *Ramsgate Victoria Hotel v Monte* *fibre* (1866), shares in the hotel were offered for sale. After several months the offer was `accepted' but the court held that too much time had passed, bearing in mind that the purpose of the shares offer was to raise money.

Another way for an offer to come to an end is by the failure of a condition. Although a genuine offer is always held to be firm and certain, sometimes it may be conditional and not absolute. Thus, should A wish to buy a model car from B, B may agree but impose conditions on the deal, such as stating that A must collect at a specific time on a certain day at a particular place and must pay in cash. This is known as a 'condition precedent' and failure to complete the conditions will nullify the agreement. There is another type of condition, called a 'condition subsequent' where there is a perfectly good contract which runs until something happens. For instance, a garage may have a good contract with an oil company to buy petrol at *Lx* per 1000 litres until the price of oil at Rotterdam reaches *$x* per barrel. It is only when oil reaches the stipulated price that the contract ends.

3.5.2 Acceptance

Just as an offer must be firm and certain, the **acceptance** of an offer by the person(s) to whom it was made must be unequivocal and must not contain any alterations or additions. Acceptance as (Clark 2013) put it must be unconditional as the basis of a contract is the mutual consent of the parties concerned. The offeror made a proposition and the offeree indicates either expressly or by implication, his willingness to be bound on the terms stated in the offer. Accordingly, any attempt to alter the terms of an offer is regarded as a counter-offer and thus a rejection of the original offer, leaving the original offeror free to accept or decline as he or she chooses. While acceptance of an offer normally occurs either in writing or verbally, it may also be implied by conduct. In the case of *Brogden v Metropolitan Railways Co.* (1877) Mr Brogden had supplied the company for many years without formalities. It was then decided to regularise the position and a draft agreement was sent to him. He inserted a new term, marked the draft 'approved' and returned it to the company where it was placed in a drawer and forgotten about, although both parties traded with each other on the terms of the draft for more than two years. Following a dispute, Mr Brogden claimed there was no contract. The House of Lords decided differently, saying that a contract had been created by conduct.

Inferring the acceptance of an offer by conduct is quite different from assuming that silence on the part of the offeree constitutes acceptance; silence cannot be construed as an acceptance. Equally, while the offeror may prescribe the method of acceptance (although this is regarded as permissive rather than directory), the offeree may not prescribe a method by which he or she will make acceptance. For instance, an offer may be made by fax, thus implying that a fast response is required; therefore, a reply accepting the offer which is sent by second-class mail may well be treated as nugatory.

There are some rules about acceptance which are important. Postal acceptance, for example, is a good method of communication and one which is universally used by businesses, but to be valid for contractual purposes a communication must be properly addressed and stamped and then placed into the hands of the duly authorised person (i.e. the post box or over the counter). An acceptance sent to a home address may be nullified if there has been no indication that this is acceptable. Similarly, acceptance of the offer must be effectively received by the offeror where modern, instantaneous methods of communication are used. Thus if a telephone call is muffled by extraneous sound, then the acceptance must be repeated so that the offeror hears it clearly.

3.5.3 Consideration

This refers to the price which each side pays and the advantages or benefits each side enjoys for the promise or performance of a contract. That is to say, both the offeror and the offeree give or promise to give something of value to one another, this valuable consideration could be money, goods, services or given up of a legal right. Together, offer and acceptance constitute the basis of an `agreement' or meeting of minds, provided the parties are clear as to what they are agreeing about (i.e. a *consensus ad idem* exists). However, a court will rarely enforce a 'naked promise'. As a result, a promise must have `consideration'. **Consideration** has been defined as some right, interest, profit or benefit accruing to one party or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other. In commercial contracts, the consideration normally takes the form of a cash payment in return for the goods or services provided (i.e. the `price' in a contract of sale). It does not need to be the full market value, but it must be something tangible. In contracts involving barter, however, which are sometimes used in international trade, goods are often exchanged for other goods or for some other form of non-pecuniary consideration (e.g. information or advice).

Intention to create legal relations

Not every agreement is intended to create a legally binding relationship. For example, most domestic agreements — such as the division of household chores — would not constitute a contract recognized in law. In commercial agreements, however, it is generally accepted that both parties intend to make a legally binding contract and therefore it is unnecessary to include terms to this effect. Should such a presumption be challenged, the burden of proof rests with the person who disputes the presumption.

3.5.4 Capacity

A contract may be valid, voidable or void and one of the factors which determines this is the contractual capacity of the respective parties to the agreement. Normally speaking, an adult may make a contract with another adult which, if entered into freely and without any defects, and which is not contrary to public policy, is binding upon them both (i.e. valid). However, the law provides protection for certain categories of persons deemed not to have full contractual capacity (e.g. minors, drunks and the mentally disordered); hence the practice by firms of excluding people under the age of 18 from offers of goods to be supplied on credit.

Concentrating on minors - those below voting age - the law prescribes that they can only be bound by contracts for 'necessaries' (e.g. food, clothing, lodging) and contracts of employment that are advantageous or beneficial, as in the case of a job which contains an element of training or education. In most other instances, contracts with minors are void- or voidable and as such will be either unenforceable or capable of being repudiated by the minor.

In the case of business, legal capacity depends on the firm's legal status. Unincorporated bodies (e.g. sole traders, partnerships) do not have a distinct legal personality and hence the party to the agreement is liable for their part of the bargain. Limited companies, by contrast, have a separate legal identity from their members and hence contractual capacity rests with the company, within the limits laid down in the objects clause of its Memorandum of Association.

3.5.5 Other factors

To be enforceable at law a contract must be legal (i.e. not forbidden by law or contrary to public policy). Similarly, the agreement must have been reached voluntarily and result in a genuine meeting of minds. Consequently contracts involving mistakes of fact, misrepresentation of the facts, or undue influence or duress may be void or voidable, depending on the circumstances. In insurance contracts, for instance, the insured is required to disclose all material facts to the insurer (e.g. health record, driving record), otherwise a policy may be invalidated. In this context a 'material fact' is one which would affect the mind of a prudent insurer, even though the materiality may not be appreciated by the insured.

3.6

Agency

As business activity has become more specialised and complex, firms have increasingly turned to outside individuals to carry out specialist functions such as freight forwarding, overseas representation, insurance broking and commercial letting. These individuals (known as **agents)** are authorised by the individual or organisation hiring them (known as the **principal)** to act on their behalf, thus creating an agency relationship. As in other areas of commercial activity, special rules of law have evolved to regulate the behaviour of the parties involved in such a relationship.

In essence, the function of an agent is to act on behalf of a principal so as to effect a contract between the principal and a third party. The agent may be a 'servant' of the principal (i.e. under their control as in the case of a sales representative) or an 'independent contractor' (i.e. their own master as in the case of an estate agent) and will be operating with the consent of the principal whether by contract or implication. Having established a contractual relationship between the principal and the third party, the agent generally leaves the picture and usually has no rights and duties under the contract thus made.

With regard to an agent's specific obligations under an agency agreement, these are normally expressly stated under the terms of the agreement, although some may also be implied. Traditionally the common law of agency prescribes, however, that agents:

- *Obey the lawful instruction of the principal,* otherwise they may be in breach of contract.
- *Exercise due care and skill,* in order to produce a deal which is to the principal's best advantage.
- *Act personally,* rather than delegate, unless expressly or implicitly authorised to do so.

- *Act in good faith,* thus avoiding conflicts of interest or undisclosed profits and bribes.
- *Keep proper accounts,* which separate the principal's funds from those which belong personally to the agent.

Moreover, in so far as an agent is acting under the principal's authority, the principal is bound to the third party only by acts which are within the agent's authority to make. Consequently *ultra vires* acts only affect the principal if he or she adopts them by ratification and the agent may be liable for the breach of the implied warranty of authority to the third party.

In addition to these common law duties owed by the principal, the Commercial agents in transactions involving the sale or purchase of goods, also perform the following duties to their principals:

- a commercial agent must look after the interests of her/his principal and act dutifully and in good faith;
- make proper efforts to negotiate and, where appropriate, conclude the transactions;
- communicate to their principal all the necessary information available to them;
- comply with reasonable instructions given by the principal. The duties of the principal to the agent on the other hand include:
- to act dutifully and in good faith;
- to provide the commercial agent with the necessary documentation relating to the goods in question;
- to obtain necessary information for the agent. This is a higher standard, perhaps requiring searching for data, than under the common law, where all the principal needs to do is to disclose information in their possession;
- to notify the agent within a reasonable period of time if the usual volume of trade is likely to be significantly reduced;
- to inform the agent within a reasonable period of time of the principal's acceptance, refusal, or non acceptance of a commercial transaction arranged by the agent.

3.7 Law and the consumer

Neo-classical economic theory tends to suggest that laws to protect the consumer are unnecessary. However, modern economists (in particular behavioural economists) have shown that the traditional assumption of working markets is not necessarily reliable, so regulation is sometimes required. If individuals are behaving rationally when consuming goods and services, they would arrange their consumption to maximise their satisfaction (or 'utility'), in the words of an economist. Products which because of poor quality or some other factor reduced a consumer's utility would be rejected in favour of those which proved a better alternative and this would act as an incentive to producers (and retailers) to provide the best products. In effect, market forces would ensure that the interest of the consumer was safeguarded as suppliers in a competitive market arranged their production to meet the needs and wants of rational consumers. The 'ideal' view of how markets work is not always borne out in practice. Apart from the fact that consumers do not always act rationally, they often do not have access to information which might influence their choice of products; in some cases they may not even have a choice of products (e.g. where a monopoly exists) although this situation can change over time (e.g. through privatisation of state monopolies). Also, given the respective resources of producers and consumers, the balance of power in the trading relationship tends to favour producers who can influence consumer choices using a range of persuasive techniques, including advertising.

Taken together, these and other factors call into question the assumption that the consumer is 'sovereign' and hence the extent to which individuals have inherent protection in the marketplace from powerful (and, in some cases, unscrupulous) suppliers. It is in this context that the law is seen to be an important counterbalance in a contractual relationship where the consumer is, or may be, at a disadvantage, and this can be said to provide the basis of legal intervention in this area.

Existing laws to protect consumers are both civil and criminal and the relevant rights, duties and liabilities have been created or imposed by common law (especially contract and tort) or by statute. Significantly, as the examples below illustrate, a large element of current consumer law has resulted from statutory intervention, much of it in the last 30 years. Indeed, a sizeable quality of consumer protection law comes from the continental orgaizations e.g ECOWAS, EU by way of directives. These laws — covering areas as diverse as trade descriptions, the sale of goods and services, and consumer credit and product liability — indicate a growing willingness on the part of governments to respond to the complaints of consumers and their representative organisations and to use legislation to regulate the relationship between business organisations and their customers. Europe is keen to encouraging consumers to take advantage of cross-border EU markets by harmonising consumer protection. To this end Europe has been adopting consumer protection directives, the most significant recent one being the Unfair Commercial Practices Directive, which has caused a lot of the pre-existing domestic law to be replaced.

4.0 CONCLUSION

Businesses operate within the confines of the legal framework. Laws not only constraints business activities but also assist it. The legal environment is supposed to provide a reasonable degree of certainty and stability in the conduct of business activities. Both the businesses themselves, the consumers and the larger society are guided and protected by the relevant laws of the land.

5.0 SUMMARY

Organizations are guided in its operation by the laws of the land in which it operates. The sources of these laws could be the custom of the land, judicial precedent, and legislation among others. Unfortunately, many managers are not aware of the potential legal risks associated with traditional managerial decisions like recruiting, hiring, and firing employees. Companies also face potential legal risks from customer initiated lawsuits. Business managers must therefore try as much as possible to understand the laws of the country in which it operates so that they can appropriately take the advantages of the opportunities and at the same time avoid the pit falls.

6.0 SELF-ASSESSMENT QUESTIONS

1. Identify and explain the types of law

2 list the sources of law

3. Describe the legal system

4 Discuss the influence of law on Business

7.0 TUTOR MARKED ASSIGNMENT

How can a company take advantage of the laws of a country in which it operates?

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MODULE 3 BUSINESS ENVIRONMENT (2)

Unit 1 The Cultural Environment
Unit 2 The Demographical forces

Unit 3 The Technological Environment

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UNIT 1 THE CULTURAL ENVIRONMENT

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1.0 INTRODUCTION

The influencing mechanisms, which exist within a population that guide business practices and or purchasing behavior. For example customs regarding labor and how a company manages employees.

2.0 OBJECTIVES

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

1. Understand the meaning of culture
2. Distinguish Sub culture from the general culture
3. Explain how culture influence Business generally
4. How cultural differences affect Business.

3.0 THE MAIN CONTENT

3.1 The meaning of culture

The term culture generally refers to a complex set of values, norms, beliefs, attitudes, customs, systems and artifacts which are handed down from generation to generation through the process of socialization and which influence how individuals see the world and how they behave in it. Defined in this way, culture can be seen to have at least three important features:

- it comprises both material (e.g. human artefacts such as buildings, literature, art, music) and abstract elements (e.g. rituals, symbols, values);
- it is socially learned and transmitted over time; and
- it influences human behaviour.

As a concept, 'culture' is often applied in a variety of circumstances at both the macro and micro level: terms such as 'western culture', 'Asian culture', 'European culture', 'New York City culture', 'youth culture', 'pop culture', 'entrepreneurial culture' and 'research culture' are just some of the examples of its usage in this modern world. What they have in common is that they imply certain shared aspects of human belief, understanding and behaviour that link individuals together into some form of definable group and/or range of activities.

In a business context, it can be easy to underestimate the degree to which a person's perceptions, attitudes and behaviour can be shaped by cultural influences, some of which may be relatively enduring (e.g. certain 'core' values and beliefs) while others may be more open to change (i.e. secondary beliefs and values). In the United States, for example, American citizens believe in the right of individuals to bear arms and this is enshrined in the US Constitution. The buying and selling of handguns and rifles is thus acceptable within American society, despite the fact that they are frequently used in violent crimes including robbery and murder. In other countries, trade in such weapons tends to be seen as highly questionable by most people and is usually heavily regulated by the government to certain types of weapons for use in acceptable pursuits such as hunting or rifle shooting. Cultural differences such as this can, of course, apply not only to the kinds of goods and services that are consumed (e.g. eating horsemeat in France is acceptable but not in Nigeria) but also to other aspects of both the production and consumption process and this can have important implications for an organisation's behaviour.

Examples include:

- Who decides what is bought, how it is bought or where it is bought (e.g. in some cultures women have predominantly been the purchasers of household products).
- What colours are acceptable (e.g. the colour associated with bereavement varies across cultures).
- How far harmonization of products and marketing activities is feasible (e.g. the EUs perennial debates over what constitutes an acceptable definition of certain products such as sausages, Feta cheese, chocolate).
- What factors can enhance the prospect of a sale (e.g. bribes are acceptable in some cultures).
- How business is conducted (e.g. the length of negotiations, the meaning of a

handshake).

- The method of communicating with the target audience (e.g. in the UK a single shared language allows organisations to use national media).
- How customer enquiries/complaints are dealt with (e.g. UK businesses using call centres in India often give their operators British names and train them to talk about everyday British preoccupations such as the weather and sport).

In effect, culture not only influences an individual's response to products and the nature of the buying and selling process, but it also exercises a significant influence on the structure of consumption within a given society. For companies which can gain acceptability on a global scale, despite cultural differences between countries, the potential benefits are huge (e.g. global brands such as Coca-Cola, McDonald's, Nike). While the so-called 'Americanization' of consumption is not to everyone's taste, other forms of cultural exportation are often more acceptable and can prove highly lucrative for the country concerned. In the UK, for example, overseas earnings from culture and arts-related tourism make a significant contribution to the country's 'invisible earnings' and many other countries benefit in similar ways.

3.2 Sub-culture

A society is rarely, if ever, culturally homogeneous. Within every culture subcultures usually exist, comprising groups of individuals with shared value systems based on common experiences, origins and/or situations. These identifiable sub-groups may be distinguished by nationality, race, ethnicity, religion, age, class, geographical location or some other factor and their attitudes, behaviour, customs, language and artefacts often reflect sub-cultural differences. At times such differences can be relatively easily accommodated and ultimately may become institutionalized through the legal and/or political process. At other times sub-cultural differences can be the source of a considerable degree of conflict between various sub-groups, resulting in serious divisions within a society and even in war and genocide.

The UK provides a good example of the notion of cultural diversity and can be used to illustrate how this can influence the demand for goods and services. In addition to nationality groups such as the Irish, Scots and Welsh, the country has provided a home for successive generations of immigrants from around the globe and this has created a rich mix of ethnic and other sub-groups, often concentrated in particular parts of the country and having their own language, traditions and lifestyles. In Leicester, for example, re a significant proportion of the population is of Asian origin, there is a substantial Asian business community, part of which has developed to cater specifically for the local ethnic population (e.g. halal butchers, saree shops), as well as attracting custom from the wider community (e.g. Indian restaurants). Many Asian businesses in Leicester are small, family owned enterprises, employing members of the extended family in keeping with cultural traditions. Aspects such as the organisation and financing of the business, its network of relationships and the working conditions for staff are also frequently influenced by cultural values, traditions and norms, although changes in these areas are becoming more apparent, especially among second and third generation Asian-owned enterprises.

3.3 Application: Market Segmentation

Marketers have long recognised the importance of demographic, social and cultural factors in shaping people's demand for goods and services. This is exemplified by distinct groups of buyers who share the same or similar attitudes and patterns of behaviour and who might require separate products or marketing to meet their par- ticular needs. By segmenting a market into its broad component parts, businesses should be able to focus their marketing efforts more effectively and efficiently, for example by developing product offerings and marketing programmes which meet the requirements of the different market segments.

Markets can be segmented in a variety of ways and this tends to differ between consumer markets and those which involve business to business transactions. Table 6.8 below outlines some of the major variables used in segmenting consumer markets. As the table indicates, demographic, social and cultural factors provide a basis for identifying distinct market segments within the markets for consumer goods and services. In practice, of course, marketers may use either one (e.g. demography) or a combination (e.g. age, location and social class) of different variables to segment a market they are seeking to target.

A good example of combining the different variables is provided by the notion of geo-demographic segmentation which focuses on the relationship between an individual's geographical location and her/his demographic characteristics, given that close links frequently exist between a person's place and type of residence and factors such as income, family size and attitudes. One well-known scheme of this type is ACORN (A Classification of Residential Neighbourhoods) which uses 40 variables from population census data to differentiate residential areas. Another is MOSAIC, developed by Experian, which draws on a variety of data sources (e.g. census data, financial data, property characteristics, demographic information) and uses a range of sophisticated analytical techniques to produce household profiles at full postcode level. Under the MOSAIC scheme, UK households are currently divided into 11 groups with names such as 'Symbols of Success', 'Suburban Comfort' and 'Grey Perspectives' and these are then further sub-divided into 61 types, again with interest- ing and evocative names including 'Golden Empty Nesters', 'Sprawling Subtopia' and `Childfree Serenity'.

With regard to factors such as social class and lifestyles, these tend to be grouped under the notion of psychographic segmentation, an approach which has attracted considerable attention in recent years given the reciprocal link between lifestyles and consumption indicated above. Lifestyle segments can be developed either as 'off-the- shelf' products by marketing agencies/management consultancies or can be customised for/by individual companies, although the latter often tend to be both complex and expensive to design. One established and popular example of the former is VALS (Values And Lifestyles) developed by SRI International. Under this model, individuals are allocated to different categories on the basis of a combination of demographic and lifestyle factors such as age, education, income and levels of self- confidence and then these categories are grouped into a number of broader segments which reflect a category's predominant orientations. Thus, under VALS 2, the three broad groups identified were (1) people who were principle-orientated (i.e. guided by their views of how the world should be); (2) people who were status-orientated (i.e.guided by the opinions and actions of others); (3) people who were action-orientated (i.e. guided by the desire for social and physical activity, variety in life and risk taking).

All organisations are an integral part of the society in which they exist and carry out their activities and as a result they are affected by a range of influences emanating from the demographic, social and cultural environment. These influences can change over time and help to shape both the demand and supply side of business activity. Businesses and other organisations need to be aware of and respond to the process of societal change and to the opportunities and threats that such change can engender.

The cultural environment of business comprises those institutions and other forces which help to shape society's basic attitudes, values, perceptions, preferences and behavior. Like demography and social factors, cultural influences can change over time and can affect organisations. Businesses need to be sensitive to such change.

3.4 Understanding Cultural Difference

National culture plays an important role in understanding employees' behavior in different cultures. It is important for any company competing internationally to understand cultural differences. The most valuable framework to help managers to better understand differences between national cultures was developed by Geert Hofstede. His research showed that national culture had a major impact on employees' work- related values and attitudes. In fact, it explained more of the differences than did age, sex, profession, or organizational position. Thus cultural differences do affect individuals' work related attitudes. Hofstede found five dimensions of cultural differences that formed the basis for work related attitudes. These dimensions are further discussed below.

Individualism versus Collectivism; Individualism refers to a loosely knit social framework in which people are supposed to look after their own interests and those of their immediate family. They can do so because of the large amount of freedom that an individualistic society allows its citizens. The opposite is collectivism, which is characterized by a tight social framework in which people expect others in groups of which they are part (such as family or an organization) to look after them and to protect them when they are in trouble. In exchange, they feel they owe absolute loyalty to the group.

Hofstede found that the degree of individualism in a country was closely related to that country's wealth. Wealthier countries such as the United States, Great Britain, and the Netherlands are very individualistic. Poorer countries such as Colombia and Pakistan are very collectivistic.

Power Distance: The second dimension of cultural differences identified by Hofstede examines the acceptance of unequal distribution of power. In countries with a high power distance, bosses are afforded more power simply because they are the bosses. Titles are used, formality is the rule, and authority is seldom bypassed. Power holders are entitled to their privileges, and managers and employees see one another as fundamentally different kinds of people. India is a country with high power distance, as well as Venezuela , Mexico and Nigeria.

In countries with low power distance, people believe that inequality in society should be minimized. People at various power levels are less threatened by, and more willing to trust, one another. Managers and employees see one another as similar. Managers are given power only if they have expertise. Employees frequently bypass the boss in order to get work done in countries with a low power distance, such as Demark and Australia.

Uncertainty Avoidance; Some cultures are quite comfortable with ambiguity and uncertainty, whereas others do not tolerate these conditions well. Cultures with high uncertainty avoidance are concerned with security and tend to avoid conflict. A society that is high in uncertainty avoidance is characterized by high level of anxiety among its people, which manifests itself in nervousness, high stress, and aggressiveness. Robbins and Coulter (2003) posit that because people in these cultures feel threatened by uncertainty and ambiguity, political and social mechanisms are created to provide security and reduce risk. Organizations in these cultures are likely to have formal rules and little tolerance for unusual ideals and behaviors

Individualism /Collectivism; Individualism refers to the extent to which individuals in society see themselves as independent and autonomous human beings. Here the interests of the individual take precedence. High individualist countries include countries such as the United States, the UK, Canada and Australia. On the other hand in collectivist societies, the interests of the group take precedence. Here individuals look after one another and organizations protect their members' interests. Countries with collectivist values are mainly in Asia, Latin America, and Africa.

Masculinity/Femininity; Masculinity stands for preference for achievement, heroism, assertiveness, work centrality (with resultant high stress) and material success. On the other hand femininity reflects the values of relationships, cooperation, group decision making, and quality of life. Societies with strong masculine values are Japan, Austria, Mexico, and Germany. Countries with feminine values are Sweden, Norway, Denmark, and the former Yugoslavia.

Long term orientation/Short term orientation; In long term orientation, people t embrace a long-term view of life. Here savings is emphasized. On the other hand, in societies with short-term orientation, people tend to stress the 'here and now'.

4.0 CONCLUSION

Certainly, business is affected by the traditions, values, customs, beliefs, literacy levels of the society in which it operates. Products of businesses should conform to the requirements of the society in respect of the listed dimensions

5.0 SUMMARY

Culture is an important aspect of the general business environment. Culture denotes the norms, customs, and values of the general population. Culture generally refers to a complex set of values, norms, beliefs, attitudes, customs, systems and artifacts which are handed down from generation to generation through the process of socialization and which influence how individuals see the world and how they behave in it. There are cultural differences which affects the operations of an organization. Organizations must seek to understand the culture of the society in which it operates if they are to succeed in their operations. Managers need to learn and adjust to the culture of their area of operation.

6.0 SELF-ASSESSMEN QUESTIONS

1 Define Culture
2 How does Culture affect the activities of Business Organizations?
3 Distinguish between Power Distance and Uncertainty Avoidance
4 How does these concepts affect the operation of Business Organizations?

7.0 TUTOR-MARKED ASSIGNMENT

Discuss Hofstede cross cultural analysis and its usefulness in the management of international organizations.

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UNIT 2 DEMOGRAPHICAL ENVIRONMENT

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1.0 INTRODUCTION

Demography is the study of populations both in terms of their overall size and their structural characteristics. From a business point of view the key as of interest include the age structure of a given population, its gender balance, its geographical distribution and the tendency for both the size and structure of the population to change over time. Demographic change can have important implications for both the demand and supply side of the economy and hence for organisations of all types.

2.0 OBJECTIVES

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

1. Define population
2. Understand how Demographic changes affect business;
3. Describe the Social context influence on Business
4. Understand Group influence on Business

3.0 MAIN CONTENT

3.1 The Population

A country's population normally increases over time and will vary according to such factors as changes in the birth and death rates and in the rate of net migration. For example, the Nigerian population as at 2015 is estimated to be 170 million people. In comparison, Russia's current population of around 145 million is projected to fall to about 100 million by 2050 as a result of a declining birth rate and a rising death rate in the wake of the country's economic collapse. If this occurs the world's biggest country will have fewer people than countries such as Uganda and Egypt. It is worth remembering, however, that future population changes are only projections and that these can vary considerably over time as new data become available. For example, in late 2007 the UK's Office for National Statistics provided three projections for the UK population by 2081: 63 million (lowest estimate); 108.7 million (highest estimate); 85 million (most likely estimate). These estimates show considerable variation and indicate how future population changes are relatively unpredictable, which can make forward planning difficult.

3.1.1 The age and sex distribution of the population

In addition to examining the overall size of a country's population, demographers are also interested in its structural characteristics, including the balance between males and females and the numbers of people in different age categories.

3.1.2 Other structural characteristics

Populations can also be examined in a number of other ways including their ethnicity and geographical distribution.

3.1.3 Population change

As the previous analysis indicates, populations can change in either size and/or structure, with important consequences for economic activity both within and between countries. The size and structure of a country's population depend on a number of variables, the most important of which are the birth rate, the death rate and the net migration rate.

a. The birth rate

Birth rates tend to be expressed as the number of live births per thousand of the population in a given year. In many countries this figure has been falling steadily over a long period of time for a number of reasons. These include:

- A trend towards smaller families as people become better off and health improves and death rates fall.
- The increased availability of contraception.
- The trend towards later marriages and later childbearing for social and/or economic reasons.
- Declining fertility rates.
- Changing attitudes towards women and work.

In some countries governments have offered financial and other incentives to married couples to try to reduce the birth rate (e.g. China) as a means of controlling population growth. In other countries incentives have been offered to try to reverse the actual or potential decline in the birth rate because of its economic consequences (e.g. France, Singapore). Declining birth rates are, of course, an important contributor to an ageing population; they can also have other consequences. For instance, a recent increase in the birth rate in the UK has led to a call by the Optimum Population Trust for British couples to restrict themselves to 2 children in order to reduce the impact of population growth on the natural environment. In Nigeria, various governments have tried to restrict couples to four children per couple but this has not been effectively handled.

b. The death rate

Like birth rates, death rates are usually measured per thousand of the population in a given year. For developed economies, this figure has tended to fall over time before reaching a plateau. Among the main contributors to this trend have been:

- Rising living standards, including better housing, sanitation and nutrition.
- Developments in medical technology and practice.
- Better education.
- Improved working conditions.
- The difference between the birth rate and the death rate represents the natural change in the population (i.e. increase or decrease).

c. Net migration

Apart from the movement of population within a country (internal migration), people may move from one country to another for a variety of reasons. The balance between those leaving (emigrants) and those entering (immigrants) a country over a given period of time represents the rate of net migration. Along with changes in the birth and/or death rate, this can be a significant factor in population change and can have important consequences for the economy. Influences on the rate of net migration include:

- Legal barriers (e.g. immigration laws).
- Economic migrancy.
- The numbers fleeing persecution.
- Government policy.
- Political developments.

3.2 Demographic change and business

Changes in the size and/or structure of a country's population can have important consequences for enterprises in the public, private and voluntary sectors both in the short and long term. Given increased globalisation and international trade, the impact of demographic change has an international as well as a national dimension for a growing number of trading organisations.

The following examples provide illustrations of how a changing demography can influence both the level and pattern of demand within an economy and in turn help to explain why changes can occur in a country's economic and industrial structure. Demographic change can also have important effects on the supply side of the economy.

You should try to think of other examples.

- As populations grow in size the demand for many types of goods and services also tends to grow (e.g. energy, consumer durables, food). A growing population also provides a larger workforce, other things being equal.
- An 'ageing population' increases the demand for a range of public, private and voluntary sector goods and services (e.g. healthcare, pensions, specialist holi- days, sheltered housing). It also creates an increasingly dependent population.
- A declining birth rate influences the demand for education, children's products, childcare, certain TV programmes, comics, toys, etc. It can also reduce the numbers of young people available to enter the workforce to replace those who retire.
- Changes in the ethnic make-up of the population can affect the demand for particular food products, clothing and media services and can place increased demands on public authorities (e.g. documents printed in different languages). Some researchers also argue that a more diverse workforce can improve an organisation's performance.
- The regional redistribution of the population will affect the consumption of a range of goods and services including housing, education, healthcare, transport, energy and many day-to-day products. It can also affect prices (e.g. in the hous- ing market) and the make-up of the local labour market.

On a more general level, it is also worth noting that demographic change can impact on a country's social as well as its economic structure and that this can result in increased (or reduced) demands on a range of organisations, particularly those in the public sector. For example, the growing imbalance being experienced in many countries between an increasing and dependent elderly population and a diminishing population of working age touches on many areas of public policy, from healthcare and social provision on the one hand to pensions and fiscal policy on the other. Governmental responses to the consequences of demographic change can have both direct and indirect consequences for a wide variety of organisations across the economy.

3.3 The Social context

Since organisations exist and operate in society, they are subject to a variety of societal influences that operate at both a general and specific level. In this section we consider some of the key factors within an organisation's social environment, starting with the concept of social class.

3.3.1 Social class

Throughout history, all societies have normally exhibited a certain degree of social and economic inequality that has given rise to the tendency to classify individuals into different social categories. For example, in India the 'caste system' has been an important source of social differentiation and one which has exerted a key influence over the life and opportunities available to members of the different castes. In other countries, including Nigeria, the categorisation of individuals has often been based around notions of social class, the idea of grouping people together who share a similar social status which is related to certain common features such as educational background, income and occupation. Whereas in some types of social system, movement between groups is either very difficult or impossible (e.g. the caste system), in others social mobility is frequently observed, with some individuals able to move relatively quickly between the different social strata (e.g. upper class, middle class, working class) as their personal circumstances change.

Another factor that can clearly affect people's attitudes and behaviour is the lifestyle that they choose to adopt. Lifestyles are basically concerned with the way in which people live and how they spend their money, decisions which are not necessarily always linked to their socio-economic position. Two individuals with the same occupation - and nominally in the same social class - may have entirely different lifestyles, a point well illustrated by examining two university lecturers. My own lifestyle is highly sophisticated, environmentally sensitive, artistic and cosmopolitan; that of a colleague - who happens to teach marketing - is narrow, parochial, philistine and consumption-driven. Then, what would one expect?!

Lifestyle analysis provides another way of seeking to categorise and explain human behaviour, based on factors such as an individual's interests, activities and opinions as well as on their demographic characteristics. In essence, the proposition is that by examining distinctive patterns of consumer response, a marketing organisation can build up a clearer picture of an individual's habits, preferences and behaviour and by doing so can design more effective and appealing products, marketing programmes and/or communications that can be aimed at specific lifestyle groups.

3.4 Other social influences

While it is important to consider the influence of broad social factors such as class and lifestyles, it is also worth remembering that consumers are individuals and that they are subject to influences that operate at a personal level. Such influences include the wide variety of individuals and groups with whom we come into contact during our lifetime and who may influence our attitudes, values, opinions and/or behaviour. Primary among these are our interactions within the family, with friends or work colleagues and through our involvement with sports and social clubs, religious organisations, trade unions and so on. Such groups are sometimes referred to as reference groups.

Groups that have a regular or direct (i.e. face-to-face) influence on us are known as primary reference groups while those whose influence tends to be more indirect and formal are known as secondary reference groups. The former, in particular, can be very influential in shaping our attitudes and behaviour including our decisions on consumption.

The importance of reference groups, especially family and friends, is recognised by both economists and marketers. Economists, for example, use the notion of 'households' to indicate that the consumption of goods and services often takes place within a collective family framework, as in the case of groceries, holidays, vehicles and many other everyday products. Marketers use concepts such as the family life cycle to show changing patterns of consumption as the individual moves from being a child in a family to being a parent with different needs and responsibilities.

While it is difficult to be precise about when and how far an individual's demand is shaped by the family and other reference groups, it is not difficult to think of particu- lar examples when this is likely to be the case. For many services such as builders, restaurants, hotels, hairdressers and car repairs, consumers often rely on the advice of a trusted friend or colleague and many firms can gain new business through such word-of-mouth recommendations.

Equally, through membership and/or support of a particular group or club, individuals may be tempted to purchase particular goods and/or services (e.g. football kit, trainers, a CD, tickets), especially those with a desir- able 'brand name' and endorsed by a well-known personality (e.g. sportsperson, musician, singer, film star). In such cases, the demand for the product is often less price sensitive since it is a 'must have' product.

4.0 CONCLUSION

From the above discussions, it is evident that the size, density, distribution and the growth rate of a Nation's population affect business activities. In addition, the social contexts have great impact of business activities. The composition of population in terms of age, social class, reference groups and citizens' lifestyles all play a great role in business growth and development.

5.0 SUMMARY

The Demographic environment is concerned with the study of the population characteristics both in terms of their overall size and their structural characteristics. Areas of interest in a business setting include the age structure of a given population, its gender balance, its geographical distribution and the tendency for both the size and structure of the population to change over time. As we have observed, demographic change can have important implications for an organization's human resources management as well as the demand and supply side of the economy. The social context of business includes factors such as social class, lifestyles and reference group influences. The consumption of goods and services in an economy can be linked to such factors.

6.0 SELF-ASSESSMENT QUESTIONS

1. List and explain the factors determining the size of a country's population
2. How does Demographic Changes affect Business?
3 'Business is subject to a lot of Social influences' Discuss
4 Discuss the reference group influence on Business

7.0 TUTOR MARKED ASSIGMENT

Why do you think that the demographic composition of a population is important to an organization?

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UNIT 4 THE TECHNOLOGICAL FACTORS

CONTENTS

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1.0 INTRODUCTION

External factors in technology impact business operations. Outside influences that can impact a business. Various external factors can impact the ability of a business or investment to achieve its strategic goals and objectives. These external factors might include competition; social, legal and technological changes, and the economic and political environment. Changes in technology affect how a company will do business. A business may have to dramatically change their operating strategy as a result of changes in the technological environment.

2.0 OBJECTIVES

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

1. Understand and explain the meaning of technology
2. Explain Technology investment
3. Explain the role of information technology in Business
4. Understand Research and Development.

3.0 MAIN CONTENT

3.1 The meaning of Technology

Technology is defined as 'the sum of knowledge of the means and methods of producing goods and services' (Penguin Dictionary of Economics). It is increasingly science based, encompassing things like chemistry, physics and electronics, and refers to the organisation of production as well as the actual techniques of production itself. Technological change leads to the introduction of new products, changes in the methods and organisation of production, changes in the quality of resources and products, new ways of distributing the product and new ways of storing and disseminating information. Technology has a very big impact upon the world of business in all of these areas and has an important effect on the level and type of investment that takes place in an economy and therefore the rate of economic growth.

Technological change

There have been massive changes in technology in the past ten years. This section will consider a few of these and assess their impact upon business and the economy.

Information technology

Developments in information technology have had the effect of transforming existing business activities as well as creating entirely new ones, involving the collection, handling, analysis and transmission of information. There has been a massive increase in the demand for information, and, on the supply side, continued advances in the miniaturization of components. These will continue even when the capabilities of the silicon chip have been exhausted, with the development of superconductors and electronics. There are also the advances in the computing area such as the development of new languages and artificial intelligence.

Advances in information technology have many impacts upon business. They are creating new products and making old products more profitable to produce through things like computer-aided design (CAD). The effects they are having on the different functions carried out by businesses can easily be seen:

- Administration. The administration of businesses has been revolutionised by the introduction of information technology. Most businesses have computer systems, records have been computerised and filing has become unnecessary.
- Communication. This has been eased by the introduction of fax machines and email, mobile phones etc. Video conferencing has contributed to the change in working practices by making it possible for people to work anywhere. Telecommunications companies, such as BT, are working on desktop video conferencing systems, where the video camera is attached to the desktop PC.
- Production. The use of CAD will shorten the design and planning phase of the product and shorten the life cycle of the product. Japan applied this very early in the field of consumer electronics and many of the products are withdrawn from sale and redesigned within a very short period of time.
- Storage and distribution. The computerisation of stock control has had implications for the storage requirements of firms. It has made implementation of the just-in-time method of stock control possible. This is easily seen in the case of supermarkets where the use of bar-codes on products makes it possible to carry out a stock check of a whole supermarket in a matter of hours. The shelves can then be loaded up as the stock check continues. Similarly, the use of bar-codes with Electronic Point of Sale (EPOS) makes stock control simpler.
- Electronic Funds Transfer at Point of Sale (EFTPOS). This system has also had a revolutionary effect in the area of retailing. Most shops now accept credit cards or Switch cards where funds are immediately transferred from bank accounts to the

supermarkets.

- The Internet. The potential for the Internet is enormous, although it is still is still growing. At present, the U.S seems to be the highest user, the market is growing.

One aspect of business where information technology has become particularly important is in providing opportunities for firms to interact immediately with their customers and suppliers, whoever and wherever they might be. E-commerce, e-business and e-markets are now part of the business lexicon and are now an important area of study for undergraduate and postgraduate students alike.

Other technological developments

- New materials. There are two main developments in this area: the development of materials in the high-tech industries like technical ceramics and the upgrad- ing of materials used in lower-range products like coated sheet metal.
- Biotechnology. This is expected to have wide-ranging effects on many fields. The development of new products like computers that can imitate the activity of the brain can shorten the development process for certain products by speeding up existing processes.
- Energy. The kinds of developments that can take place in this field are the use of superconductors to transport electricity and research which might make solar energy a viable source of energy.

These are the new emerging industries which are creating new products and making old products more profitable to produce. It has been estimated that the output of these emerging industries is 20 per cent for consumption within the industries themselves, 20 per cent for final consumption and 60 per cent for consumption in the traditional industries.

3.2 Technology and investment

The second input into the production process after people is capital. In economics, capital has a special meaning; it refers to all man-made resources which are used in production. Capital is usually divided into working capital and fixed capital. Working capital consists of the stocks of raw materials and components used in producing things. Fixed capital consists of buildings, plant and machinery. The main difference between the two is that fixed capital gives a flow of services over a long period of time, while working capital needs to be replaced on a regular basis. Because of its nature, working capital is much more mobile than fixed capital (i.e. it can be used for other purposes much more easily). Capital is a 'stock' of goods used in the production process, a stock which is continually being used and therefore needing to be replaced. This stock provides a flow of services for the production process.

Capital includes a wide diversity of items, including factory premises, machinery, raw materials in stock, transport vehicles and partly finished goods. As well as these, there is what is often called 'social capital', which refers to capital that is owned by the community such as schools and hospitals. There is also spending on the infrastructure, which is important to all businesses rather than being linked to one particular business. The main components of this are transport, energy, water and information. The transportation system is obviously very important to any economy. Road, rail, air and water are used to transport goods, services and raw materials. The same is true for energy and water. The information distribution system is also part of the infrastructure and would include telephone systems and the post.

The increase in the stock of capital over time is called investment. Investment will serve to increase the productive potential of the firm and the economy. Investment usually refers to the purchase of new assets, as the purchase of second-hand assets merely represents a change in ownership and therefore does not represent a change in productive potential. Investment is important for the firm as it is a mechanism for growth; it is an integral part of the innovation process and can have disastrous results for a firm if an investment goes wrong. Generally, the higher the level of investment in a country, the higher will be the level of economic growth.

Total or gross investment can be broken down into replacement investment, which is investment to replace obsolete or worn-out machines, and new investment, which is any investment over and above this. This includes investment by firms, individuals and governments. As might be expected, the level of investment is affected by the state of the economy.

There is an important relationship between investment and technological change which runs in both directions. Investment can form the basis for improvements in technology while improved technology which brings about new ways of producing goods will lead to greater investment. For private firms the main determinants of the level of investment will be the rate of technological change and the scope for extra profit as a result of these changes.

Innovation and technology

There are two types of innovation that can occur as a result of technological change: product innovation and process innovation. Product innovation is the development of new products, like the microprocessor, which will have far-reaching effects on business. New products impact upon the industrial structure of a country, as new industries grow and old industries disappear. This in turn will lead to changes in the occupational structure of the workforce, as we have seen. It has even had the effect of reducing the benefits large firms derive from economies of scale in cases where the technological change can be exploited by small firms as well as it can by large firms. Another example of product innovation which has affected the level of competition in the market is the development of quartz watches, which allowed Japan to enter the market and compete with Switzerland. Process innovation, on the other hand, refers to changes that take place in the production process, like the introduction of assembly- line production in the manufacture of cars. The two types of innovation are related, as the above examples show. The microprocessor (product innovation), which is a new product, has led to massive changes in the way that production and offices operate (process innovation).

Not all innovation is technological in nature; for example, changes in fashion in clothing are not technological. Innovative activity is important for all industry whether manufacturing or non-manufacturing. In some industries (e.g. pharmaceuticals, computers), innovation is essential if firms wish to remain competitive. A CBI survey of 408 companies in the UK found that the innovation activities of 84 per cent of the sample had been adversely affected by the economic slowdown post-September 11.

3.2 Research and development

Most, but not all, technological changes have occurred through the process of research and development (R&D). 'Research' can be theoretical or applied, and 'development' refers to the using of the research in the production process. Most research and development carried out by private companies is directed towards applied research and development. It is designed to develop new products and production processes which will render production more profitable. It is also aimed at improving existing products and processes. Most basic theoretical research carried out around the world is financed from public sources and is undertaken in places like the universities.

Limits to technological change

Technological change has many effects on the economy and the environment and if uncontrolled can lead to problems, like high levels of unemployment or the exhaustion of natural resources. One area of concern is energy. The world's stock of energy is finite and we are still heavily dependent upon fuel which was formed millions of years ago. The development of nuclear power again represents a finite source of energy, and also carries with it other problems like the disposal of nuclear waste and the possibility of accidents. For these and other reasons the scale of technological change needs to be controlled.

It is also the case that technological change can lead to high levels of unemployment in industries that are in decline. This type of unemployment often takes on a regional bias as the older traditional industries tend to be located in particular parts of the country. Technological unemployment is in some respects inevitable as in a changing world it would be expected that new industries would emerge and old industries die. The problem can be tackled by the government and industry through retraining, but what is also needed is a new and more flexible view of work where less time is spent working and more on leisure.

4.0 CONCLUSION

The ability of a business to survive is directly tied to the quality of technology available and deployed by the particular business. Efficient technologies result in lower costs and higher product qualities. The business must keep in touch with developments in the technological environment to ensure that current and obsolete technologies are used.

5.0 SUMMARY

Technological advances can create new products, advanced production methods and better ways of managing. Organizations can improve their technology by investing in research and development technologies provide new ways to manage and communicate. Technology is the knowledge of the means and methods of producing goods and services.

6.0 Self-ASSESSMENT QUESTIONS

1. What do you understand by technology
2. List and Describe the two types of Technological investment
3. How does information Technology affect the activities of Business

4 Discuss the types of innovation known to you.

7.0 TUTOR-MARKED ASSIGNMENT

Discuss the role of technology in modern business management.

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UNIT 4 THE ECONOMIC ENVIRONMENT

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1.0 INTRODUCTION

Business organisations operate in an economic environment which shapes, and is shaped by, their activities. In market-based economies this environment comprises variables which are dynamic, interactive and mobile and which, in part, are affected by government in pursuit of its various roles in the economy. As a vital component in the macro economy, government exercises a significant degree of influence over the flow of income and hence over the level and pattern of output by the public and private sectors. Other key influences include a country's financial institutions and the international economic organizations and groupings to which it belongs or subscribes.

Business activity not only is shaped by the economic context in which it takes place, but helps to shape that context; consequently the success or otherwise of government economic policy depends to some degree on the reactions of both the firms and the markets (e.g. the stock market) which are affected by government decisions. The economic influences operate at different levels and this can affect businesses either favourably or adversely.

2.0 OBJECTIVES

Having read this unit you should be able to:

1. Understand the concept of economic scarcity
2. Illustrate flows of income, output and expenditure in a market economy and account for changes in the level and pattern of economic activity
3. Understand how macroeconomic policies and the objectives affect Business
4. Understand the role of financial institutions in Business Development
5. Identify the key international economic institutions and organisations which influence business environment.

3.1 The concept of economic scarcity

Like politics, the term **economic** tends to be used in a variety of ways and contexts to describe certain aspects of human behaviour, ranging from activities such as producing, distributing and consuming, to the idea of frugality in the use of a resource (e.g. being 'economical' with the truth). Modern definitions stress how such behaviour, and the institutions in which it takes place (e.g. households, firms, governments, banks), are concerned with the satisfaction of human needs and wants through the transformation of resources into goods and services which are consumed by society. These processes are said to take place under conditions of **economic scarcity.**

The economist's idea of 'scarcity' centres on the relationship between a society's needs and wants and the resources available to satisfy them. In essence, economists argue that whereas needs and wants tend to be unlimited, the resources which can be used to meet those needs and wants are finite and accordingly no society at any time has the capacity to provide for all its actual or potential requirements. The assumption here is that both individual and collective needs and wants consistently outstrip the means available to satisfy them, as exemplified, for instance, by the inability of governments to provide instant health care, the best roads, education, defence, railways, and so on, at a time and place and of a quality convenient to the user. This being the case, 'choices' have to be made by both individuals and society concerning priorities in the use of resources, and every choice inevitably involves a 'sacrifice' (i.e. forgoing an alternative). Economists describe this sacrifice as the opportunity cost or real cost of the decision that is taken (e.g. every Naira spent on the health service is a Naira not spent on some other public service) and it is one which is faced by individuals, organisations (including firms), governments and society alike.

From a societal point of view the existence of economic scarcity poses three serious problems concerning the use of resources:

1. What to use the available resources for? That is, what goods and services should be produced (or not produced) with the resources (sometimes described as the 'guns v. butter' argument)?
2. How best to use those resources? For example, in what combinations, using what techniques and what methods?
3. How best to distribute the goods and services produced? That is, who gets what, how much and on what basis?

In practice, of course, these problems tend to be solved in a variety of ways, including barter (voluntary, bilateral exchange), price signals and the market queuing and rationing, government instruction and corruption (e.g. resources allocated in exchange for personal favours), and examples of each of these solutions can be found in most, if not all, societies, at all times. Normally, however, one or other main approach to resource allocation tends to predominate and this allows analytical distinctions to be made between different types of economic system. One important distinction is between those economies which are centrally planned and those which operate predominantly through market forces, with prices forming the integrating mechanism. Understanding this distinction is fundamental to an examination of the way in which business is conducted and represents the foundation on which much of the subsequent analysis is built.

UNIT 5 THE ENVIRONMENTAL ANALYSIS

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1.0 INTRODUCTION

Organizations constantly interact with its changing environment and one of the main problems facing organizations is coping with this environmental uncertainty. To make sure that resources are properly utilized to meet the objectives of the organizations, Firms must examine the environmental influences upon them. This unit is devoted to understanding how firms analysis their environments with the aim of discovering an opportunity that may be useful to them and averting threats that could be detrimental to their operations.

2.0 OBJECTIVES

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

1. Explain the meaning of environmental analysis
1 Describe Environmental Scanning
3. List and Explain the Techniques of environmental scanning
4. Discuss the Limitations to environmental analysis

3.0 MAIN CONTENT

3.1 The meaning of Environmental Analysis/scanning

Managers need to understand how the environment affects their organizations and should be able to identify opportunities and threats that are likely to influence their organizational performance. However information about the environment is not always readily available for managers. Managers often find it difficult to predict about the environment due to uncertainty. ‘’Environmental analysis is the of scanning the environment to identify changes or trends that have the potential to generate opportunities and threats to the organization’s current or future intended strategies'', (Worthington and Britton, 2009). The way this environmental scanning may be put into operations depends on the firm and can be undertaken informally or using quite sophisticated analytical tools and techniques that require significant employment of an organization's resources. According to Bateman and Snell (2009), environmental scanning is the searching for and sorting through information about the environment. Environmental scanning involves gathering information about the events and their relationships within an organization's internal and external environment. It is the gathering, reviewing and evaluating whatever information about internal and external environments that can be obtained from several distinct sources on a regular basis and interpreting them in the light of the organization's business sensing the pulse of environmental threats and opportunities. Environmental scanning will help organizations to identify early signals of potential changes in the environment.

Informal scanning of the business environment is the process of gathering information about, and from, the organization's customers, suppliers, distributors and competitors through questionnaires, interview observations, or feedback from the organization's own sales and customer service staff and using such information to the advantage of the firm. On the other hand, an organization may prefer a more systematic and formal means for scanning and analyzing the environment. Generally speaking, this is a more deliberate approach to environmental analysis and tends to focus on the firm's external environment. Falley and King 1977 in Oyedijo (2004), identified three types of environmental scanning as follows;

1. Irregular scanning systems which consist largely of adhoc environmental studies. They emphasis short run reaction to environmental crisis with little attention to future environmental events.
2. Regular scanning systems – these systems revolve around a regular review of the environment or significant environmental components. The focus of this scanning system is primarily retrospective but some thought is given to future conditions assumed to be evolving within the environment.
3. Continuous scanning systems - Here, the components of the organizational environment are constantly monitored. The scanning is an on-going activity for an established segment of the organizational structure. Continuous scanning tends to be more proactive or future oriented than either irregular or regular systems. The use of a continuous scanning system generally reflects a serious and sustained commitment to environmental analysis. In most organizations, environmental analysis evolves from an irregular system into a regular and then a continuous scanning system.

In an attempt to scan the Environmental, managers usually ask the following questions;

- Who are our current competitors?
- Are there few or many entry barriers to our industry?
- What substitutes exist for our product or service?

- Is the company too dependent on powerful suppliers?

Answers to these questions help managers develop competitive intelligence, the information necessary to decide how best to manage in the competitive potential of different environments.

3.2 Techniques for analyzing the business environment

Many techniques are available to organizations for the analysis of the business environment. Some of these techniques which are discussed below include scenario development, forecasting, benchmarking, trend extrapolation, expert opinion, cross- impact matrices, SWOT or TOWS

3.2.1 Scenario planning

When organizations try to determine the effect of environmental forces on their operations, they frequently develop scenario of the future. Scenario planning is the formulation of multiple forecasts of future conditions followed by an analysis of how to respond effectively to each of those conditions. It can also be called contingency planning. In scenario planning, organizations may generate between two or four generically different possible futures as an outcome of the scenario planning process. This techniques often focuses on the ‘’best case’’ or ‘’worst case’’ scenarios. Scenario planning seeks to consider the possible effects on the interactions between various external environmental forces on the future of an organization.

Managers should regard the scenarios they have developed as living documents, not as merely prepared once and put aside. Instead, they should constantly modify the scenarios they have created taking into considerations of the changing environment, for example, significant changes in the political, economic and legal environments and what the competitors are doing should be signal for changes in the scenarios already created.

3.2.2 Forecasting

Forecasting is another method used by organizations to analysis their environments. Forecasting is the process of predicting what will happen in the future considering the interplay of some environmental variables. According to Bateman and Snell, (2009), forecasting is the method used for predicting how variables will change the future. For example, in making capital investments, firms may try to forecast how interest rates will change. In deciding to expand or downsize a business, firms may try to forecast the demand for goods and services or forecast the supply and demand of labour they probably would use. Forecasts are designed to help executives to predict about the future, their accuracy varies. Forecasts are more accurate when the future ends up looking like the past. However it should be noted that in cases where there are little or no changes between the past and the future, forecasting may not be all that useful. Forecasting is more useful when the future trends in the environment are more dynamic. The best advice for using forecasting as offered by Bateman and Snell, (2009), might include the following

- Use multiple forecasts, and perhaps average their predictions
- Remember that accuracy decreases the further into the future you are trying to predict.
- Forecasts are no better than the data used to construct them.
- Use simple forecasts (rather than complicated ones) where possible.
- Keep in mind that important events often are surprises and represent departure from predictions.

3.2.3 SWOT or TOWS Analysis

The full meaning of SWOT is S is strengths, W is weaknesses, O is for Opportunities and T is for Threats. These are factors found within the business environment in which the organization operate. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best combinations of these factors. The best practice is to effectively maximize a firm's strengths and opportunities and at the same time, minimize the weaknesses and threats found in the business environment. This frame work can be used to choose and design an effective strategy that can assist an organization to compete in its business environment.

A firm can start its SWOT analysis by reviewing its internal strengths and weaknesses. This can be done by the management or by external consultants who can help to provide a more objective view. The factors that are identified are listed and given scores to indicate their importance, with the most important issues receiving the highest scores. The process is applied for the firm's external opportunities and threats so as to bring to light the external factors which will likely occur and which are seen to have impacts on the firm's operations. Using this approach, the firm can then design strategies that reflect its ability to operate in its business environment. The resultant strategies should enable the firm to attain its objectives by taking advantages its strengths, opportunities and minimizing its weaknesses and avoiding the threats.

3.2.4 Benchmarking

Benchmarking is yet another tool in which a firm can use to analyze its environment. Benchmarking is the process in which an organization undertakes to compare its practices and technologies with those of other organizations. In practice, a firm would identify the best performing company in a given area, for instance, product quality or customer service, and then comparing the processes with theirs to see the areas where improvements can be made in order to meet or even exceed the best practice. To achieve this, a team would collect information on its own company operations and those of the firm to determine gaps. The gaps would serve as a point of entry to know the underlying causes of performance differences. The idea is that by applying this approach, the team would make out a set of best practices that would enable them to meet world class performance.

3.3 LIMITATIONS OF ENVIRONMENTAL ANALYSIS

The environmental analysis procedure described above represent some of the ways in which business organizations can assess the impact of the dynamic business environment in a way to understand what changes are likely to occur, how these may affect the organization and what responses would be appropriate in the circumstances. However it should be noted that the importance of such analysis does not only depends in the information provided but also in the process of gathering and evaluating the data and in applying it to the operations of the organization.

Although it is obvious that environmental analysis is a useful tool of decision making in an organization. However there are some limitations in its application. To start with, analysis of the business environment is not an exact science and does not eliminate uncertainty for an organization. In fact there could be unanticipated events which do not follow the normal pattern and these might distort the information gathered for environmental analysis and eventually the outcome. Managers should not regard the process as a means of foretelling the future and should not avoid their responsibilities as strategic planners and decision-makers by blaming problems on a deficiency in the application of a particular technique or on inaccuracies in the data provided.

In addition to this, Worthington and Snell (2009), argue that environmental analysis in its self is by no means a guaranty of organizational effectiveness and can sometimes complicate the decision making process by providing information which calls into question the intuitive feeling of experienced managers. The danger is that the analysis may become an end in itself and may obscure information and data coming from other sources, rather than being used in conjunction with them. Accordingly, its value in strategic thinking and strategic decision making may not be exploited to its full potential and this may represent a lost opportunity to the organization as well as an inefficient and ineffective use of resources.

4.0 CONCLUSION

The dynamic nature of business requires the manager to scan and monitor it. Environmental analysis is required to identify changes or trends which have the capacity of influencing the business positively or negatively. Techniques such as scenario planning, forecasting, SWOT analysis and benchmarking are viable tools in environmental analysis.

5.0 SUMMARY

Environmental analysis entails scanning the business environment to obtain information that might be useful to an organization in its operations. To do this, an organization can use scenario planning which is a narrative that describes a particular set of future conditions. Forecasting is another method use by a firm to analysis the environment. It is used to predict the future outcomes using some variables. SWOT analysis is popular method used by organizations to determine its strengths and weaknesses and to detect opportunities and threats that are inherit in the environment. Organizations can as well use benchmarking when trying to predict changes in the organization. This method enables a firm to undertake intensive study of the best practices of various firms to understand their sources of competitive advantage and take advantage of it. Environmental analysis has its limitations as well. Managers therefore should be very careful while undertaken environmental scanning.

6.0 SELF-ASSESSMENT QUESTIONS

1. Explain the terms 'Environmental Analysis and 'Environmental Scanning'
2. List and Discuss any three techniques of Environment Scanning.
3. What are the imitations to Environmental Scanning

7.0 TUTOR MARKED ASSIGNMENT

What is environmental scanning? Discuss the usefulness of SWOT analysis in environmental scanning.

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MODULE 4 FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

Unit 1: Sole Proprietorship
Unit 2: Partnership
Unit 3: Co-operative Society
Unit 4: The Company

UNIT 1 SOLE PROPRIETORSHIP

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INTRODUCTION

There are various forms of businesses that lead to the actualization of the dreams of entrepreneurs. The sole proprietorship is one of them. This unit will discuss the features, sources of finance, advantages and disadvantages.

2.0 OBJECTIVES

At the end of this unit, you should be able to:
2.1 Define Sole Proprietorship.
2.2 Identify the special features of Sole Proprietorship
3.3 Describe the various sources of finance for the Sole Proprietorship
4.4 List and discuss the advantages of Sole Proprietorship
4.5List and discuss the disadvantages of Sole Proprietorship

3.0 MAIN CONTENT

3.1 Definition of Sole proprietorship/Sole Trader

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.

3.2 Features of a Sole proprietorship

Ownership: A sole trader as the name implies is owned by one person.

Liability: The liability of the one man business in 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 believed, 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 so he has the liberty of managing the business in his own way.

Its Nature: It is a simplest and the commonest type of business unit you can think of.

3.3 Sources of Funds of a Sole proprietor

(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.

3.4 Advantages of a Sole proprietorship

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

(i) It is simple and cheap to set up. There are no elaborate documentation or legal requirements.

(ii) 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

(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.

3.5 Disadvantages of a Sole proprietorship

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 anybody as it does not share the profits of the business with anybody.

(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) **Limited life span -** When the sole proprietors retires or dies, the business may also come to an end. Though his family members may attempt to continue with the business, most often 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 -** Due to limited capital, the sole proprietor may not be able to increase the business as he could handicapped by inadequate technical and managerial skills. As enumerated earlier, the sole proprietor has few source of capital. Except for banks, he may not get any substantial capital for expansion financially; his ability to borrow from banks depends on his collateral which may not be enough for bank funding.

4.0 CONCLUSION

Individuals going into business can consider the sole trader option. It is one of the easiest forms of business to establish. This is because it requires little amount of money to establish, easy to manage and little or no legal requirements.

5.0 SUMMARY

The sole proprietorship is the oldest form of business organization characterized by sole ownership and management. Its main advantages include; ease of establishment, small capital requirements, quick decision making, tax savings and ease of dissolution. On the under hand, the disadvantages are; unlimited liability, limited expansion capacity, lack of specialization, lack of continuity among others.

6.0 SELF-ASSESSMENT QUESTIONS

1.Explain in your words the meaning of Sole Proprietorship as a form of Business.
2 Discuss any five special features of Sole Proprietorship.
3List and Discuss sources of finance for the sole proprietor
4 List five advantages of Sole Proprietorship and discuss any three of them.

7.0 TUTOR MARKED ASSIGNMENT

1 'Sole Proprietorship is not the best form of Business organization' Discuss.

3.0 How does the following affect the Sole Proprietor

a. Unlimited Liability
b. Lack of Continuity
c. Limited Finance

4.0 Which sources of finance will advise the sole proprietor to explore and why?

8.0 REFERENCES AND FURTHER READINGS

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UNIT 2 PARTNERSHIP

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1.0 INTRODUCTION

In the last unit you were taught the features, advantages and disadvantages of sole proprietorship. In the unit, we will focus on Partnership form of business organization. In like manner, the definition, features, advantages and disadvantages as well as the sources of finance will be covered.

2.0 OBJECTIVES

At the end of this unit, you should be able to:
2.1 Define Partnership.
2.2 Identify the special features of Partnership
3.3 Describe the various sources of finance for Partnership
4.4 List and discuss the advantages of Partnership
4.5List and discuss the disadvantages of Partnership

3.0 MAIN CONTENT

3.1 Definition of 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.

3.2 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 2-20 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**.

3.2.1 Types of Partnership

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

Ordinary Partnership - All members or partners 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.

3.2.1 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.

Nominal/Passive Partner: A nominal 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.

3.3.2 Essential Conditions for a Partnership

In order for the association of people to constitute a partnership Ogundele, et al (2009) believe that three key conditions must be present

i. There must be a business which may be a trade, occupation or profession
ii. It must be carried on in common i.e it must be carried on by some members or all of them for the benefit of all of them
iii. It must be with a view to profit. The sharing in the profits of the partnership business is a very strong evidence of the existence of a partnership. However, the true test of partnership is not merely participation in profits but participation in profits in such a way as to create a relation of agency between the partcipators

3.3.3 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.

3.3 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

3.4Advantages of Partnership

The following, are the advantages of partnership:

(i) **Greater Financial Resources:** Unlike a one-man, business between two and twenty persons form 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 compared 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 re- organization 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.

3.5 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 means that 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.

3.6 Dissolution of Partnership

A partnership automatically dissolves if any of the following event occurs

a) If it is entered into for a fixed term and if that terms expires
b) If it is entered into for a single adventure or undertaking by its termination i.e voluntary termination
c) If it is entered into for an undefined time by any partner giving notice to others of his intention to dissolve the partnership i.e withdrawal of a partner

d) By the death or bankruptcy of a partner
e) The court may give judgement for the dissolution on the application of a partner
f) By the legal insanity of a partner
g) By subsequent illegality of the object

4.0 CONCLUSION

Partnership is another form of business ownership open to the individual. Partners contribute their funds and energies and time to set up business. Partners must state agree with rules of engagement to avoid conflict and confusion.

5.0 SUMMARY

Partnership is a business form jointly formed by 2-20 individuals. It could be the forms of ordinary or limited partnership. There are different kinds of partners depending on the extent of involvement in running of the business and public knowledge of partners. Based on this we have Active, Passive, Dormant, Silent among others partners. To guide, the conduct of member, deed of partnership is often prepared to specify partner rights, responsibilities among others. The advantages of Partnership include; Greater financial Resources than the Sole Trader, Greater Continuity, Speciation and better Decisions. The demerits include; unlimited liability, possibility of conflict among members, slow decision making among others.

6.0 SELF-ASSESSMET QUESTIONS

1. Define in the term 'Partnership'.

2 Discuss any four types of partners known to you.

3List and Discuss sources of finance Partnership

4 What is Partnership Deed? List any five elements of it.

5 List five and Discuss any five advantages of partnership.

7.0 TUTOR MARKED ASSIGNMENT

1 Why would anyone prefer a partnership to a Sole Proprietorship Business organization?

2 Managing a 'Partnership could prove more difficult than managing a Sole Proprietor' Discuss.

8.0 REFERENCES AND FURTHER READINGS

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UNIT 3 COOPERATIVE SOCIETY

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8.0 References and Further Readings

1.0 INTRODUCTION

In the last unit you were taught the Partnership form of business organization. In like manner, the definition, features, advantages and disadvantages as well as the sources of finance was covered. In this unit we will focus on Cooperatives societies, features and types of cooperative societies, advantages and disadvantages of cooperative societies.

2.0 OBJECTIVES

At the end of this unit, you should be able to:
2.1 Define Cooperative Society.
2.2 Identify the special features and types of Cooperative Societies
3.3 Describe the various sources of finance for Cooperative Societies
4.4 List and discuss the advantages of Cooperative Societies
4.5List and discuss the disadvantages of Cooperative Societies

3.0 MAIN CONTENT

3.1 Definition of Cooperative

Cooperative is a word derived from two Latin words meaning – "Working together". The dictionary meaning of cooperative also implies "working or acting together for a common purpose". Cooperation, on the other hand, literally means the will to cooperate. According to Ejiofor (1989, quoted in Ige, 2011), some writers have defined cooperative as "an association of persons faced by the same problem, having resources on the basis of equality, through joint effort and mutual participation to remedy their plight". Others define cooperative as a society, a group of person who pool their resources to produce, buy or sell goods among themselves for mutual benefit.

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 techniques". 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 endeavors' 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 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 services 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 members 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.

3.2 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 farms 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.

3.2.1Distinction 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. 2. Life of CTCS is perpetual as a corporate body. 3. Credits are made available at all times. 4. Loans are usually given out on merit. 5. Inspection or periodic auditing is allowed. 6. Capital is kept revolving. 7. Many members enjoy social and economic benefits. 8. Modern scientific method of	1. Membership is limited or restricted. 2. Life terminates when the last member takes his turn. 3. Credits are made available at certain times only. 4. There is favouritism and bias in granting loans. 5. No inspection or periodic auditing is allowed. 6. Capital is tied down unnecessarily. 7. Very few privileged members enjoy its social and economic

3.2.2 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 form 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 cooperative 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 employees 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 dare 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.

3.2.3 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.

3.2.4 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).

3.2.5 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 self- reliant. 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.

3.3 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.

(iii) Reserve portrays the spirit of solidarity in a society because of their non- divisibility.

(iv) They are the social capital of a society because of their neutrality and anonymity.

(v) Unlike share capital, reserves are not withdrawable and do not fluctuate with the membership.

(vi) They increase the borrowing power of the society.

(vii) 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 channeled 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.

3.4 Advantages of Cooperative Societies

1 **Democracy**: Cooperative Societies promote democracy as all members have equal rights.
2 **Cheap Goods**: Cooperative Societies provide opportunities for members to purchase goods at cheaper rates
3 I**nvestment Opportunities:** They provide investment opportunities for individuals who on their own would not be able to establish a business of their own.
4 **Checkmate Middlemen**: It helps to reduce or prevent the unwholesome activities of middlemen.
5 **Promotion of Savings** : Cooperative Societies encourage members to develop the habit of saving.
6 Limited **Liability:** Members enjoy limited liability as they only lose their contributions in the event of business failure.

3.5 Disadvantages

1. **Limited Expansion:** Ownership by user-member limits size and ease of expansion.
2. **Poor Management:** There is the tendency poor management since the managers are elected. Most often merit is sacrificed.
3. **Corruption and Embezzlement:** Cooperative Societies are usually heavens for corruption and embezzlement.
4. **Conflict:** Conflict may arise due to in-fighting by members

4.0 CONCLUSION

From the above discussions, Cooperative is a voluntary association of individuals to own and manage a business organization. The cooperative exist to help members satisfy their personal and economic goals. The cooperative is guided by some principles.

5.0 SUMMARY

Cooperative Society is voluntary association of individuals with the objective of improving their welfare through collective efforts and collective control. Its principles include; Open and Voluntary Membership, Democratic Control, Political and Religious Neutrality, and Strictly Cash Trading. It sources of funds are; Membership Shares, Reserves, Entrance Fees, Revolving Funds, Loans from Banks and Government. Cooperative societies provide members will cheap goods and services, opportunities for investment and promote savings.

6.0 SELF- ASSESSMENT QUESTIONS

1. What are the key words in the Definition of a Cooperative Society?
2. List and Discuss any Five Principles of Cooperative Society.
3. What the merits and Demerits of raising funds through the Government for the average Cooperative Society?
4. List and Discuss the advantages and Disadvantages of Cooperative Society.

7.0 TUTOR MARKED ASSIGNMENTS.

1. 'The issue of Democratic Control may be a Cause rather than a Blessing to a Cooperative Society' Discuss.
2. Why should a Cooperative raise capital through Revolving Funds from Members?

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UNIT 4 BUSINESS ORGANISATIONS

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1.0 INTRODUCTION

As you can see in the last three units, the Sole Proprietorship, Partnership and Cooperative have some glaring deficiencies which will hurt the promoters of the business in the event of failure. The Company is an artificial entity separate from its owners with improved features and advantages.

2.0 OBJECTIVES

At the end of this unit, you should be able to:
2.1 Define a Company.
2.2 Identify the types and mode of formation of a company
3.3 Describe the specific features of a company
4.4 List and discuss the advantages and Disadvantages of Private limited Company
4.5 List and discuss the Advantages and Disadvantages of Public limited Company

3.0 MAIN CONTENT

3.1 Definition of Company

A company is a legal person or entity created by the 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.

A company is legally separated from its owners hence it is defined as an artificial being (invisible or intangible) existing in accordance with the law. In the eyes of the law it is a separate entity responsible for its acts and obligations. With its artificial human life, it can sue and sued like a human being under the law. It can hold and sell properties and engage in any business operations specified in the corporate charter.

TYPES OF COMPANIES

We have two kinds of companies:

3.2.1 Unlimited Liability Companies: There liabilities do not end on the money contributed to the business, there personal belongings could be sold to recover money from them in case of a company's indebtedness.

3.2.2 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 loose only the shares they have in the company.

3.2.3 Guarantee companies: These are companies limited by guarantee. Each member guarantees to contribute an amount not exceeding a stated sum to meet the company's liabilities in the event of winding up. The liability of members is limited to the amount guaranteed. Usually, firms established as guarantee companies require little or no capital. However,, if the company has a share capital, members who hold shares are similarly liable for any amount not paid up thereon.

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

3.2.2.1 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.

3.2..2.1Public 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 shared.

3.2.3 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 documents used for registration includes:

3.2.3.1 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).

3.2.2.2 Article of Association

It states the internal rules for the 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 meetings 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.

3.2.2.3 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.

3.2.2.4 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.

3.2.2.5 Certificate of Trading

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

3.3 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.

3.3.1Features 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.

3.4 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.

3.4.1 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 shareholders.

3.5 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 provided 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 satisfied 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 vast experienced 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.

3.5.1 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 non- 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 becomes more complex to manage compared to one-man business.
(ix) Delay in policy and decision making.
(x) Suppression of individual initiatives.

4.0 CONCLUSION

The company as a business alternative grew of the need for limited liability and a greater pool of funds for establishing businesses. The company as an artificial person is a legal entity different from its owners. It requires documentations for its formation.

5.0 SUMMARY

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 The company is a special type of Business organization in regarded as an 'Artificial Person'. There are two types of Companies; Unlimited Liability and Limited Liability. Most companies are limited liability ones and may be Private or Public depending on certain criteria. The documents which are required for incorporation, are; Memorandum of Association, Articles of Association and Prospectus. A successful incorporation will result in the issuance of certification of incorporation or trading. The advantages of a company enjoys over other businesses include; Limited Liability, Better Management due to the capacity to employ experts, Larger pool of capital among other.

6.0 SELF-ASSESSMENT QUESTIONS

1. Define a Joint Stock Company.
2. List and Discuss the features of a Private Limited Liability Company.
3. Write short notes on the following:

   (a) Types of companies
   (b) Prospectus
   (c) Memorandum of Association
   (d) Articles of Association

5. What are advantages of Public Limited Liability Company?

7.0 TUTOR MARKED ASSIGNMENT

1. Why is a company regarded as an Artificial Entity?
2. What sources of capital are available to Private Limited Liability Company?

8.0 REFERENCES AND FURTHER READINGS

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