COURSE GUIDE

ENT 101
INTRODUCTION TO ENTREPRENURSHIP

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MODULE 1: BACKGROUND AND OVERVIEW OF MANAGEMENT, ENTREPRENEURSHIP, BUSINESS OPPORTUNITIES.

Unit 1: Definitions, Nature and Concepts of Management

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1.0 Introduction

This unit is designed to provide an insight into the definitions, nature and concept of management. By the end of the unit, you are expected to have an overview of what management entails, whether management is an art or science and who a manager is?

2.0 Objectives:

By the end of the unit, you should be able to:

a. Explain the meaning of management
b. Explain the scope of management
c. Explain the purpose of management
d. Explain the concept of who is a manager
e. Discuss the concepts of management in profit and non-profit organizations

3.0 Main Content

3.1 Meaning of Management

As an individual, we are members of one organization-a team, a group, a university, a church, organization, the army etc. all organizations whether formal or informal usually have a structure and are put together by a group of people who see that there are benefits to be achieved from working together toward some common goal. The basic element of every organization is to achieve its goal or purpose. Hence, management is a conscious practice of shaping the organization to achieve its set goal and objectives. In other words, it is the process of working with people and resources to accomplish organizational goals in effective and efficient manner. The four traditional management principles include planning, organizing, leading and controlling.

3.2 The Scope of Management

Management is applicable to both business and non-business organizations alike such as banks, factories, hospitals as well as churches, mosques, orphanages etc. This and many more including one's personal affairs need to be managed.

3.3 The Purpose of Management

The basic purpose of any form of management in organizations is to achieve corporate set goals and objectives in an effective and efficient manner.

3.4 Who is a Manager?

Among other things, a manager is one who has the responsibility to plan, organize, lead and control its available resources effectively and efficiently in order to achieve organizational purpose. Resources here include man, machine, money, time, information etc. A manager, whether in a big or small corporation must know that he/she is in a competitive struggle to survive and win. A manager must manage for competitive advantage and in order to succeed as a manager in this ever dynamic and complex environment of business, he/she must deliver innovation, quality, service, speed and competitiveness.

3.5 The Concepts of Management in Profit and Non-Profit Organizations

Management is essential in all organizations, profit or non-profit organizations. Management principles are the same all over the world. It is a universal concept with its basic functions of planning, organizing, leading and controlling. It is erroneously believed that the concept of management applies majorly to profit making organizations, and less of non-profit making organizations. There is also the perception that the term administration is strongly linked to non-profit making organizations and less of profit making organization. Management is a universal concept applied in organizations that have people working together with a structure and that harness its scarce resources in order to accomplish its corporate goals. So in either form of organizations, the concept of management is the same. Management is about achieving result not just profit.

4.0 Conclusion

We have seen in this unit that management is concerned with getting things done through and with other people. The primary purpose of management is to achieve desired goals by efficiently utilizing available resources. The unit also made it clear that the end result of a manager is to achieve organizational goal efficiently and effectively. This unit concluded by saying that management is universal irrespective of the organizations whether profit or non- profit organization.

5.0 Summary

The highlights of this unit are hereby summarized below:

The meaning of management; the purpose of management; the scope of management; who is a manager and the concept of management in both profit and non-profit organizations.

6.0 Tutor- Marked Assignment

(a) Explain the meaning of management

(b) Explain the scope of management

(c) Explain the purpose of management

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Unit 2: The Foundation of Entrepreneurship

1.0 Introduction

This unit is designed to provide an insight into the definitions, nature and concept of entrepreneurship. By the end of the unit, you are expected to have an overview of what entrepreneurship entails, functions and the difference(s) if any between entrepreneurship and intrapreneurship.

2.0 Objectives

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

- define what entrepreneurship is
- explain who is an entrepreneur

- state the importance of entrepreneurship in any economy
- explain the functions of an entrepreneur
- differentiate between an intrapreneur and an entrepreneur
- list and explain the activities involved in entrepreneurship
- distinguish between the characteristics of an entrepreneur from that of an intrapreneur
- list and explain the different types of entrepreneurs

3.0 Main Content

3.1 Definitions of Terminologies

3.1.1 The Concept of Entrepreneurship

The nature of entrepreneurship implies several images and meanings. We can understand the definitions of an entrepreneur. Inegbenebor and Igbinomwanhia (2011) define an entrepreneur as a person who has possession of an enterprise, or venture, and assumes significant accountability for the inherent risks and the outcome of the enterprise. According to Jones , George and Hill (2000), entrepreneurs are individuals who notice opportunities and take responsibility for mobilizing the resources necessary to produce new and improved goods and services. In other words, entrepreneurs start new business venture and do all of the planning, organising, leading and controlling necessary to meet organizational goals. Sharma (1999) defines entrepreneurs as the owners of the business who contribute the capital and bear the risk of uncertainties in business life. He organizes, manages, assumes the risks and takes the decisions about the enterprise. Scarborough (2014) defines entrepreneur as one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Drucker (1986) defines the entrepreneur as someone who always searches for change, respond to it, and exploits it as an opportunity. Kuratko (2014), defines entrepreneurs are individuals who recognise opportunities where others see chaos, contradiction, and confusion. They are aggressive catalysts for change within the marketplace.

The process of performing the roles of an entrepreneur is called entrepreneurship. Thus, we may define entrepreneurship as Barringer and Ireland (2012) opine as the process by which individuals pursue opportunities without regard to resources they currently control. Wilson(2004) defines entrepreneurship as the art of turning an idea into a business. Kuratko (2008), defines entrepreneurship as a dynamic process of vision, change, and creation. It requires an application of energy and passion toward the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity or career, the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and finally, the vision to recognise opportunity where others see chaos, contradiction, and confusion. Stoner et al (2009) define entrepreneurship as the seemingly discontinuous process of combining resources to produce new goods or services. Jones et al (2000) define entrepreneurship as the mobilization of resources to take advantage of an opportunity to provide customers with new or improved goods and services. Bateman and Snell (2011) define entrepreneurship as a situation when an enterprising individual pursues a lucrative opportunity. Entrepreneurship is defined as the willingness and ability of an individual (or a group of individuals) to seek out investment opportunities, especially through innovation, establish and run the enterprise successfully. (Inegbenebor, 2003 unpublished lecture note).

While there are several definitions of entrepreneurship, the central ideas of the concept incorporates uncertainty and risk taking, innovation, perception and change (Herbert and Link, 1989).

Entrepreneurs and entrepreneurship are more often associated with small and medium scale enterprises. This is because the vast majority of enterprises in which the entrepreneur plays a visible role are small and medium scale enterprises.

3.2 The Role of Entrepreneurship in a Developing Society

Entrepreneurship has been recognized all over the world as a catalyst for development in any economy. Entrepreneurship in developing countries in particular is being seriously advocated because of the following importance:

1. *Employment Generation:* It helps to provide jobs through the establishment of new businesses, especially small and medium scale enterprises.
2. *Productivity:* One of the factors for the greater interest in entrepreneurship has been the increasing recognition of its role in raising productivity through various forms of innovation. Entrepreneurs, through their innovation and creativity are capable of transforming existing business sectors, and creating new sectors. They are helping to bring about new goods and services (expanding productivity) and supplying the needs of large enterprises, which have to rely on their operations for business success.
3. *Facilitate the transfer/adaptation of technology:* It enables entrepreneurs to have the opportunities of developing and adapting appropriate technological methods and provide a veritable avenue for skilled, unskilled and semi-skilled workers.
4. *Ensures increased resource utilization:* It helps entrepreneurs to put limited resources that might otherwise remain idle into good use. They contribute to the mobilization of domestic savings and utilization of local resources, including human resources.
5. *Stimulates growth in those sectors which supplies it with inputs:* Entrepreneurship stimulates growth in its supply market. The greater the number of entrepreneurship that exist in the

'downstream' of a particular sector, the greater the market, hence, the greater the potential for increased capacity utilization.

6. *Reinvigorates large-scale enterprises and public enterprises:* Most large scale enterprises and public sector enterprises depend on the activities of small and medium scale enterprises (SMEs) to supply them with various raw materials and other component parts and also to assist them in the distribution of the finished goods to the final consumers. Entrepreneurship has made it possible to be able to transform the public sector into a viable, market oriented and profitable organization.

7. *Encourages and sustains economic dynamism that enables an economy to adjust successfully in a rapidly changing global economy:* As a result of the dynamic nature of the environment, small and medium scale enterprises have no choice than to respond and adapt to environmental changes from time to time.

8. Enables individuals to use their potential and energies to create wealth, independence and status for themselves in society.

The above eight points are not in any way exhaustive.

3.2.1 Functions of an Entrepreneur

To list the functions of entrepreneurs, give the impression that there are clearly defined activities which the entrepreneur is expected to perform. On the basis of this understanding, the entrepreneur is expected to perform the following functions:

1. *Perception and identification of business opportunities:* This is the first function of the entrepreneur. It has to do with the recognition and definition of an unsatisfied need of individuals, firms or households which can be satisfied with a product or service at the right price that will guarantee satisfactory profit to the entrepreneur. In other words, business

opportunity occurs whenever there is a vacuum in the market place which is not being satisfied by existing organizations or is being inadequately satisfied.

2. *Selection of the legal form, location and site of the business:* The form of business ownership that the entrepreneur may decide to go into depends entirely on the amount of capital available to the individual. To this end, the business enterprise may be operated either as sole proprietorship, partnership or a limited liability. The selection of the initial legal form of the enterprise as well as the location and site of the enterprise is the second function performed by the entrepreneur.

3. *Identification, selection and acquisition of key resources:* The identification, selection and acquisition of key resources is yet another function unique to entrepreneurs. For any start up firm to survive and grow depends heavily on the availability of competent manpower who will be able to translate the entrepreneur's ideas into concrete forms. Thus, key personnel must be sourced and encouraged to contribute their talents and energy during and after the turbulent period of formation and take-off. In addition, the technology that is suitable for the needs of the firm must be identified, evaluated and acquired. Sourcing of funds is one of the major constraints in starting businesses by entrepreneurs, since the organization has no track record to boost of with investors and bankers, a lot depends on the talents and trust of the entrepreneur to develop an attractive project idea, form a credible and resourceful team in order to encourage others to believe in the business.

4. *Innovation:* This is usually regarded as the height of entrepreneurship. Innovation may be defined as the translation of a new idea into a new company. In other words, innovation simply refers to striving to satisfy your customers better than what competitors are doing/offering. This may take the form of a new product in an old market; old product in a new market; or entirely a new product in a new market. It is important to emphasize that

sustaining the patronage of customers depend largely on the ability of the entrepreneur to respond to their needs with new or modified products, new and better techniques of production which reduce cost of production, better methods of distribution, pricing and promotion.

5. *Risk bearing:* This has been traditionally associated with the entrepreneur. There are various types of risks in business. The risk of fire, accidents, bad debts, theft etc can be minimized by taking preventive action and by insuring against them. Other risks arise because business decisions are future oriented. Risk of business failure may arise from adverse fluctuation in demand, unfavourable government policies, strong competitive advantage of other firms, obsolete technology and hence high cost of operation etc. These risks cannot usually be insured against and must be borne by the entrepreneur. One way of managing risk is for the entrepreneur to be engage actively in monitoring the environment in order to be able to respond and adapt to the dynamic nature of the environment from time to time. By so doing, the entrepreneur proactively assesses the conditions facing him/her, and on the basis of the evaluation of his/her strengths and weaknesses, he or she makes a choice of a strategy considered suitable. Having made a choice, the entrepreneur accepts personal responsibility for the outcome of his/her decision.

6. *Management of the ongoing enterprises:* The job of an entrepreneur is not hit and run or one off activity. But rather, it is on a continuous basis (on going activity). To be able to sustain the ongoing nature of the business, the entrepreneur must put in place these activities namely: establishment of goals and targets for the enterprise; determination of the tasks to be undertaken to achieve the goals/targets; efficient and effective allocation of the necessary resources and controlling of the activities involved. This simply implies that the entrepreneur is a planner, organizer, communicator, coordinator, leader, motivation and

controller, and most of all, a facilitator. Management of the on-going enterprise also involves the process whereby the entrepreneur monitors and evaluates changes that are continuously taking place in the political, economic, socio-cultural, technological, legal and ecological environment so as to respond appropriately to ensure the survival of the business.

3.3 Management versus Entrepreneurship

Morris, Kuratko and Covin (2011) made a clear distinction between management and entrepreneurship. According to them, management is the process of setting objectives and coordinating resources, including people, in order to attain those objectives. In essence, management involves getting things done through other people. In a sense, management is a transformation process, where technical, human, and conceptual skills are used to transform inputs into outputs. In addition, managers must understand how the organization interacts with the external environments and how the different parts of the organization work together. By so doing, managers will be able to carry out their responsibilities of efficiently and effectively.

Management is both an art and a science. It is an art because it involves the use of instinct. It is a science because it involves the use of logic. Both art and science complement each other. Managers use the two efficiently and effectively in order to achieve organizational goals. On the other hand, the entrepreneurship is preoccupied not with what is, but with what can be. They envision the future, recognise emerging patterns, identify untapped opportunities and come up with innovations to exploit those opportunities. As earlier noted by Morris et al (2011), entrepreneurs pursue opportunity regardless of resources controlled. They do this by demonstrating creative capabilities in obtaining and leveraging resources, overcoming obstacles, mitigating risks, and persisting in implementing new ideas that represent change. They opine that within great organizations, a balance is achieved between disciplined management and entrepreneurship (Barringer & Ireland, 2012). Disciplined management requires focus, attention to basic management principles and values, and a strong sense of accountability for results. Entrepreneurship requires vision, a willingness to take risks, and a focus on creating the future. Achieving this balance suggests that managers must become entrepreneurs. In other words, optimization of current operations must be done by managers while at the same time engaging in activities that make current operations obsolete.

Wilken (1982) explains that entrepreneurship involves initiating changes in production, whereas management involves the ongoing coordination of the production process.

3.4 Who is an Intrapreneur?

According to Jones, George and Hill (2000), an intrapreneur is a manager, scientist, or researcher who works inside an existing organization and notices opportunities for product improvements and is responsible for managing the product development process. The above definition was corroborated by Pinchot (1985),when he coined the term intrapreneur to represent an innovative individual (employee) in an existing business organization who perceives new market opportunities, secures resources and initiates the realization of the opportunity. Rather than perform the roles of an entrepreneur as an independent unit and for private economic gains, the intrapreneur performs the same roles within an existing large organization to enhance the competitiveness and profitability of the organization.

3.4.1. The Meaning of Intrapreneurship

Stoner et al., (2009) opined that in today's faced-paced economy, companies that do not keep up may go the way of the dinosaur. According to them, a large number of companies have lost their entrepreneurial spirit that they started with. As they have grown larger, their ability to be innovative and flexible may have been stifled by the very size and success of the organization. Many concepts have been used to describe how managers can keep organizations from stagnating, make organizations adaptive, and promote organizational climates that support creative learning.

Perhaps, the most widely used term for this process is intrapreneurship. Intrapreneurship or corporate entrepreneurship is the process whereby an organization seeks to expand by exploring new opportunities through new combinations of its existing resources.

Intrapreneurship requires special attention from managers, because by design it cuts against the grain of established organizational activities. Thus, we might expect that the following are important to support intrapreneurship:

1. Explicit goals for intrapreneurial processes
2. A system of information exchange between managers and intrapreneurs
3. An emphasis on individual responsibility and accountability
4. Rewards for creative effort

3.5 Characteristics of an Entrepreneur

Timmons (1989) identified fourteen dominant characteristics of successful entrepreneurs. They are:

1. *Drive and Energy:* Entrepreneurs are more energetic than the average person. They possess the capacity to work for long hours and in spurts of several days with less than a normal amount of sleep. Long hours and hard work are the rule rather than the exception, and the pace can be grueling.
2. *Self-confidence:* Entrepreneurs typically have an abundance of confidence in their abilities to achieve the goals they set and confident that they chose the correct career path. They also believe that events in their lives are mainly self-determined, that they have a major influence on their personal destinies, and have little belief based in fate.
3. *Long term involvement:* Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. They make a commitment to a long term project and they work towards goals that may be quite distant in the future. Business founders often immerse themselves completely in their companies. Entrepreneurs

who create high potential ventures are driven to build a business, rather than simply get in and out in a hurry with someone else's money.

4. *Money as a measure:* One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, achievement seems to be entrepreneur primary motivating force: money is simply a way of "keeping score" of accomplishment – a symbol of achievement. What drives entrepreneur goes much deeper than just the desire for wealth, (Scarborough, 2014).
5. *Persistent problem solving:* Entrepreneurs possess an intense level of determination and desire to overcome hurdles, solve a problem and complete the job in the course of successfully building new enterprises. They are not intimidated by difficult situations.
6. *Goal setting:* Entrepreneurs have the ability and commitment to set goals that are both measurable and attainable for themselves. These goals tend to be high and challenging, but they are realistic and attainable. Entrepreneurs are doers, they are goal and action oriented individuals. Entrepreneurs are motivated by a high need for achievement.
7. *Preference for moderate risk:* Entrepreneurs are not wild risk takers but instead take calculated and moderate risk.
8. *Dealing with failure:* Entrepreneurs do not fear failure. Anybody who is afraid of falling will cancel whatever achievement motivation he or she possesses. From the point of view of entrepreneur, failing is an opportunity to learn from.
9. *Desire for immediate feedback:* Entrepreneurs like the challenge of doing a business and they want to know how far they are doing in terms of performance. The use of feedback enables entrepreneurs to assess/take stock of their performance with the aim of improving on it.

10. *Taking initiative and seeking personal responsibility:* Entrepreneurs feel a deep sense of personal responsibility for the outcome of businesses they start. They willingly put themselves in situations where they personally take responsibility for the success or failure of the business. They prefer to use available resources to achieve self-determined goals and also want to be in charge of their resources.

11. *Use of resources:* Entrepreneurs have been known to use resources efficiently and effectively in order to achieve organizational goals.

12. *Competing against self-imposed and objective standards:* High performing entrepreneurs possess this internalized kind of competitive spirit in which he or she continuously engages in competition with himself/herself to beat his or her last best performance.

13. *Internal locus of control belief:* The success or failure of a new business enterprise from the point of view of an entrepreneur does not depend on luck or chance, or other external, personally uncontrollable factors. But rather, the entrepreneur believes that one's personal accomplishments as well as setbacks lie within one's personal control and influence.

14. *Tolerance of ambiguity and uncertainty:* Entrepreneurs tend to have a high tolerance for ambiguous ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources.

The above characteristics are not by any means exhaustive.

4.0 Conclusion

We have seen in this unit that entrepreneurship lies at the centre of any nation's free enterprise system; small and medium scale enterprises (SMEs) are truly the backbone of any economy be it developed or developing economy. This agent of catalyst for development has contributed immensely to the businesses themselves in particular and the economy in general.

5.0 Summary

The highlights of this unit are hereby summarized below:

The concept of entrepreneurship has been seen to be a sine qua non for the development of any economy. The unit also looks at the role of entrepreneurship in a developing society; functions of an entrepreneur; characteristics of an entrepreneur as well as the clear distinction between management and entrepreneurship.

6.0 Tutor-Marked Assignment

(i) Distinguish between an entrepreneur and entrepreneurship

(ii) State and briefly explain five characteristics of an entrepreneur

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Unit 3: The Corporate Innovation on Entrepreneurs

1.0 Introduction

This unit will be focusing on Corporate innovation philosophy, Entrepreneurial activities and differences between the entrepreneur and the owner manager of a business enterprise. By the end of the unit, you are expected to have a wider knowledge of the themes above discussed.

2.0 Objectives

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

- corporate innovation philosophy
- entrepreneurial activities
- differences between the entrepreneur and the owner manager of a business enterprise

3.0 Main Content

3.1 Corporate Innovation Philosophy

Corporate innovation succeeds in organization that provide employees with the freedom and encouragement to develop their ideas, but top managers, if they do not believe that entrepreneurial ideas can be nurtured, have been known to hamper innovation. They may find it difficult, for example, to implement policies that endorse unstructured activity. If innovative people are to reach their potential, however, new types of thinking must overcome managerial hesitations. Five important practices for establishing innovation-driven organizations follow:

1. Set explicit innovation goals: These goals need to be mutually agreed on by the employer and management so that specific steps can be achieved.
2. Create a system of feedback and positive reinforcement: This is necessary for potential innovators or creators of ideas to realize that acceptance and reward exist.
3. Emphasize individual responsibility: Confidence, trust, and accountability are key features in the success of any innovative programme.
4. Provide rewards for innovative ideas: Reward systems should enhance and encourage others to risk and to achieve.
5. Do not punish failures: Real learning takes place when failed projects are examined closely for what can be learned by individuals. In addition, individuals must feel free to experiment without fear of punishment (Kuratko, 2014).

3.2 Entrepreneurial Activities

Kilby (1971) identified 14 activities which entrepreneurs carry out in a business enterprise. He assumed that entrepreneurs in developing countries have access to new ideas, new technologies etc already produced in developed economies which are readily available for borrowing or imitation. These activities were organized into four major headings as follows:

(A) **Exchange Relationship:** which include activities involved in relating effectively with critical elements in the economic environment. The activities under A above are:

(i) Perception of market opportunities

(ii) Acquiring scarce resources such as sourcing of funds for fixed assets and for working capital, key personnel, acquisition of a suitable location for enterprises etc.

(iii) Purchasing input – raw materials and supplies

(iv) Marketing the product

(v) Responding to competition – through various appropriate strategies such as product modification, pricing, promotion and effective distribution.

(B) **Political Administration:** The decisions and behavior of certain individuals and groups in the operating environment of the firm may have immediate impact on the performance of the entrepreneurs. Political administration is the process by which the entrepreneur negotiates a favourable relationship with these individuals and groups in the operating environment.

(vi) Dealing with public officials – for the permits, licenses, and concessions that the firm needs. To negotiate with public officials requires awareness of the appropriate laws, regulations and policies relating to the particular business. Membership of trade groups, associations etc such as MAN, NACCIMA, NECA facilitates this process.

(vii) Human relations within the firm – effective human resource management including maintaining good relationship with trade unions (if any)

(viii) Customer and supplier relation – establishing and sustaining a mutually beneficial relationship with customers and suppliers.

(C) **Management Control**

(ix) Financial management

(x) Production management

(D) **Technology**

(xi) Acquiring and setting up the factory or facilities needed for business operation

(xii) Industrial engineering – processes of minimizing use of raw materials including reduction of waste

(xiii) Upgrading processes and product quality

(xiv) Introduction of new techniques and products (Inegbenebor 2003, unpublished lecture note)

3.3 Differences between the Entrepreneur and the Owner Manager of a Business Enterprise

The owner manager of a business does what everybody else does the way everybody else does it while the entrepreneur does it in a significant new and better way. It has been said that all entrepreneurs are self-employed but not all self-employed are entrepreneurs.

The table below shows the major differences between the entrepreneur and the career manager/owner-manager of a business.

S/N	Dimension	Entrepreneur	Owner-Manager
1.	Time orientation	Medium to long (5-10 years)	Short to medium (monthly, quarterly, annual budgets and quotas; next promotion
2.	Risk taking	Moderate, calculated risks, will risk job security and net worth	Lower risk taken, averse to making mistake because of large company reward and penalty system; what to take the final plunge.
3.	Tolerance of uncertainty	High tolerance of ambiguity and uncertainty	Lower tolerance of uncertainty.
4.	Personal standards	High; more oriented to internalized, self-imposed standards	High; but more oriented to externalized standards of the organization; more responsive to organization's reward system, and trapping

			such as status, job titles etc.
5.	Management skills	None or limited formal management education, may have technical or scientific training if in a technical ventures; knows a business well, may be former general manager.	More likely to have formal management education, broad knowledge and experience in managing people and resources
6.	Motivation	Highly goal-oriented and achievement motivated, self-reliant and self-motivated	More motivated by goal and rewards established by the organization, power motivated

Source: Timmons, Smaller and Dangee (1977), New Venture Creation: A Guide to Small Business Development

4.0 Conclusion

We have seen in this unit that activities which entrepreneurs carry out in a business enterprise. It was assumed that entrepreneurs in developing countries have access to new ideas, new technologies etc already produced in developed economies

5.0 Summary

The highlights of this unit are hereby summarized below:

The Corporate innovation philosophy, Entrepreneurial activities and differences between the entrepreneur and the owner manager of a business enterprise. The unit also looks at the decisions and behavior of certain individuals and groups in the operating environment of the firm may have immediate impact on the performance of the entrepreneurs.

6.0 Tutor-Marked Assignment

(i) Distinguish between an entrepreneur and and the career manager/owner-manager of a business.

(ii) State and briefly explain five characteristics of an entrepreneur

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Unit 4: Discovering Business Opportunities

Table of Contents

1.0 Introduction

This unit is designed to provide an insight on how an entrepreneur can identify and transform business ideas into successful business opportunities. At the end of the unit, you are expected to be able to distinguish between business idea from business opportunity as well as identifying and recognizing business opportunities.

2.0 Objectives

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

- define a business opportunity

- differentiate between a business idea and a business opportunity
- identify sources of business opportunities
- identify the factors involved in choosing a business opportunity

3.0 Main Content

3.1 Identifying and recognizing opportunities

3.1.1 Distinction between a business idea and a business opportunity

3.2 Sources of business opportunity

3.3 Considerations for choosing a business opportunity

3.1 Identifying and Recognising Opportunities

Most importantly, entrepreneurs recognize an opportunity and turn it into a successful business. Barringer and Ireland (2012) defined an opportunity as a favourable set of circumstances that creates a need for a new product, service, or business. Most business ventures are started in one of two ways. Some ventures are either internally stimulated or externally stimulated. In the latter, an entrepreneur decides to launch a firm, look for and recognizes an opportunity, and then starts a business. In the former, an entrepreneur recognizes a problem or an opportunity gap and creates a business to fill it.

Irrespective of which of these two ways an entrepreneur goes into a new business, opportunities are hard to spot. Identifying a product, service, or business opportunity that is not merely a different version of something already available is difficult. Entrepreneurs make a common mistake in the opportunity recognition process by taking a currently available product or service that they like or are passionate about and then trying to build a business around a slightly better version of it. The best approach to opportunity recognition is to identify a product or service that people need and are willing to buy, not one that an entrepreneur wants to make and sell.

Barringer and Ireland (2012) opine that opportunity has four important qualities. It is (1) attractive (2) durable (3) timely and (4) anchored in a product, service, or business that creates or adds value for its buyer or end user. In order for an entrepreneur to take advantage of an opportunity, its window of opportunity must be available. The window of opportunity describes the time period in which a firm can realistically enter a new market. Once the market for a new product is established, its window of opportunity opens.

3.1.1 Distinction between a Business Idea and a Business Opportunity

The starting point of a new business creation process is an idea of a product or service which can be used to satisfied an identified need of individuals, families or organizations. An aspiring entrepreneur can have an idea which he/she believes is a great idea that would be an instant success in the market. Not all such ideas can translate into viable business opportunities. For a business idea to transform into a business opportunity, such idea must offer a viable solution to a problem experienced by potential consumers and for which they are willing to pay. A business idea, no matter how novel, cannot be a business opportunity if customers cannot see its added value and therefore unwillingly to pay for it (Inegbenebor, 2006:18).

A business idea and business opportunity can be likened to a production process which is inputs transformation output process. A business idea represents the input stage while a business opportunity represents the output stage. An entrepreneur may have a business idea that he or she believes would be an instant success in the market. Not all such business ideas (input stage) can be transformed into viable business opportunity (output stage). The question we may want to ask is, ‘what makes the transformation possible?’ Such a business idea must offer a viable solution to a problem experienced by potential consumers and for which they are willing to pay. The idea is the conception stage of a product or service while the opportunity is the stage at which the product or service gives satisfaction to consumers and the entrepreneur makes profit from such a venture.

Barringer and Ireland (2012) define an idea as a thought, an impression, or a notion. An idea may or may not meet the criteria of an opportunity. This is very important because many entrepreneurial ventures fail not because the entrepreneurs that launched them didn't work hard, but rather because there was no real opportunity to begin with. For a business idea to be good, it is necessary to understand whether the idea fills a gap and meets the criteria for an opportunity. On the other hand, Kirzner (1979) believes opportunity comes from a dysfunction in a market: "An opportunity is a market imperfection or an economical imbalance which can be exploited by an individual who restores market equilibrium. Here the opportunity is considered as a profit which comes from an existing demand and available resources".

3.2 Sources of Business Opportunity

Business opportunities have to be sought out as they do not present themselves for anyone to pick. Ability to spot these business opportunities is what distinguishes an entrepreneur from all others.

There are all sorts of business opportunities to explore and which are already present in the market, but not all of them will make a perfect match for such an individual.

There are various sources from where the would-be entrepreneur could get ideas; from which he will then choose and develop into viable business opportunities. Inegbenebor (2006) identified several ways by which an entrepreneur can spot business opportunities by examining various sources from which useful ideas can be generated.

(i) *Copy of existing successful business forms:* This is the commonest source from which useful business ideas can be generated. It is a good source if and only if there are no entry barriers. The business that is already in existence is a model that can be copied or modified significantly by ensuring that the product or service is more convenient, less expensive, faster and easier to handle.

(ii) *Personal or other people's human experience:* One's human experience whether pleasant or unpleasant may be use to stimulate a creative response or solution to a problem. For example, many people who buy street food may not be aware of the health hazards of their actions. But the fact that there is such a risk can enable an entrepreneur to come up with the idea of producing a product that does not entail such health risk and promoting it in such a way that consumers will perceive the merit of the new product over the existing ones.

(iii) *Work Experience:* As a result of work experience, aspiring entrepreneurs may become conversant with problems associated with existing products, target market not yet attacked, difficulties experienced by customers, limitations of suppliers, etc. Through work experience, creative solutions to problems may emerge for which potential customers are willing to pay for and in turn yield profit to the entrepreneur.

(iv) *A Hobby:* An activity done regularly in one's leisure time for pleasure, for example, singing, playing football, etc can be converted into a profit yielding venture.

(v) *Franchise:* This is when a license is granted by a government or company to a person or group, allowing him/them to use or sell certain products. This may create opportunity for the individual or group to attack a market that is currently not being served.

(vi) *Vocation:* Possession of vocational skills or professional skills, for example, hairdressing, catering, etc suggests ideas of services that can be rendered.

(vii) *Consultants:* The vast experience and knowledge gained by consultants in the course of seeking solutions to the problems encountered by organizations is a major source of business idea.

(viii) *Joint Effort:* As the saying goes, two good brains work better than one. Two individuals may come together in an attempt to spot business opportunities in the environment. This move may then lead them to forming a partnership.

3.2.1 Some Possible Business Ideas

(i) Baby-sitting service (ii) Baking
(iii) Art and Craft (iv) Bicycle/Auto/Appliance Repair
(v) Catering (vi) Distributing fliers
(vii) Entertaining (viii) Gardening/Lawn cutting
(ix) Handicraft (x) Holiday selling
(xi) House/Office Cleaning (xii) Laundry service
(xiii) Messenger service/Delivery service
(xiv) Music lessons (xv) Painting/Furniture refurbishing
(xvi) Pet care (xvii) Photography
(xviii) Tutoring (xix) Typing services
(xx) T-Shirts (xxi) Thrift and Credit

(Oseghale, 2010: 20)

3.2.2 Conducting a Market Survey

Inegbenebor (2006) opines that a great business idea is not necessarily a good business opportunity An idea has no definite form. To give it form requires the entrepreneur to:

*identify a gap in the market that he/she can fill, understand the characteristics and buying behaviour of the potential customers;

*understand who the competitors are and the nature of the products/services they are offering to the customers; and

*develop a product/service with features that give customers benefits that are different from or better than what competitors have. A business opportunity exists for the entrepreneur if he/she has a product or service to satisfy a clearly defined market need at a satisfactory return to him/her

Market survey or market research is a systematic way of gathering, analyzing and interpreting marketing data that will aid the entrepreneur in making marketing decisions. The information gathered helps the entrepreneur to decide on the nature of product or service that will suit the needs of customers, the target market to be selected and the most appropriate way to position the business relative to competition. Market survey provides answers to two main questions namely: (i) Market Question and (ii) Competition Question

(i) Market Question: Who buys the product or uses the service?

What are the characteristics (age, sex, education, occupation, income, etc.) of potential customers?

What are the benefits that customers expect from using the product or service?

What are their buying habits? For example, frequency of purchase, quantity purchased, reasons for buying or not buying.

Where do they buy at present?

What is the size of the market?

Is the market growing or getting smaller?

(ii) Competition Question

Who are the competitors?

How many are they and where are they found?

What are the major characteristics of competitors?

What are the key features of competitors' product or service?

In what ways are the products/services of competitors deficient in meeting customers' needs? Is there a gap that can be filled?

What are the strong points in favour of competitors' product or services?

The specific objectives of the market survey need to be stated clearly in order to conduct a market survey effectively. The specific objectives of the survey will highlight the type of data that need to be collected thereby saving a lot of time, energy and resources.

Market research data is usually divided into primary or secondary sources. Primary data involve first-hand information through the use of questionnaire, interviews, observation or a combination of these methods. Secondary data is collected from existing records in the organization or from various published sources such as the publications of trade associations, annual reports of companies, official publications of the Central Bank of Nigeria, National Bureau of Statistics, and other regulatory agencies of government.

It is usually difficult or very expensive to examine the entire population of potential customers and competitors. To avoid this problem, a sample must be chosen to be representative of the population of interest. To guarantee the validity and reliability of the data in making decisions, care must be taken in choosing the sample. The idea behind this to ensure objectivity that will guarantee the quality of the data and hence of the decisions based on them.

3.2.3 Marketing

The starting point of marketing is assumed to be at the point of creating the idea of a particular business venture. An entrepreneur's first commitment to his business is the determination of a felt need of a defined customer or consumer. This is done by deliberately judging and evaluating the environment.

Environmental scanning is the process of evaluating the environment with a view to identifying business opportunities. Environmental scanning helps the entrepreneur to identify goods and services that are needed, the extent of the demand, the nature of competition in that market and the chances of taking deep advantages to make the business successful and profitable. Market research is one of the tools of environmental scanning.

Another marketing challenge facing the entrepreneur is the issue of producing and delivering the products or services in the form of quality that will adequately satisfy the taste and desires of the consumer. Therefore, one of the functions of marketing involves making input into the processes of production, packaging and effective delivery of the goods and services to the satisfaction of buyers and consumers. Until these basic requirements are met by the entrepreneur, marketing would become a major problem against business success.

It is possible for an un-informed small business owner to go into the business of producing goods and services without this necessary background market information. Atuma (2012) outline the following marketing issues which should agitate the mind of any entrepreneur:

What goods and services are needed by the society in which the entrepreneur is interested in operating?

What kind of goods are being demanded: industrial or consumer, perishable or durable, retail or wholesale?

What motivates the buyers, consumers or decision makers?

What economic, social, technological, cultural or legal factors determine or affect the demand for the goods and services under consideration by the business?

What market communication platforms are necessary to position the products in the market?

What is the position of the product in the value chain?

How will the image of the business be enhanced by the product?
What level of quality standard is planned for the product?
What will be the most effective distribution channel for the product in the market?
How best will be the goods be packaged for best appeal to buyers, users or consumers?
The analysis of these issues and the adoption of appropriate and rational position about them will constitute what is generally referred to as marketing strategy: a set of decisions and actions designed to achieve market goals and targets. Market strategies drive and direct the actions of the entrepreneur. According to Aluma (2012 pp 174-175), marketing, therefore, for the entrepreneur involves designing actions that would touch on the following:

(i) Product: what to produce, what value will the product convey and bestow to the consumer, what quality is embedded, what size, what standards, what expectation in terms of services, are embedded?

(ii) Price: what is the price to charge? How competitive and quality embedded? How affordable is it considering the status of the buyer or consumer?

(iii)Place: what logistics are needed to make the product available? What are the channels of distribution and the network in place? What delivery arrangements are needed?

(iv) Promotion: what efforts are needed to bring awareness of the product in terms of value, availability, utility in use and ownership? How can incentives be provided for current users and potential consumer? This is related to advertising to enhance sales.

(v) People: who are involved in the whole marketing effort? Are distributors required? Are retailers required? Are agents needed in the marketing effort?

3.2.4 Promotional Mix

This includes advertising, sales promotion, publicity, and personal selling.

Adverting – is a personal form of promotion and involves transmitting standard messages to large numbers of intended receivers.

Sales promotion – involves activities which are essentially used to complement advertising and personal selling. It can be in the form of exhibitions, point – of – sale displays, or demonstrations.

Publicity – is concerned with the presentation of the firm’s image, its products, services or ideas in a favorable light to the public. Publicity is free but although publicity people get paid, they seek to attract public attention to a company and its product without paying media costs.

Personal selling – aims to marry specific products with specific customers on a person – to – person basis to secure ownership transfers

3.3 Consideration for Choosing a Business Opportunity

An entrepreneur that wants to start a business must consider one of these three critical decisions namely: the first is whether to take the plunge at all. The second dwells on the type of business to start and the last is to decide on how to proceed on the new venture in terms of basics such as financing, organization and lifestyle adjustment. However, the second decision which required a choice of the opportunity to exploit to set up is usually by far the most difficult and tasking decisions that an entrepreneur will ever make. A potential business owner can usually identify several business opportunities, each of which is attractive for one reason or the other.

Some of the factors to be considered in choosing a business opportunity are:

(i) **Business Experience:** this is a fundamental ingredient for the success of any business venture. To succeed in the undertaking, the entrepreneur must possess the relevant and appropriate experience required to excel in his/her chosen niche. There exists a wide array of differences in the practices and mode of operation in the different industries in the economy. For instance, there are differences in the purchasing practices, production processes, customer relations practices, ethics and modes of relating with the relevant government agencies. Also the technicalities and concepts used vary from industry to industry. Overcoming these problems will usually be easy for an entrepreneur who has had some years of working experience in the chosen industry.

(ii) **Skills Required for the Successful Operation of the Business:** Every business requires certain skills for successfully running it. Different businesses require different constellation of skills or group of skills. But for each group of skills, there will be one skill which is core and critical for success. The entrepreneur must therefore choose a business for which he/she has the relevant core skills. Though it may be possible to acquire such skills by employing experienced workers, the risk of being cheated and exploited is high if the entrepreneur does not have the relevant skills required.

(iii) **Financial Capability:** Just as it is with every form of business, the financial implications is very important. Funds will be needed to provide the relevant raw materials to be used for production. Furthermore, there will be need to acquire the relevant technology and skills which also borders on finance. Without adequate finance, the entrepreneur is unlikely to succeed in the chosen business.

(iv) **Risk Profile of the Entrepreneur:** The entrepreneurs' tolerance for adventure in a new livelihood is an important component in choosing a business. We all have different risk levels or tolerance levels. Therefore, the entrepreneur must ensure that he/she selects a business within his/her acceptable risk class.

(v) **Support from Friends and Family Members:** Usually many businesses fail because of the inability of the entrepreneur to gain the support and encouragement of their families and friends. The support of family members is particularly crucial in the early stage of the business.

(vi) **The Owners Personal Interest:** If the entrepreneur loves the kind of activities that the business will entail, the easier it is for the business to succeed. At all times, the entrepreneur must ensure that there is no conflict between the chosen business venture and his/her preferred life-style.

(vii) **The Desired Level of Income:** The income expected from the business venture must be adequate to meet the entrepreneurs need for housing, clothing, food, recreation, entertainment etc. While the business owner may accept a reduced standard of living at the initial stage, in the long run, the business must have the potential of providing the desired level of income for the owners.

(viii) **Legal or Regulatory Constraints:** In some cases, the law specifies the minimum professional training and/or experience that is required to operate certain types of businesses. Persons desiring to operate such businesses are required to obtain a license from the appropriate authorities. Examples are pharmacy shops, hospitals and clinics and stock-broking firms (Inegbenebor, 2006:22).

4.0 Conclusion

This unit has attempted to show how opportunity recognition is a key part of the entrepreneurial process. There is also an insight on the distinction between business idea and business opportunity. The factors that entrepreneurs should considered when choosing business opportunity were also highlighted.

5.0 Summary

In summary, the unit highlighted the identification and recognition of business opportunities, clear distinction between business idea and business opportunity as well as factors to be considered in choosing a business opportunity.

6.0 Tutor Marked Assignment

1. Mention and explain the factors you would take into account in choosing a business opportunity to invest in
2. Write short notes on the following:
    - (a) An opportunity
    - (b) A window of opportunity
    - (c) A business idea

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MODULE 2: FEASIBILITY ANALYSIS AND FINANCING OF A BUSINESS

Unit 1: Developing a Feasibility Analysis and Crafting a Business Plan

Table of Contents

1.0 Introduction

This unit is designed to provide an insight into feasibility study/analysis and a business plan, importance of a feasibility study, problems of writing a feasibility study as well as issues involved in a business plan.

2.0 Objectives

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

- define a feasibility study
- discuss the purpose of a feasibility study
- identify problems of writing a feasibility study
- the meaning of a business plan
- benefits of drawing up a business plan
- structure of a typical business plan
- differences between a feasibility report and a business plan

3.0 Main Content

3.1 The Meaning of a Feasibility Study/Analysis

The launching of a business is possible when an entrepreneur comes up with an idea for a new business concept or approach. Most entrepreneurs all over the world do not lack creativity and are responsible for some of the world's most important innovations. However, business success is more than just a great new idea. Once entrepreneurs develop an idea for a business, the next step is to subject it to a feasibility analysis/study to determine whether they can transform the idea into a viable business. Scarborough (2013) defines a feasibility analysis as the process of determining whether or not an entrepreneur's idea is a viable foundation for creating a successful business. Its purpose is to determine whether or not a business idea is worth pursuing. If the idea passes the feasibility analysis, the next step is for the entrepreneur is to build a solid business plan for capitalizing on the idea. The entrepreneur drops the idea if it fails to achieve the set goal and moves on to the next opportunity. The entrepreneur has not wasted valuable time, money, energy, and other resources creating a full-blown business plan, or worse, it does not make sense to launch a business that is destined to fail *abinitio* because it is based on a flawed concept. Most importantly, a feasibility study does not guarantee an idea's success but conducting a study reduces the probability that entrepreneurs will waste their time pursuing fruitless business ventures.

In order to corroborate the above definition, Inegbenebor (2006) defines a feasibility study as the process by which an entrepreneur investigates the potential outcome of a project. It may also be seen as the process of checking out the workability and profitability of the proposed business. Rather than depend on trial and error, the entrepreneur painstaking collects, summarizes and analyses data on the different aspects the business in order to decide objectively whether or not to commit funds to the project. The pains and agony of failure of any business may be avoided by subjecting the business idea to systematic analysis. The usefulness of feasibility study can only be appreciated if the techniques of data collection and analysis are objective, valid and reliable. A feasibility report is a document that outlines the various aspects of the study and the conclusions arrived at. For a feasibility report to be useful, it must be properly organized to convey the needed information in a lucid, but simple manner.

3.2.1 The Purpose of a Feasibility Study

A feasibility study may be used to achieve the following objectives/purposes:

1. It helps to determine the profitability level of the project. Most entrepreneurs want to find out if the project will be worth the effort so as to avoid waste of time and resources.
2. It demonstrates to potential lenders and investors of the existence and size of the market, the liquidity or otherwise of the project. By liquidity, we mean the tendency of the project to generate enough cash to repay the loan and interest. Feasibility study is principally carried out for this purpose.
3. A feasibility study enables the entrepreneur to subject his/her ideas to critical investigation in order to identify flaws in the product or service which may jeopardize the success of the project.

4. A feasibility study also point to the financial and human resources that will be required to operate the business successfully. Inadequate capital or inadequate skills may be responsible for most start up businesses failure especially in developing societies.

3.2.2 Problems of Writing a Feasibility Report

Inegbenebor (2003) identified the following problems in writing a feasibility report:

1. *Paucity of statistical data:* Data is either out-of-date or not available.
2. *Pressure from clients:* Clients may become sentimentally involved in a project to the point that they may want the report to reflect certain of their expectations.
3. *Unethical behavior of consultants:* There are “wait-and-take” consultants who simply adapt existing reports by substituting the names of new clients.
4. *Unwillingness of sponsor to be guided by the feasibility report:* Having used the report to secure a loan, the sponsor may neglect or fails to use the report as a guide in his/her future decisions.

3.3 The Meaning of a Business Plan

Scarborough (2014) defines a business plan as a written summary of an entrepreneur’s proposed business venture, its operational and financial details, its marketing opportunities and strategy, and its managers’ skills and abilities. There is no substitute for a well prepared business plan, and there are no shortcuts to creating one. The business plan becomes a road map that the entrepreneur will follow in building a successful business.

3.3.1 Benefits of a Business Plan

Kuratko (2014) identified the following benefits of drawing up a successful business plan for both the entrepreneur and the financial institutions:

1. It forces the entrepreneur to analyse all aspects of the venture and to prepare an effective strategy to deal with the uncertainties that may arise.

2. The time, effort, research, and discipline needed to put together a formal business plan force the entrepreneur to view the business critically and objectively.
3. The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.
4. The completed business plan provides the entrepreneur with a communication tool for outside financial institutions as well as an operational tool for guiding the business toward success.
5. The business plan provides the details of the market potential and plans for securing a share of that market.
6. Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.
7. The plan identifies critical risks and crucial events with a discussion of contingency plans that provide opportunity for the venture's success.
8. By providing a comprehensive overview of the entire operation, the business plan gives financial sources a clear, concise document that contains the necessary information for a thorough business and financial evaluation.

3.3.2 Contents of a Typical Business Plan

There is no rigid rule as to what a business plan should contain. The type of business and the audience the entrepreneur has in mind in preparing it may determine the business plan format that is adopted. Generally, a business plan contain the following. Mason and Sanyot (2012) identified 9 (nine) items to be included in the contents of a typical business plan. They are:

1. *Executive Summary:* This is the opening chapter of the plan. It usually contains one to three pages in length and highlights all the key points of the plan in a way that captivates the reader's interest. It is the unique value proposition and business model that really matters.

2. *Company description:* This short section describes the company's business, location and site, strategy, structure and form of organization. It provides a summary of its goals and plans for the next five years as well as the company's capabilities.

3. *Products and services:* This explains what products or services the company will sell; it also discusses why customers will want the products or services, what problems the product or service will solve and what benefits they will deliver, and how much customers are likely to pay for them.

4. *Market analysis:* This section discusses the need or demand for the product, who the target customers will be, and why the customers will buy the product. This section also includes a discussion of the company's competitors or potential competitors, and why the product or service will have a competitive advantage over similar offerings from competitors. It also addresses the barriers to entry in this market that may prevent the entry of new competitors, such as high capital costs, difficulty in reaching customers or persuading them to switch loyalties, hard-to-get employee skills etc.

5. *Proprietary position:* This section discusses whether the business enterprise will rely on patents or licenses to patents, this section tells us how these patents will contribute to the company's competitive position and assesses whether other patents (i.e. competitors or otherwise) might limit the company's ability to market its products. If similar products don't already exist, it discusses the alternative means by which customers are likely to meet the needs the product addresses.

6. *Marketing and sales plan:* This section discusses product, pricing, promotion and positioning strategy as well as how the company plans to attract, retain and maintain customers loyalty.

7. *Management team:* Investors consider the management team as the most crucial asset that will determine the company's growth and help respond to the dynamic nature of the environment. It is on this premise that this section describes the members of the management team in terms of their names, qualifications, age, experience and position of members of the management team including the entrepreneur. The purpose of this is to highlight the competencies and skills available to the company to execute its programmes.

8. *Operations plan:* This section describes the day-to-day operation of the business, highlighting how the key assets (tools, processes and labour) will be utilize to produce and deliver the products and services. This section includes the location and site of the business.

9. *Finance:* This section identifies the capital that will be required to build the business and how it will be used. It includes forecasting of revenues and expenditure that show investors how they will get their money back and what return they can expect on their investment.

A business plan is useful only if the different components of it are integrated into a single piece of work. The components are interrelated and the impression must not be created that one component can be written without reference to the others. The success or failure of a business plan is tied to three major elements with which you started the process (a) a good opportunity (including the right timing), (2) the right entrepreneurial team, and (3) the necessary resources and capabilities. A business plan is no substitute for strategy and strong execution.

3.3.3 Differences between a Feasibility study and a Business Plan

S/N	Feasibility Study	Business Plan
1.	The key objective is to ascertain the workability and profitability of a business enterprise	The key objective is to determine the sustainability and growth of the business enterprise
2.	It is carried out before a final decision is made to committing resources to the project.	It is developed only after it has been ascertained that a business opportunity

		exists.
3.	It suggests the broad strategies that may be adopted to achieve profitability	It is more specific in terms of goals, strategies and tactics to be adopted.

Source: Inegbenebor, 2003 (Unpublished lecture note)

4.0 Conclusion

This unit has attempted to define some basic terms or concepts essential to the understanding of a feasibility study and a business plan. There is an insight into the purpose and problems of writing a feasibility study. The benefits of a good business plan as well as what should a business plan contain were also highlighted.

5.0 Summary

In this unit, we made it clear that a feasibility study is not the same thing as a business plan. The process of preparing a business plan enables the entrepreneur to have a deeper understanding of the business, the "environment" in which the business will operate, the opportunities available to it as well as the strengths and weaknesses of the business.

6.0 Tutor-Marked Assignment

1. Explain the benefits of developing a good business plan
2. Describe the contents of a solid business plan
3. Explain the difference(s) between a feasibility study and a business plan
4. List and briefly explain four problems of writing a feasibility report

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Unit 2: Understanding Entrepreneurship

Table of Contents

1.0 Introduction

In this unit an attempt is made to correct many misconceptions about who entrepreneurs are and what motivates them to be able to transform business ideas into business opportunities. The four steps involved in creating an entrepreneurial process was also highlighted. Also, this unit also highlighted the similarities between corporate and start up entrepreneurship, benefits of entrepreneurship as well as potential drawbacks of entrepreneurship.

2.0 Objectives

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

- Explain the five common myths regarding entrepreneurs
- Explain the entrepreneurial process

- Explain any five (5) commonalities and differences each between a start-up and corporate entrepreneurship
- Explain any five benefits and five potential drawbacks each of entrepreneurship.

3.0 Main Content

3.1 Common Myths about Entrepreneurs

Perhaps, one way to make the students appreciate the nature and essence of entrepreneurs is to correct certain wrong notions commonly held about entrepreneurs. Barringer and Ireland (2012) identified five most common myths and the realities about entrepreneurs.

Myth 1:

Entrepreneurs are born, not made. This myth is based on the wrong notion that some people are genetically predisposed to be entrepreneurs. Similar studies carried out on the psychological and sociological make up of entrepreneurs confirmed that entrepreneurs are not genetically different from other people. This means that entrepreneurs are not born and that many individuals have latent potential to fit into the role of entrepreneurs. Such potentials can be actualized through training programmes.

Myth 2:

Entrepreneurs are gamblers. Another wrong notion about entrepreneurs is that they take big risks and are gamblers. The fact is, entrepreneurs usually take moderate and calculated risks. Entrepreneurs are often referred to as gamblers because of two main reasons. First, many entrepreneurs have a strong need to achieve and often set challenging goals, a behaviour that is occasionally equated with risk taking. Second, most entrepreneurs jobs are less structured, and so they face a more uncertain set of possibilities than managers or non-managerial personnel. In a nutshell, entrepreneurs are not gamblers but rather take calculated and moderate risks.

Myth 3:

Entrepreneurs are motivated primary by money. Entrepreneurs go into business as a result of freedom to work for oneself and to pursue personal innovation. It makes sense to say that entrepreneurs go into business in order to seek financial and social rewards of entrepreneurship. It must be emphasized that entrepreneurs have reason for the existence of their businesses (mission statement) which in turn translate into the primary objective of any business (profitability). In a nutshell, money is not often the primary reason entrepreneurs start new businesses and persevere. Some entrepreneurs warn that the pursuit of money can be distracting.

Myth 4:

Entrepreneurs should be young and energetic. Entrepreneurial activity is fairly evenly spread out over age ranges. Barringer and Ireland (2012) believed that the increasing number of older aged entrepreneurs is a big change in the entrepreneurial landscape in developed societies like the United States. Most venture capitalists are ready to fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. The word "strong" in the eyes of an investor is based on a number of factors such as experience in the proposed business, a track record of success, and passion about the business idea. The above four qualities favour aged rather than younger entrepreneurs.

Myth 5:

Entrepreneurs love the spotlight. Majority of entrepreneurs do not like to attract public attention except some that are flamboyant. Many entrepreneurs who are working on proprietary products or services avoid public notice. This go against the myth that entrepreneurs more so than other groups in our society, love the spotlight.

To corroborate the above myths, Nwoye (2011) examines the concept of entrepreneurship myths as follows:

1. Entrepreneurs are made not born

2. All Entrepreneurs are workaholic
3. Entrepreneurship is all about invention
4. Entrepreneur are risk takers
5. All an Entrepreneur is looking for is profit
6. Entrepreneurs are loners and introverts
7. Entrepreneurs are adventurists
8. Entrepreneurs are deceptive individuals
9. Entrepreneurs are academic misfits
10. Entrepreneurship is unstructured and chaotic high-tech wizards.

3.2 The Entrepreneurial Process

The entrepreneurial process indicates that the decision to become an entrepreneur and the development of successful business ideas indicates that sometimes the opportunity to develop an idea may prompt a person to become an entrepreneur.

Barringer and Ireland (2012) identified four steps involved in the entrepreneurial process.

Step 1: Decision to become an Entrepreneur:

To pursue one's own idea and to realize financial rewards may prompt people to become entrepreneurs in order to be their own bosses. For example, as a result of loss of job or unemployment, one may decide that the time is ripe to start one's own business. Or one may have the money to start one's own business as a result of an inheritance. Lifestyle issues may also trigger entrepreneurial careers. For example, a woman may wait until her youngest child is in school before she decides to launch her own business venture.

Step 2: Developing Successful Business Ideas:

The failure of many new businesses is not due to the fact that the entrepreneur is not hardworking but that there was no real opportunity to begin with. Developing a successful business idea includes opportunity recognition, feasibility analysis, writing a business plan, industry analysis, and the development of an effective business model.

Step 3: Moving from an idea to an Entrepreneurial Firm

The first thing an entrepreneur does in order to turn an idea into reality is to prepare a proper ethical and legal framework for the firm, including selecting an appropriate form of business ownership.

Step 4: Managing and Growing an Entrepreneurial Firm

All firms must be managed and grown properly to guarantee their continuous success in today's competitive and dynamic environment. This is the last step of the entrepreneurial process.

3.3 Similarities between Corporate and Start Up Entrepreneurship

Morris, Kuratko and Covin (2011) made the following differences between corporate and start-up entrepreneurship:

1. They both involve opportunity recognition and definition
2. They both require a unique business concept that takes the form of a product, service or process
3. They are both driven by an individual champion who works with a team to bring the concept to fruition.
4. They both require that the entrepreneur be able to balance vision with managerial skill, passion with pragmatism, and proactiveness with patience.
5. They both involve concepts that are most vulnerable in the formative stage, and that require adaptation overtime.
6. They both entail a window of opportunity within which the concept can be successful capitalized upon.
7. They are both predicated on value creation and accountability to a customer.
8. They both find the entrepreneur encountering resistance and obstacles, necessitating both perseverance and an ability to formulate innovative solutions.
9. They both entail risk and require risk management strategies.

10. They both find the entrepreneur needing to develop creative strategies for leveraging resources.

11. They both involve significant ambiguity.

12. They both require harvesting strategies.

3.4 Corporate and Start-Up Entrepreneurship Major Differences

S/N	Start-Up Entrepreneurship	Corporate Entrepreneurship
1.	Entrepreneur takes the risk	Company assumes the risks, other than career-related risk.
2.	Entrepreneur "owns" the concept or innovative idea	Company owns the concept, and typically the intellectual rights surrounding the concept.
3.	Entrepreneur owns all or much of the business.	Entrepreneur may have no equity in the company, or a very small percentage.
4.	Potential rewards for the entrepreneur are theoretically unlimited	Clear limits are placed on the financial rewards entrepreneurs can received.
5.	One misstep can mean failure	More room for errors; company can absorb failure.
6.	Vulnerable to outside influence	More insulated from outside influence
7.	Independence of the entrepreneur, although the successful entrepreneur is typically backed by a strong team.	Interdependence of the champion with many others; may have to share credit with any number of people.
8.	Flexibility in changing course, experimenting, or trying new directions	Rules, procedures and bureaucracy hinder the entrepreneur's ability to maneuver.
9.	Speed of decision making	Longer approval cycles
10.	Little security	Job security
11.	No safety net	Dependable benefit package
12.	Few people to talk to	Extensive network for bouncing around ideas
13.	Limited scale and scope initially	Potential for sizeable scale and scope fairly quickly.

Source: Morris, Kuratko and Covin (2011), Corporate Entrepreneurship and Innovation (3rd Edition), United States: South-Western, 38.

3.5 Benefits of Entrepreneurship

According to Scarborough (2014), the following are the benefits of entrepreneurship

(i) Opportunity to Create Your Own Destiny

Entrepreneurship provides the business owners the independence and the opportunity to achieve what is of immense benefit to them. They want to "call the shots" in their lives, and they use their business to make this a reality come true.

(ii) Opportunity to Make a Difference

Entrepreneurs start businesses due to the fact that they want to make a difference in a cause that is important to them. Social entrepreneurs, for example, are business builders who seek innovative solutions to some of society's most vexing problems. They use their skills not only to create profitable business enterprises but also to achieve social and environmental goals for society as a whole. Their businesses are often characterized to have a triple bottom line which include economic, social, and environmental objectives.

(iii) Opportunity to Reach Your Full Potential

Entrepreneurs do not find their work boring, unchallenging and unexciting. This is because there is no much difference between work and play; to them the two are the same. Their businesses become their weapons for self-expression and self-actualization. To them, the only boundaries on their path to success are those imposed by their own enthusiasm, vision and creativity. They are empowered as a result of their own businesses.

(iv) Opportunity to Reap Impressive Profits

Entrepreneurs are not driven primarily by money, the profits their businesses can make are an important motivating factor in their decisions to launch and build their businesses. A recent research shows that a high percentage of small business owners agree that they are in a better financial position running their own businesses than working for someone else. Most entrepreneurs are wealthy but may not be superrich.

(v) Opportunity to Do What You Enjoy and Have Fun at it

Many entrepreneurs decide to enter their particular business lines because they have an interest in them and enjoy those lines of work. They have made their hobbies(avocations) their work (vocations) and are happy they did!

3.6 The Potential Drawbacks of Entrepreneurship

Anyone who decides to enter the world of business should be aware of its potential drawbacks, despite the fact that owning a business has many benefits and provide a lot of opportunities. Individuals who prefer a steady salary, a comprehensive compensation benefit, a two-week paid holiday, etc. should not go into business for themselves. Scarborough (2014) identified the following as the disadvantages of entrepreneurship:

(i) Uncertainty of Income

Entrepreneurship does not guarantee that the business owners will earn enough money to survive when he or she opens and runs the business. Some small businesses hardly earn enough to provide the owner-manager with an adequate income. In the early days of a business start-up, the business most times cannot provide an attractive income for its owner and meet all its financial obligations, meaning that the business owner may have to live on savings. The steady income that comes with working for someone else is missing because the owner is always the last person to be paid.

(ii) Risk of Losing Your Entire Investment

Financial ruin can be the outcome of a business failure for an entrepreneur, and the rate of failure for the small business is relatively high. Before going into any business, the entrepreneurs should ask themselves if they can cope psychologically with the consequences associated with a business failure:

- What is the worst that could happen if my business fails?
- How likely is the worst to happen? (Am I truly prepared to launch my business?)
- What can I do to lower the risk of my business failing?
- If my business were to fail, what is my contingency plan for coping?

(iii) Long Hours and Hard Work

Business start-ups often demand long hours from their owners. Entrepreneurs do not go for holiday because they are “Too busy”. The demands of owning a business make achieving a balance between work and life hard for entrepreneurs. This is because the nature of your business demands a full-time attention/commitment especially at the early stage of the business life.

(iv) High Levels of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Entrepreneurs often have made huge investments in their businesses, have left behind the safety and security of a steady salary, and have mortgaged everything they own to get into business. Business failure implies that the business is ruin financially and this creates intense levels of stress and anxiety.

(v) Complete Responsibility

It's good to be in charge of the business, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty looking for advisers as well as consultants. When none is available, the pressure can build quickly. They take absolute responsibility for the success or failure of their decisions.

3.7 The Entrepreneur and society's needs

The society is alive. To live many persons in society have needs to be met.

Entrepreneurs watch over society's needs and how they are met.

When there is a need and the means of satisfying, the need is either not available or unaffordable, then it is problem.

Such problems create opportunities for employment generation and wealth creation for Entrepreneurs

In addition to watching out for society's needs, the Entrepreneur should also watch over society's productive resources and make innovative use of it. (Nwoye, 2011: 84)

3.8 The role of ICT in Entrepreneurship

Information and Communication Technology is a tool of communication that have far reaching impact on the performance of economic activities and success of individual firms.

ICT carries with it a great potential for transforming the lives of the citizens by connecting markets, improving access to government services, education and entertainment.

ICT can bring about innovation and establishment of new businesses even in challenging environments in rural settings.

Although ICT has opened new entrepreneurial opportunities in Nigeria, access to and use of it is at the minimal.

There is a gap to bridge between the knowledge and skills the entrepreneurs possess and what is needed in ICT.

With ICT, entrepreneurs can run more efficiently and reach markets that were 'ab initio' out of reach (Nwoye, 2011:233)

We should note that most ICT devices and programmes are based on the ability to read and write and so it is necessary to organize literacy classes for those who lack it and for more sophisticated ICT equipment it would be necessary to get requisite ICT training on how such devices work.

4.0 Conclusion

In this unit attempt, has been made to dispense with many of the myths and misconceptions that surround entrepreneurship. This unit also attempted to discuss the four distinct elements of the entrepreneurial process. This unit also explored the similarities and differences between start-up context and the larger, established corporate entrepreneurship, benefits and potential drawbacks of entrepreneurship.

5.0 Summary

The major things that were discussed in this unit include the five most common myths regarding entrepreneurs; the four steps involved in the entrepreneurial process; as well as the commonalities and differences between a start-up firm and corporate entrepreneurship.

6.0 Tutor-Marked Assignment

1. List and explain the five common myths of entrepreneurship.
2. What are the four distinctive parts of the entrepreneurial process and what is the relationship among the parts?
3. List and explain any five (5) similarities and differences between a start-up and corporate entrepreneurship

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Unit 3: Financing the Start Up Enterprise

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  3.1 Meaning of Entrepreneurial Financing

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5.0 Summary

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7.0 References/Further Reading

1.0 Introduction

In this unit, an attempt has been made on the different ways an entrepreneur can raise fund, what he needs to do to be able to raise fund from financial institutions, what financial institutions look out for in evaluating a loan proposal as well as errors entrepreneurs should avoid a financing a business enterprise.

2.0 Objectives

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

- Explain clearly the term “Entrepreneurial Financing”
- Explain any five (5) sources of finance available to an entrepreneur
- Explain any five (5) reasons why loans may not be granted to an entrepreneur.

- Explain any five (5) pitfalls in financing a business enterprise which the entrepreneur should know
- Explain any five (5) reasons or factors that financial institutions use in evaluating a loan proposal

3.0 Main Content

3.1 Meaning of Entrepreneurial Financing

Financing is believed by entrepreneurs to be the major constraint in starting and operating a business venture of their own. A lot of entrepreneurs get discouraged when they envision the amount of money they would require to start the business of their dreams, given their relatively low money income. Raising seed capital is believed by some potential entrepreneurs to be synonymous with borrowing from financial institutions. This is perhaps the greatest mental blocks of most Nigerian entrepreneurs. On the basis of this assumption, they immediately proceed to the financial institutions only to discover that the financial institutions require that certain procedures should be followed and in any case, the funds are not there just for the asking. They (the entrepreneurs) quickly become frustrated. Some of the entrepreneurs resort to the informal financial market which, though more expensive, does not require a great deal of documentation and elaborate procedures.

Entrepreneurial finance is the study of value and resource allocation, applied to new ventures. It addresses key questions which challenge all entrepreneurs: how much money can and should be raised; when should it be raised and from whom; what is a reasonable valuation of the start-up and how should funding contracts and exit decisions be structured.

In other words, entrepreneurial financing refers to the various ways an entrepreneur can raise funds to run his/her small/medium scale business.

Raising funds requires some basic knowledge and planning from the entrepreneurs. This is to ensure that there is essential funds to run the business and curb any incidence of ill-timed financing, securing the wrong type of loan, miscalculating or underestimating the cost of borrowing.

3.2 Sources of Entrepreneurial Financing

There are several sources from which the entrepreneur can raise funds. Osaze and Anao (1999) suggest that the sources of financing from which entrepreneurs commonly raise funds depend on the stage in the lifecycle of the enterprise.

(i) **Personal Resources:**

This is divided into two parts namely savings or inherited wealth. There is significant evidence in Nigeria and the rest of the world that most entrepreneurs depend on personal savings to start their businesses. The research also showed that as the size of business increases, the proportion of capital accounted for by personal savings declined. Personal resources can be augmented by sale of personal assets. The willingness of an entrepreneur to sell off his or her personal assets in order to raise funds is considered by financial institutions and other stakeholders as the strongest indicator of the entrepreneur's belief and commitment to the success of the business venture. Personal assets such as buildings, cars, plant and machinery, estate etc can be sold in order to raise funds to starting a business.

(ii) **Entrepreneurial Teams:**

Two or more persons may start a business venture as partners and all the partners constitute an entrepreneurial/partnership team. More capital can be raised when a partnership team is formed as a result of the financial contributions of the partners. However, caution must be exercised in selecting co-partners as emphasis must be laid on skills and experience they can contribute to the business.

(iii) **Sales of Shares by Private Placement:**

Incorporated companies can raise fund through the sale of stock or equity to interested stakeholders who are willing to invest on long term basis and become part owners of the business.

The sale of shares in private limited liability company can be arranged by finance houses for a free to their clients.

(iv) **Business Angels:**

These are wealthy individuals who have money and are willing to provide equity fund to an entrepreneur for business start-ups in exchange for equity stakes in the business. They are not partners and as such do not take part directly in the management of the business. They may offer advice from time to time but in most cases, they prefer to remain anonymous.

(v) **Rotating Credit Scheme/Osusu/Money Lenders:**

These are informal institutions that provide small loans to owners of small and medium scale enterprises (SMEs). They are commonly found in Nigeria and other developing countries. The entrepreneur can be a member of this group popularly called Osusu/Esusu to raise funds. Rotating credit scheme can be a popular and convenient source as they do not demand collateral other than personal guarantors (in case of huge amount of money). However, to benefit from such a scheme, you must be a member of the saving scheme.

(vi) **Cooperative Societies:**

This is another way of raising relatively large amount of money to starting a business. Many people are able to save gradually and to obtain loans to starting their own businesses, by becoming a member of the savings and loans cooperative societies.

(vii) **Loans from Family, Friends and Relations:**

Entrepreneurs in Nigeria and other developing countries usually depend on family members, friends and relations to provide them with the needed funds in order to start their businesses. Osaze (1981) however believes that the use of family members, friends and relations as a source of start-up capital creates obligations on the part of the entrepreneur to also assist family members when his/her business succeeds. One of the conditions for the would-be entrepreneur to access the fund is, if he or she has the pre-requisite skills and experience to manage the new business successfully.

(viii) **Trade Credit and Accruals:**

Trade credits are created when the new business enterprise buys raw materials, supplies and other component parts meant for production or resale on credit terms with or without signing any formal agreement for the debt. Trade credit is an interest free source of funds for the length of the credit period.

Accruals refer to trade credit on an intangible goods or services. The ability of an entrepreneur to secure credits from suppliers or down payment by customers depend largely on the creditors perception of the credit rating of the entrepreneur.

3.3 Reasons why Loans may not be Granted to an Entrepreneur

With respect to the nature and behaviour of entrepreneurs, it is often suggested that their inability to source funds from financial institutions is due to:

(i) Lack of knowledge of the roles of the different financial institutions and the scope of services they provide.

(ii) Lack of skill in presenting their proposals and business plans to the financial institution.

(iii) Inadequate financial commitment on the part of the entrepreneur to the project.

(iv) Lack of adequate collateral securities that will guarantee the repayment of the loan.

(v) Poor accounting records which make it difficult to ascertain the true financial position of the firm.

(vi) Inadequate lead time between when the entrepreneurs need the money when the requisition is made to the financial institution and the time required by the financial institutions to process the request.

(vii) Poor quality of business plans and feasibility study on the part of entrepreneurs are the factor inhibiting their access to loans.

3.4 Considerations of Financial Institutions in Evaluating a Loan Proposal

Inegbenebor (2003) outline the following factors which financial institutions will always consider when evaluating entrepreneurs loan proposal.

(i) The purpose for which the entrepreneur wants the bank finance: The purpose for which the loan is needed will enable the financial institutions to determine whether the request is consistent with their area and scope of operations, since all financial institutions have areas of interest when granting credit facilities.

(ii) The amount required. The purpose here is to ensure that the amount required is adequate. It should neither be too small nor too big for the purpose for which it is required.

(iii) The entrepreneur's stake in the business. This is an indication of the entrepreneur's commitment to the business. It represents the capacity of the entrepreneur and the level of risk that the entrepreneur is prepared to assume in the business. The aim of financial institutions is to minimize the level of their risk exposure and as such the higher the proportion of equity in the capital structure the lower the risk of the financial institutions and the more willing they are to lend and vice versa.

(iv) Source of repayment of the loan. The financial institutions want to be doubly sure that the entrepreneur will be able to repay back both the principal and interest within the specified period of the loan considering the entrepreneur's past earnings and projected future cash inflow of the business.

(v) Management capacity available to the enterprise. Sustainability and growth of the business enterprise depends on the quality of management of the enterprise. In this light, the financial institutions assess the abilities of the management team in terms of their capabilities and competence of the enterprise by evaluating their drive, track record, qualifications and experience in managing the type of business proposed.

(vi) The character of the entrepreneur. The honesty and integrity of the entrepreneur raises the level of confidence of the financial institutions whether the new business enterprise would be operated purposefully and profitably and that the loans will be repaid with interest within the specified period. This character can be ascertained through the entrepreneur's past dealings with the financial institutions.

(vii)Collateral security. This is a means of protecting the interest of the financial institution in the event of failure to repay the loan and accruing interest. Generally, the collateral securities acceptable to financial institutions include:

- Title to land and buildings such as a certificate of occupancy duly registered with government or its agencies.
- Marketable securities such as stocks and shares of quoted companies, treasury bills and bonds.
- Life assurance policy.
- Guarantees from other financial institutions, corporate bodies and reputable individuals.
- Other investments such as savings or deposit accounts with a reputable bank that can be pledged.
- Domiciliation of payment. This is a method whereby the proceeds from the business is paid into a designated account in the bank. This increases the confidence level of the bank and assures it that its funds can be recovered/safe.
- Warehousing. This is a system whereby the goods produced by the business enterprise are kept in a warehouse controlled by the bank. By this arrangement, the bank is able to monitor the sales of the company goods and to ensure that payments due to it are made regularly.

3.5 Pitfalls in Financing a Business Enterprise which the Entrepreneurs should know

Inegbenebor(2003) identified the following pitfalls which the entrepreneur should avoid

(a) Using short term funds to finance fixed assets. This is a situation whereby the entrepreneur uses short term fund to finance fixed assets such as land and building, plant and machinery, motor vehicle etc. This is an error because the entrepreneur puts a square peg in a round hole. It should be avoided.

(b) Failure to utilize the services of a good accountant or failure to heed to the advice of an accountant.

(c) Inadequate capitalization

(d) Early diversification into other business activities

(e) Withdrawal of funds from the business to meet the over increasing social and family commitments.

(f) Over trading

4.0 Conclusion

In this unit, attempt was made on the different ways entrepreneur can raise funds, reasons why loans may not be granted to some entrepreneurs, factors which enable financial institutions to evaluate a loan proposal as well as errors in financing a business enterprise which the entrepreneur should know in order to avoid them.

5.0. Summary

The major highlight of the unit are ways the entrepreneur can raise funds, how he can control the funds, how he can successfully evaluate his project and the institutions he needs to be conversant with to be able to expand his business.

6.0 Tutor- Marked Assignment

(a) List and briefly explain any five (5) different sources from which the entrepreneur can raise fund.

(b) List and briefly explain any five (5) reasons why loans may not be granted by some financial institutions to entrepreneurs.

(c) Explain any five (5) factors that financial institutions would want to take into consideration in evaluating a loan proposal.

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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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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 Conclusion

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?

3. How 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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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.

3.1.2 Government ; This is concerned with the pursuit and exercise of power- the power to make decisions which affect the lives of substantial numbers of people, be it at local, state, national or even international level. Government may also refer the institutions through which power tends to be formally and legitimately exercised, whether they are cabinets, parliaments, councils, committees or congresses. Whereas the pursuit and exercise of power tends to be enduring feature of any society, governments are normally transitory, comprising those individuals and/or groups who, at a particular time, have the responsibility for controlling the state, including making laws for the good of society. How governments exercise their power and the ideological foundations on which this is based, helps to indicate the nature of the political system and its likely approaches to the resolution of conflicts, (Worthington and Britton 2009).

3.1.3 Types of political systems

We can distinguish two main political systems which are the authoritarian system and the political system. However in between these two, there could be other dimensions.

3.1.4 Authoritarian political systems

The authoritarian political system could be an individual (e.g. a monarch or other powerful individual) or a group of individuals (e.g. a political party or military junta) who may have assumed political power in a variety of ways (e.g. by birth, election or coup). Once in power, the individual or group will tend to act so as to limit the degree of participation by others in the process of decision making, even to the extent of monopolizing the process altogether and permitting no opposition to occur. Where this is the case, a society is often described as being 'totalitarian.'

3.2. Democratic political systems

In a democratic political system, it is assumed that as far as possible conflicts should be resolved by rational discussions between the various parties concerned, with the final solution being accepted voluntarily by all participants, even if they disagree. In democratic setting solution to conflict resolution can be achieved through a system of political representation and responsibility. In a political system, the wishes and views of individuals are represented in established authorities that are chosen by the people at regular intervals through elections. Such representatives are accountable to the people they represent. According to Worthington & Britton (2009), democracy means far more than just popular government or a system of regular elections, the democratic approach to government implies the existence of a complex array of institutions and processes through which the wishes of the people are articulated and carried out. Although the specific institutional arrangements tend to vary between states, however there are four common components inherit in any democratic government which are an electoral system, a party system, a representative system and a pressure group. These are discussed below.

3.2.1 The electoral system

The electoral system is responsible for organizing elections in the country. Thus it is through the electoral system that the people (the electorate) are linked to government through elections. Election gives the electorate the power to choose those who will represent them in the government. For an electoral system to be effective and operate in a way that will be regarded as democratic, Worthington & Britton (2009) suggest that a country's electoral system should exhibit the following features;

- a system of regular elections (e.g. every four to five years) based on universal adult suffrage. In Nigeria, presently elections are held for every four years.
- Basic freedoms of speech, movement, assembly, etc
- Freedom from coercion and absence of illegal electoral practices;
- A secret ballot;
- Free media.

These conditions are necessary for a proper functioning of the electoral system. If they are absent, then the system becomes suspicion that the electoral outcome may not reflect the wishes of the people. Clearly, the electoral system must be transparent. Each vote must count and the wishes of the majority as expressed through the number of votes cast are considered as the final result. In Nigeria, for example, a simple majority is usually sufficient to ensure victory.

3.2.2 The party system

In a true democratic dispensation, the system operates through the party system. Candidates are presented to the electorates through political parties. Although it is also possible to have a one party system, but in most countries like Nigeria, USA, and Britain to mention just a few, different political parties are organized and the candidates are elected through the political parties. In the present Nigeria, there are various political parties e.g. PDP, APC, APGA among others which present their candidates for elections into different political offices at the local areas, state and the federal levels. The parties first of all choose their candidates and present them to the electorates for election into various offices. Thus the candidates from different political parties compete for offices during election times.

One of the major benefits of the party system is that it provides a means of selecting political leaders and the kind of policies they would pursue if they win the election. Parties usually use label such as plants, animals, buildings, and other items to describe their parties to the electorates during election times in order voters to recognize their candidates and vote for them. In Nigeria some parties use coin, hen, and umbrella among others to describe their parties to the electorates. In order to convince the electorate, parties usually have an identifiable policy statement (party manifesto) which states what the party stands to achieve or belief in and attempts to achieve if it gains political office. However it should be noted that party manifestos are not always a good guide to determine preferences of individual candidates. What matters in most cases is the individuals' credentials and previous achievements.

3.2.3 A representative assembly

An important feature of a democratic government is the existence of a representative decision-making body which consists of a group of individuals chosen by a country's citizens to help make important decisions on their behalf. In Nigeria which operates a federal system of government, we have such representatives at the local government areas, the states and the national levels. Voters not only elect their own national government but also choose decision makers at the state and local levels.

In most federal system of government as practiced by Nigeria, U.S.A and Britain to mention just a few, the legitimate power to make decisions is divided between two or three levels of government, (the national, state and local levels). Each of these levels of government has independent powers that are usually laid down in written constitution which is interpreted by the courts. For example in Nigeria the federal government controls arm forces and foreign affairs, while the state controls education in its state level. However in contrast, under a unitary system of government, authority ultimately rests with the national government and any powers granted to sub-national levels by central sovereign authority can ultimately be rescinded, including the right of government at sub-national level to exist, (Worthington and Britton 2009). Thus the government at national level clearly holds the whip hand and would normally expect its view to prevail where a dispute over an issue or policy occurred between it and a sub-national authority. It should be noted that decision makers in democratic states at all levels and under different government systems have on the whole, a tendency to settle such conflicts through negotiation, bargaining and compromise rather than by exerting their own power and authority although this might be used on occasions.

3.3 Functions of government

There are three major branches or functions of government. These branches or functions of government are discussed below.

3.3.1 The executive function

Governing is not only about making decisions; it is also about ensuring that these decisions are put into effect in order to achieve the government's objectives. Implementing governmental decisions is the responsibility of the executive branch of government.

In modern states the term 'the executive' refer that relatively small group of individuals chosen to decide on policy and oversee its Implementation; some of these individuals will hold political office, others will be career administrators and advisers, although some of the latter may also be political appointees. Together they are part of a complex political and administrative structure designed to carry out the essential work of government and to ensure that those responsible for policy making and implementation are ultimately accountable for their actions.

The policy-making aspect of the executive function is normally the responsibility of a small political executive chosen (wholly or in part) by popular election. Under a presidential system of government, the chief executive or President is usually chosen by separate election for a given period of office and becomes both the nominal and political head of state. He/she subsequently appoints individuals to head the various government departments/ministries which are responsible for shaping and implementing government policies. Neither the president nor the heads of departments normally sit in the legislative assembly, although there are sometimes exceptions to this rule (e.g. the Vice-President in the United States).

In contrast, in a parliamentary system the roles of head of state and head of gov- ernment are separated, with the former usually largely ceremonial and carried out by either a president (e.g. Germany, India) or a monarch (e.g. UK, Japan). The head of government (e.g. Prime Minister), while officially appointed by the head of state, is an elected politician, invariably the head of the party victorious in a general election or at least seen to be capable of forming a government, possibly in coalition with other parties. Once appointed, the head of government chooses other individuals to head the different government departments/ministries and to be part of a collective decision- making body (e.g. a Cabinet) which meets to sanction policy proposals put forward through a system of executive committees and subcommittees (e.g. Cabinet Committees). These individuals, along with the head of government, are not only part of the executive machinery of the state but also usually members of the legislative assembly and both 'individually' and 'collectively' responsible to the legislature for the work of government.

The day-to-day administration of government policy is largely carried out by non- elected government officials (sometimes referred to as civil servants or bureaucrats) who work for the most part in complex, bureaucratic organisations within the state bureaucracy. Apart from their role in implementing public policy, government officials help to advise ministers on the different policy options and on the political and administrative aspects of particular courses of action. Needless to say, this gives them a potentially critical role in shaping government policy, a role which has been substantially enhanced over the years by the practice of granting officials a significant degree of discretion in deciding on the details of particular policies and/or on how they should be administered.

Whereas politicians in the executive branch of government tend to be transitory figures- who come and go at the whim of the head of government or of the electorate- most, if not all, officials are permanent, professional appointees who may serve a variety of governments of different political complexions and preferences during a long career in public administration. Whatever government is in power, officials are generally expected to operate in a non-partisan (i.e. neutral) way when advising their political masters and when overseeing the implementation of government policy. Their loyalty in short is to the current administration in office, a principle which helps to ensure a smooth transition of government and to guarantee that the upheaval caused by a general election does not prevent the business of the state from being carried out as usual.

3.3.2 The Judicial function

Governing is not just about making and implementing laws; it is also about ensuring that they are applied and enforced. The latter is essentially the role of the third arm of government, namely the judiciary and the system of courts. Like political institutions, legal structures and processes tend to a degree to be country specific and vary according to a number of influences including history, culture and politics. For example, while some states have a relatively unified legal system, others organised on a federal basis usually have a system of parallel courts adjudicating on federal and state/provincial law, with a Supreme Court arbitrating in the event of a dispute. In some countries a proportion of the judges may be directly or indirectly elected by the public, in others they may be appointed by government and/or co-opted by fellow judges. Business student should make themselves familiar with the legal arrangements within their own country which contains information on the legal system in-England and Wales). In this section we look briefly at the judicial function as related the concept of democracy.

Whereas in totalitarian systems of government the judiciary is essentially the servant of the ruling elite (e.g. the 'party'), in a democracy it is an accepted principle that there should be a separation between the judicial function and the other two branches of government in order to protect the citizen from a too powerful state. This notion of an impartial and independent judiciary, free to challenge the government and to review its decisions, is regarded as one of the hallmarks of a democratic system of government, a further manifestation of the doctrine of the separation of powers.

In practice of course, notions of judicial independence and role within the democratic political process tend to be the subject of certain amount of debate, particularly in countries where senior appointments to the judiciary appear to be in the gift of politicians (e.g. Supreme Court judges in the United States are nominated by the President with the consent of the Senate) or where individuals with judicial powers also have an executive and/or legislative role (e.g. the Home Secretary in Britain) Equally there are questions over the degree to which the courts should have the power to review the constitutionality of decisions made by a democratically elected government. In the United States, for example, the Supreme Court has a long- established right to declare a law void if it conflicts with its own interpretation of the American constitution. In contrast in Britain, the legal sovereignty of Parliament and the absence of a codified written constitution push the judiciary towards trying to interpret the intentions of the framers of government legislation and any legal decision unwelcomed by the government can be reversed by further legislation. That said, it is interesting to note that in recent years there has been an increased willingness on the part of the British judiciary to review administrative decisions, particularly those made by ministers.(Worthington, and Britton. 2009)

Other aspects, too, call into question how far in modern democratic states there is a total separation between the different arms of government (e.g. increasing use of administrative courts/tribunals) and whether it makes sense to rigidly distinguish between rule making and rule adjudication. Certainly some of the past judgments by the United States Supreme Court (e.g. in the area of civil rights) demonstrate that the courts can be influential in shaping decisions on major issues of policy and suggest that the judiciary are susceptible to influences from their ova& values or to general societal pressures. In short it seems fair to suggest that under current legal arrangements, legal adjudication is not far removed from the world of politics; arguably we may like to perpetuate the myth of an entirely separate and independent judiciary since this is a necessary aspect of the stability of many existing political systems.

3.3. 4 Checks and balances in democracies

As will be evident from the analysis above democracy implies the existence of a system of checks and balances, arrangements which serve to curb government action and restrict its influence on the day-to-day lives of its citizens. These restraints on the actions of the state at national level can be divided into two main types: political and social/economic.

Political checks and balances emanate primarily from three main sources:

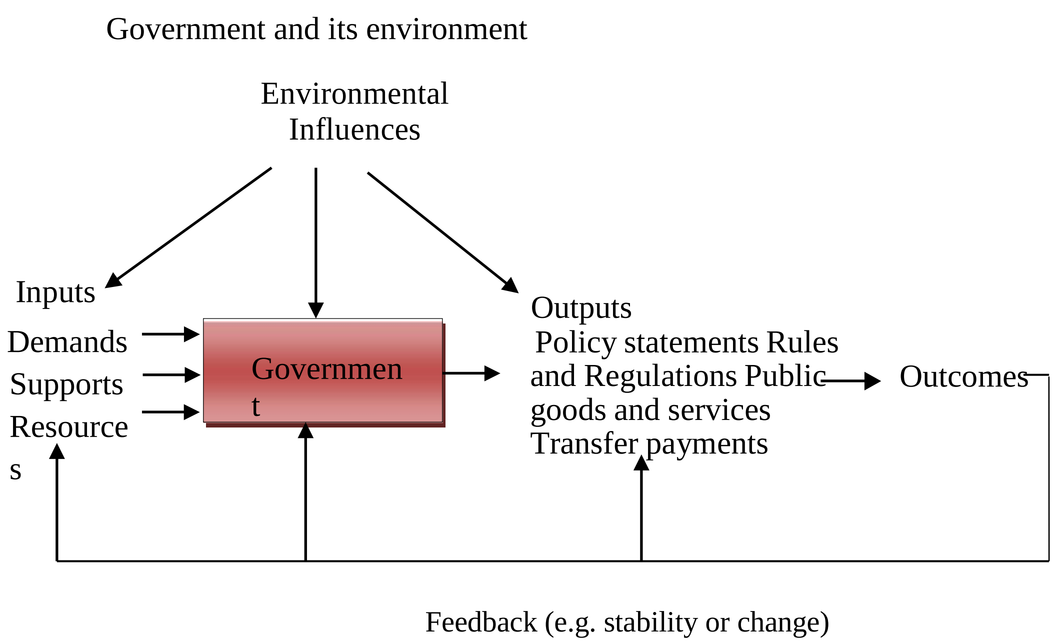
- the separation of powers - particularly the notion that the three arms of govern ment are in separate hands and that decisions require the concurrence of all branches of government;
- a bicameral legislature - with legislation having to be accepted by both houses and subject to scrutiny and amendment by opposition parties;
- the territorial division of powers - whether under a federal arrangement or through the devolution of power to regional bodies and/or local authorities. Supranationalism is a further development.

The point is not that these arrangements necessarily exist in their most complete form in democratic states, but that - however imperfect in practice - their existence helps to provide time for reflection and delay in the decision-making process and to encourage consultation, negotiation and consensus building, the essence of the democratic approach to conflict resolution.

The notion of social and economic checks and balances refers to those countervailing pressures on the activities of the state and its agencies that derive from the existence of non-state structures and processes which affect the lives of individuals and which ultimately restrict the scope of government influence. These include private business organisations, proffessional associations, promotional bodies, churches and other groups which help to shape our economic, social and moral environment. As subsequent chapters will demonstrate, the bulk of economic decisions in democratic states are not taken by the government but by private individuals and organisations (i.e. firms) interacting through a market system. This acts as a kind of check and balance on the free activity of the public sector and is a fundamental characteristic of democratic government.

It is appropriate to conclude this examination of the political environment with a brief discussion of the process of governmental decision making in democratic systems. Here, the basic model of the organisation in its environment introduced in module 1 serves as a useful analytical tool (see Figure 4.). Governments, like firms, are organisations which transform inputs into output and they do so in an environment largely the same as that which confronts other types of enterprise. Like other organisations, government is a user of resources, especially land, labour, capital, finance and expertise, but in addition all governments face political demands and supports when considering their policy options.

Figure 4. A model of the policy process



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

As indicated above, political demands - including those directly or indirectly impinging on business activity - become translated into action through a variety of mechanisms, including the electoral system, party activity, pressure group influence and political communication; hence a government is always keen to point out that electoral victory implies that it has a mandate for its policies. The supports of the political system are those customs, conventions, rules, assumptions and sentiments which provide a basis for the existence of the political community and its constituent parts and thus give legitimacy to the actions and existence of the incumbent government. In democratic systems, the belief in democratic principles, and the doctrines and practices emanating from that belief, are seen as central to the activities of government and its agencies.

The outputs of the political system vary considerably and range from public goods and services (e.g. healthcare) - provided predominantly from money raised through taxation - to rules and regulations (e.g. legislation, administrative procedures, directives) and transfer payments (i.e. where the government acts as a allocator of resources, as in the case of the provision of state benefits). Taken together, the nature, range and extent of government output not only tend to make government the single biggest business in a state, they also, influence the environment in which other businesses operate and increasingly in which other governments make decisions.

As far as governmental decision-making is concerned, this is clearly a highly complex process which in practice does not replicate the simple sequence of events suggested by the model. Certainly governments requite 'means' (inputs) to achieve 'ends' (output), but the outputs of the political system normally only emerge after a complex, varied and ongoing process involving a wide range of individuals, groups and agencies. To add further confusion, those involved in the process tend to vary according to the decision under discussion as well as over time, making analysis fraught with difficulties. One possible solution may be to distinguish between the early development of a policy proposal (‘initiation') and its subsequent 'formulation' and 'implementation', in the hope that a discernible 'policy community' can be identified at each stage. But even this approach involves a degree of guesswork and arbitrary decision-making, not least because of the difficulty of distinguishing precisely between the different stages of policy-making and of discerning the influ- ence of individuals and groups at each phase of the process.

Notwithstanding these difficulties, it is important for students of business and for businesses themselves to have some understanding of the structure of decision-making and of the underlying values and beliefs which tend to shape governmental action, if they are to appreciate (and possibly influence) the political environment in which they exist. In short, studies of political systems, institutions and processes help to provide insight into how and why government decisions are made, who is important in shaping those decisions and how influence can be brought to bear on the decision making process. As an increasing number of individuals and groups recognise, knowledge of this kind can prove a valuable organisational resource that on occasions is of no less significance than the other inputs into the productive process.

4.0 Conclusion

From the discussions above, it is clear that the actions and decisions of government affect business operations. It is imperative for managers and students to understand the workings of government and how decisions thereof affect business. Equally, effective strategies should be developed to influence, anticipate and adapt to these decisions.

5.0 Summary

In this section, we have discussed the nature and importance of the political function and how it affects business organizations. We saw that the political system consists of

the legislative organ which makes the law. The executive function implements the law and the judiciary function is concerned with the interpretation, application and enforcement of the law. These organs make, enforce and implement decisions that could affect business organizations positively or negatively.

6.0 Self-Assessment Questions

1 Explain the concept of Political System.

2 List the three main functions of Government and explain how each affect Business

3 Discuss how the Political Environment affects Business

7.0 Tutor Marked Assignment

How does the political system influence Business organizations?

8.0 References and Further Reading

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Unit 4: The Legal Environment

Table of Contents

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 Content

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 recognised 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 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.

The centrally planned economy

In this type of economic system - associated with the post - Second World War socialist economies of Eastern Europe, China, Cuba and elsewhere - most of the key decisions on production are taken by a central planning authority, normally the state and its agencies. Under this arrangement, the state typically:

- owns and/or controls the main economic resources;
- establishes priorities in the use of those resources;
- sets output targets for businesses which are largely under state ownership and/or control;
- directs resources in an effort to achieve these predetermined targets; and
- seeks to co-ordinate production in such a way as to ensure consistency between output and input demands.

The fact that an economy is centrally planned does not necessarily imply that all economic decisions are taken at central level; in many cases decision making may be devolved to subordinate agencies, including local committees and enterprises. Ultimately, however, these agencies are responsible to the centre and it is the latter which retains overall control of the economy and directs the use of scarce productive resources.

The problem of coordinating inputs and output in a modern planned economy is, of course, a daunting task and one which invariably involves an array of state planners and a central plan or blueprint normally covering a number of years (e.g. a five-year plan). Under such a plan, the state planners would establish annual output targets for each sector of the economy and for each enterprise within the sector and would identify the inputs of materials, labour and capital needed to achieve the set targets and would allocate resources accordingly. Given that the outputs of some industries (e.g. agricultural machinery) are the inputs of others (e.g. collective farms), it is not difficult to see how the overall effectiveness of the plan would depend in part on a high degree of co-operation and co-ordination between sectors and enterprises, as well as on good judgment, good decisions and a considerable element of good luck. The available evidence from planned economies suggests that none of these can be taken for granted and each is often in short supply.

Even in the most centralized economies, state planning does not normally extend to telling individuals what they must buy in shops or how to use their labour, although an element of state direction at times may exist (e.g. conscription of the armed forces). Instead, it tends to condition what is available for purchase and the prices at which exchange takes place, and both of these are essentially the outcome of political choices, rather than a reflection of consumer demands. All too often consumers tend to be faced by queues and 'black markets' for some consumer products and overproduction of others, as state enterprises strive to meet targets frequently unrelated to the needs and wants of consumers. By the same token, businesses which make losses do not have to close down, as the state would normally make additional funds available to cover any difference between sales revenue and costs. This being the case, the emphasis at firm level tends to be more on meeting targets than on achieving efficiency in the use of resources and hence a considerable degree of duplication and wastage tends to occur.

In such an environment, the traditional entrepreneurial skills of efficient resource management, price setting and risk taking have little, if any, scope for development and managers behave essentially as technicians and bureaucrats, administering decisions largely made elsewhere. Firms, in effect, are mainly servants of the state and their activities are conditioned by social and political considerations, rather than by the needs of the market - although some market activity normally occurs in planned economies (especially in agriculture and a number of private services). Accordingly, businesses and their employees are not fully sensitised to the needs of the consumer and as a result quality and choice (where it exists) may suffer, particularly where incentives to improved efficiency and performance are negligible. Equally, the system tends to encourage bribery and corruption and the development of a substantial black market, with differences in income, status and political influence being an important determinant of individual consumption and of living standards.

The free-market economy

The free-market (or capitalist) economy stands in direct contrast to the centrally planned system. Whereas in the latter the state controls most economic decisions, in the former the key economic agencies are private individuals (sometimes called 'households') and firms, and these interact in free markets, through a system of prices, to determine the allocation of resources.

The key features of this type of economic system are as follows:

- Resources are in private ownership and the individuals owning them are free to use them as they wish.
- Firms, also in private ownership, are equally able to make decisions on production, free from state interference.
- No blueprint (or master plan) exists to direct production and consumption.
- Decisions on resource allocation are the result of a decentralised system of

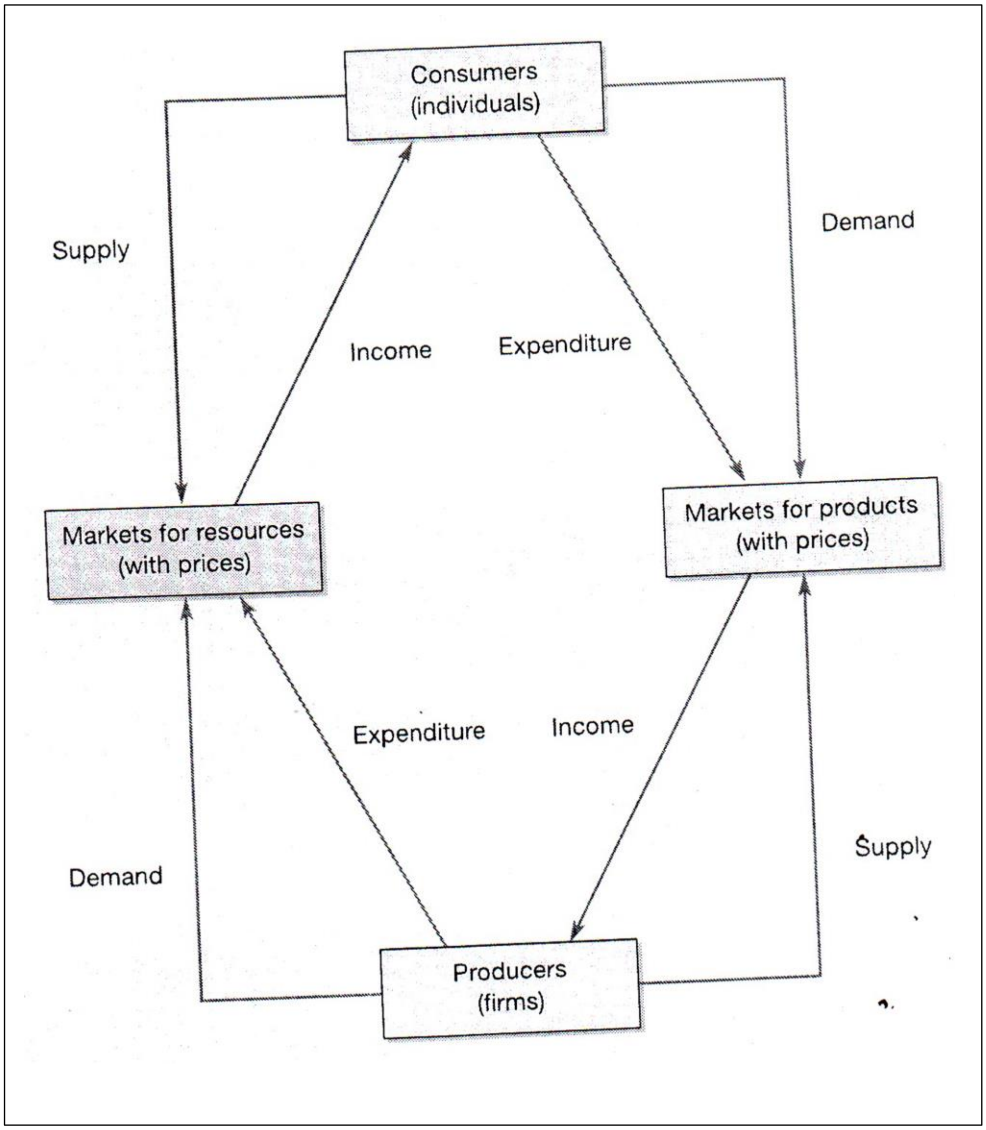
markets and prices, in which the decisions of millions of consumers and hundreds of thousands of firms are automatically co-ordinated.

- The consumer is sovereign, i.e. dictates the pattern of supply and hence the pat- tern of resource allocation.

In short, the three problems of what to produce, how to produce and how to distribute are solved by market forces.

The diagram below illustrates the basic operation of a market economy. In essence, individuals are owners of resources (e.g. labour) and consumers of products; firms are users of resources and producers of products. What products are produced - and hence how resources are used - depends on consumers, who indicate their demands by purchasing (i.e. paying the price) or not purchasing, and this acts as a signal to producers to acquire the resources necessary (i.e. pay the price) to meet the preferences of consumers. If consumer demands change, for whatever reason, this will cause an automatic reallocation of resources, as firms respond to the new market conditions. Equally, competition between producers seeking to gain or retain customers is said to guarantee that resources are used efficiently and to ensure that the most appropriate production methods (i.e. how to produce) are employed in the pursuit of profits.

The Market Economy



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

The distribution of output is also determined by market forces, in this case operating in the markets for productive services. Individuals supplying a resource (e.g. labour) receive an income (i.e. a price) from the firms using that resource and this allows them to purchase goods and services in the markets for products, which in turn provides an income for firms that can be spent on the purchase of further resources. Should the demand for a particular type of productive resource increase - say, as a result of an increase in the demand for the product produced by that resource - the price paid to the provider of the resource will tend to rise and hence, other things being equal, allow more output to be purchased. Concomitantly, it is also likely to result in a shift of resources from uses which are relatively less lucrative to those which are relatively more rewarding.

In practice, of course, no economy operates entirely in the manner suggested above; firms after all are influenced by costs and supply decisions as well as by demand and generally seek to shape that demand, as well as simply responding to it. Nor for that matter is a market-based economy devoid of government involvement in the process of resource allocation, as evidenced by the existence of a public sector responsible for substantial levels of consumption and output and for helping to shape the conditions under which the private sector operates. In short, any study of the market economy needs to incorporate the role of government and to examine, in particular, its influence on the activities of both firms and households.

3.2 The Macroeconomic Levels of analysis

Economics is concerned with the study of how society deals with the problem of scarcity and the resultant problems of what to produce, how to produce and how to distribute. Within this broad framework the economist typically distinguishes between two types of analysis:

1. Microeconomic analysis, which is concerned with the study of economic decision taking by both individuals and firms.
2. Macroeconomic analysis, which is concerned with interactions in the economy as a whole (i.e. with economic aggregates).

The microeconomic approach is exemplified by the analysis of markets and prices which shows, for example, how individual consumers in the market for beer might be affected by a price change. This analysis could be extended to an investigation of how the total market might respond to a movement in the price, or how a firm's (or market's) decisions on supply are affected by changes in wage rates or production techniques or some other factor. Note that in these examples, the focus of attention is on decision-taking by individuals and firms in a single industry, while interactions between this industry and the rest of the economy are ignored: in short, this is what economists call a 'partial analysis'.

In reality, of course, all sectors of the economy are interrelated to some degree. A pay award, for example, in the beer industry (or in a single firm) may set a new pay norm that workers in other industries take up and these pay increases may subsequently influence employment, production and consumer demand in the economy as a whole, which could also have repercussions on the demand for beer. Sometimes such repercussions may be relatively minor and so effectively can be ignored. In such situations the basic microeconomic approach remains valid.

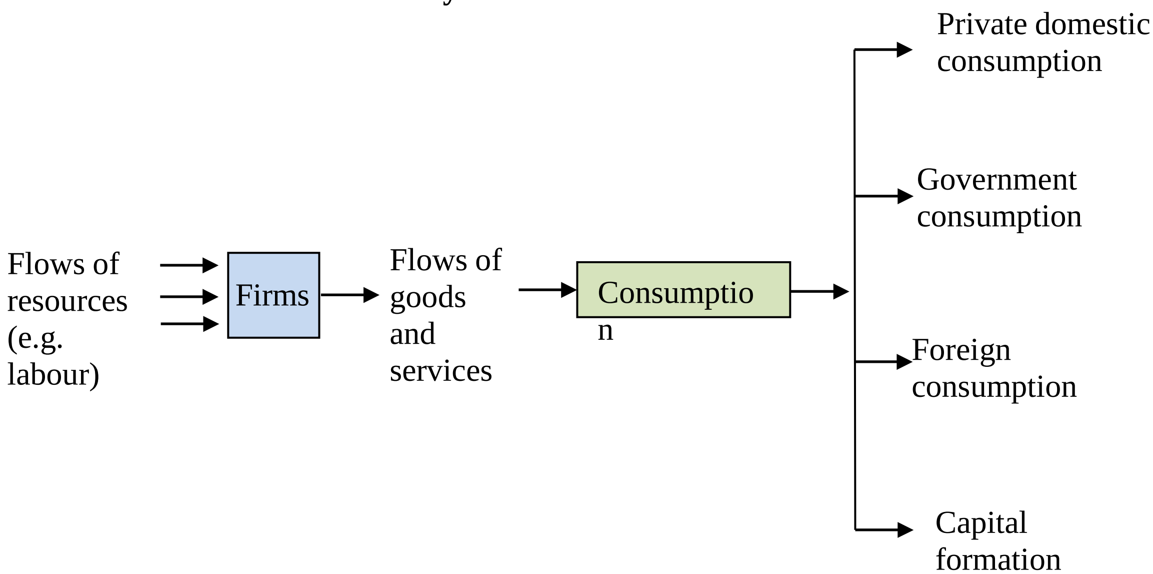
In contrast, macroeconomics recognises the interdependent nature markets and studies the interaction in the economy as a whole, dealing with such questions as the overall level of employment, the rate of inflation, the percentage growth of output in the economy and many other economy-wide aggregates - exemplified, for instance, by the analysis of international trade and by the macroeconomic model. It should be pointed out, however, that while the distinction between the micro and macro approaches remains useful for analytical purposes, in many instances the two become intertwined.

The 'Flows' of Economic Activity

Economic activity can be portrayed as a flow of economic resources into firms (i.e. productive organisations), which are used to produce output for consumption, and a corresponding flow of payments from firms to the providers of those resources, who use them primarily to purchase the goods and services produced. These flows of income and expenditure accordingly represent the fundamental activities of an economy at work. The Figure below illustrates the flow of resources and of goods and services in the economy - what economists describe as real flows.

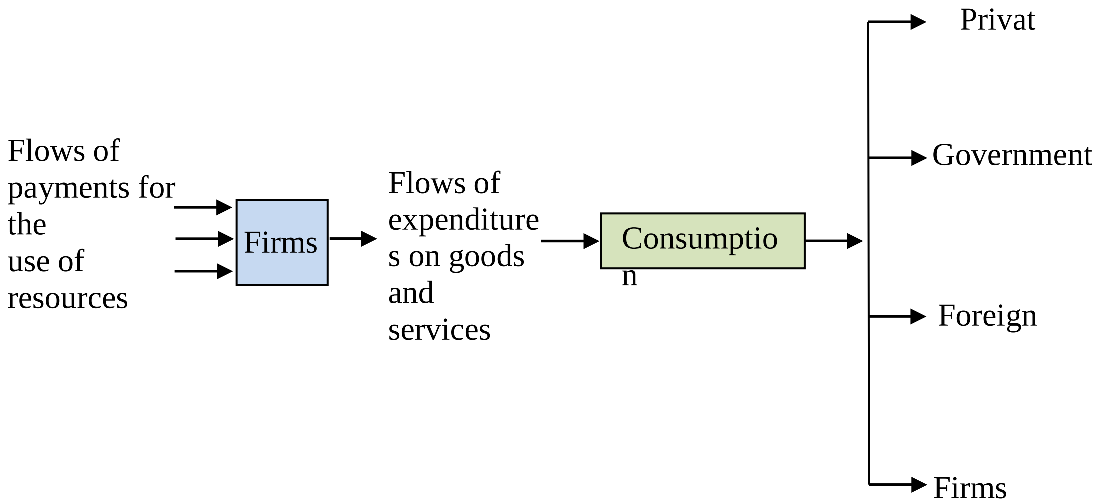
In effect, firms use economic resources to produce goods and services, which are consumed by private individuals (private domestic consumption) or government (government consumption) or by overseas purchasers (foreign consumption) or by other firms (capital formation). This consumption gives rise to a flow of expenditures that represents an income for firms, which they use to purchase further resources in order to produce further output for consumption. This flow of income and expenditures is shown in the next figure (income flows in the economy).

Real flows' in the economy



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

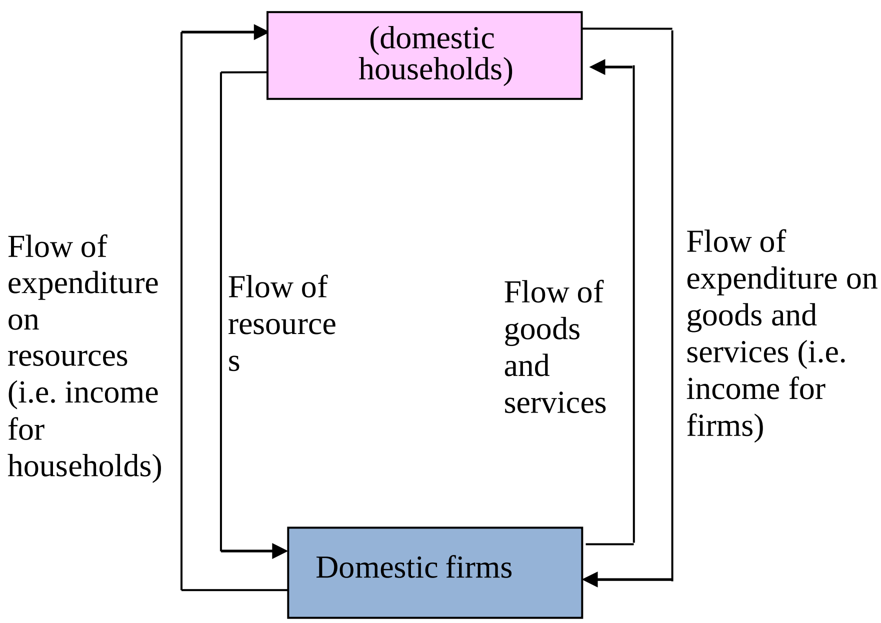
Income flows in the economy



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

The interrelationship between income flows and real flows can be seen by combining the two diagrams into one, which for the sake of simplification assumes only two groups operate in the economy: firms as producers and users of resources, and private individuals as consumers and providers of those resources. Real flows are shown by the arrows moving in an anti-clockwise direction, income flows by the arrows flowing in a clockwise direction.

A simplified model of real flows and income flows Private individuals



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

Despite a degree of over-simplification, the model of the economy illustrated in the above figure is a useful analytical tool which highlights some vitally important aspects of economic activity which are of direct relevance to the study of business. The model shows, for example, that:

1. Income flows around the economy, passing from households to firms and back to households and on to firms, and so on, and these income flows have corresponding real flows of resources, goods and services.
2. What constitutes an income to one group (e.g. firms) represents an expenditure to another (e.g. households), indicating that income generation in the economy is related to spending on consumption of goods and services and on resources (e.g. the use of labour).
3. The output of firms must be related to expenditure by households on goods and services, which in turn is related to the income the latter receive from supplying resources.
4. The use of resources (including the number of jobs created in the economy) must also be related to expenditure by households on consumption, given that resources are used to produce output for sale to households.
5. Levels of income, output, expenditure and employment in the economy are, in effect, interrelated.

From the point of view of firms, it is clear from the model that their fortunes are intimately connected with the spending decisions of households and any changes in the level of spending can have repercussions for business activity at the micro as well as the macro level. In the late 1980s, for instance, the British economy went into recession, largely as a result of a reduction in the level of consumption that was brought about by a combination of high interest rates, a growing burden of debt from previous bouts of consumer spending, and a decline in demand from some overseas markets also suffering from recession. While many businesses managed to survive the recession, either by drawing from their reserves or slimming down their operations, large numbers of firms went out of business, as orders fell and costs began to exceed revenue. As a result, output in the economy fell, unemployment grew, investment by firms declined, and house prices fell to a point where some house owners owed more on their mortgage than the value of their property (known as 'negative equity'). The combined effect of these outcomes was to further depress demand, as individuals became either unwilling or unable to increase spending and as firms continued to shed labour and to hold back on investment. By late 1992, few real signs of growth in the economy could be detected, unemployment stood at almost 3 million, and business confidence remained persistently low, (Worthington, and Britton, 2009).

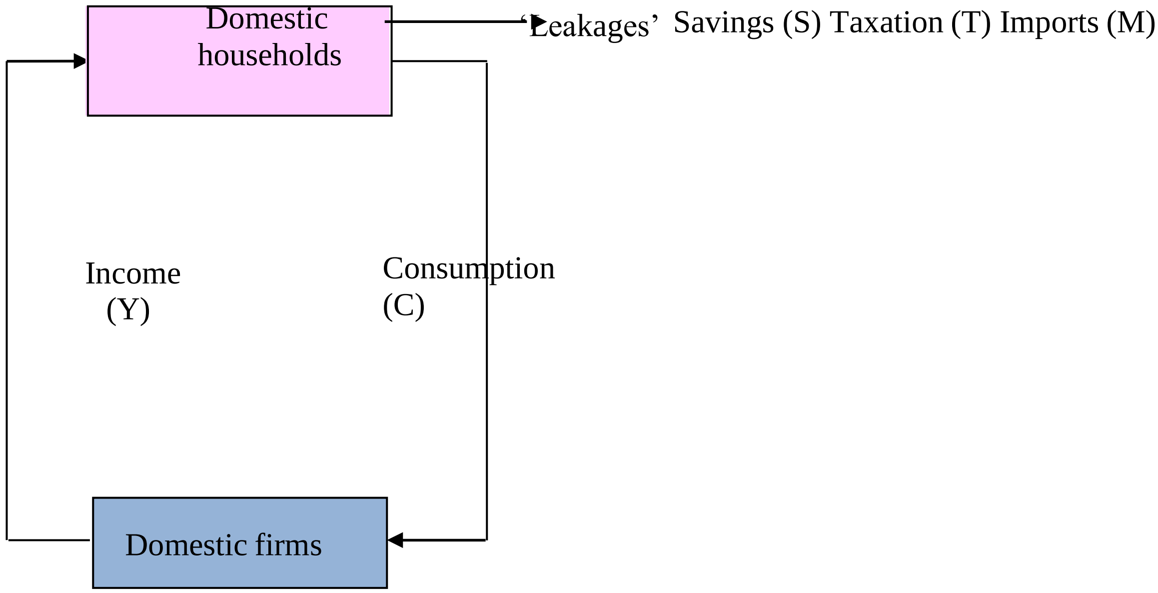
The gradual recovery of the British economy from mid-I993 - brought about by a return in consumer confidence in the wake of a cut in interest rates - further emphasises the key link between consumption and entrepreneurial activity highlighted in the model. Equally, it shows, as did the discussion on the recession, that a variety of factors can affect spending (e.g. government policy on interest rates) and that spending by households is only one type of consumption in the real economy. In order to gain a clearer view of how the economy works and why changes occur over time, it is necessary to refine the basic model by incorporating a number of other key variables influencing economic activity. These variables - which include savings, investment spending, government spending, taxation and overseas trade - are discussed below.

Changes in Economic Activity

The level of spending by consumers on goods and services produced by indigenous firms is influenced by a variety of factors. For a start, most households pay tax on income earned, which has the effect of reducing the level of income available for consumption. Added to this, some consumers prefer to save (i.e. not spend) a pro- portion of their income or to spend it on imported products, both of which mean that the income of domestic firms is less than it would have been had the income been spent with them. Circumstances such as these represent what economists call a leakage (or withdrawal) from the circular flow of income and help to explain why the revenue of businesses can fluctuate over time.

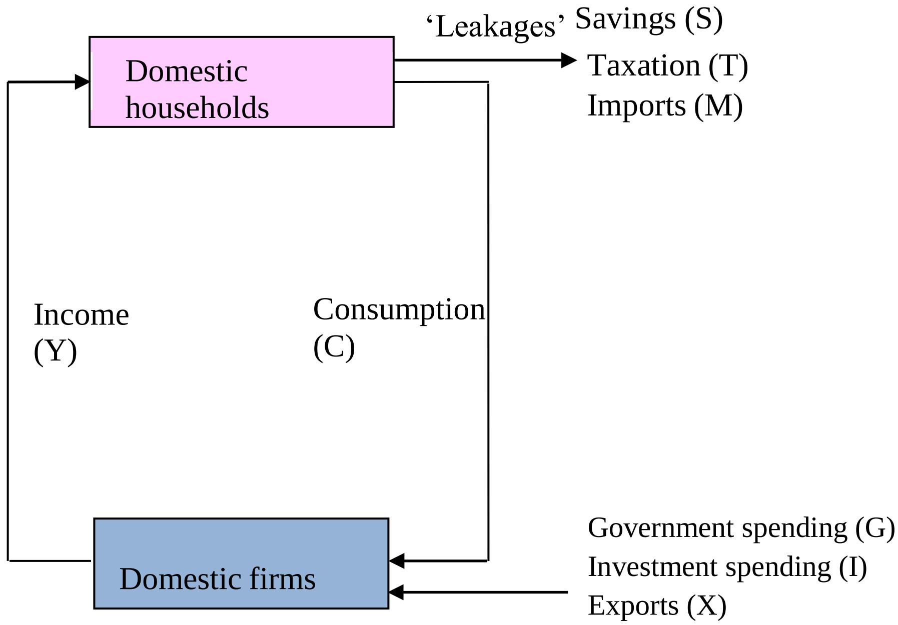
At the same time as such 'leakages' are occurring, additional forms of spending in the economy are helping to boost the potential income of domestic firms. Savings by some consumers are often borrowed by firms to spend on investment in capital equipment or plant or premises (known as investment spending) and this generates income for firms producing capital goods. Similarly, governments use taxation to spend on the provision of public goods and services (public or government expenditure) and overseas buyers purchase products produced by indigenous firms (export spending). Together, these additional forms of spending represent an injection of income into the circular flow.

The circular flow of income with ‘leakages’



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall

The circular flow of income with 'injections' added



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

While the revised model of the economy illustrated in the Figure is still highly simplified (e.g. consumers also borrow savings to spend on consumption or imports; firms also save and buy imports; governments also invest in capital projects), it demonstrates quite clearly that fluctuations in the level of economic activity are the result of changes in a number of variables, many of which are outside the control of firms or governments. Some of these changes are autonomous (i.e. spontaneous), as in the case of an increased demand for imports, while others may be deliberate or overt, as when the government decides to increase its own spending or to reduce taxation in order to stimulate demand. Equally, from time to time an economy may be subject to 'external shocks', such as the onset of recession among its principal trading partners or a significant price rise in a key commodity (e.g. the recent oil price in 2014/15), which can have an important effect on internal income flows. Taken together, these and other changes help to explain why demand for goods and services constantly fluctuates and why changes occur not only in an economy's capacity to produce output, but also in its structure and performance over time.

It is important to note that where changes in spending do occur, these invariably have consequences for the economy that go beyond the initial 'injection' or 'withdrawal' of income. For example, a decision by government to increase spending on infrastructure would benefit the firms involved in the various projects and some of the additional income they receive would undoubtedly be spent on hiring labour. The additional workers employed would have more income to spend on consumption and this would boost the income for firms producing consumer goods, which in turn may hire more staff, generating further consumption and so on. In short, the initial increase in spending by government will have additional effects on income and spending in the economy, as the extra spending circulates from households to firms and back again. Economists refer to this as the multiplier effect to emphasis the reverberative consequences of any increase or decrease in spending by consumers, firms, governments or overseas buyers.

Multiple increases in income and consumption can also give rise to an 'accelerator effect, which is the term used to describe a change in investment spending by firms as a result of a change in consumer spending. In the example above it is possible that the increase in consumption caused by the increase in government spending may persuade some firms to invest in more stock and capital equipment to meet increased consumer demands. Demand for capital goods will therefore rise, and this could cause further increases in the demand for industrial products (e.g. components, machinery) and also for consumer goods, as firms seek to increase their output to meet the changing market conditions. Should consumer spending fall, a reverse accelerator may occur and the same would apply to the multiplier as the reduction in consumption reverberates through the economy and causes further cuts in both consumption and investment. As Peter Donaldson has suggested, everything in the economy affects everything else; the economy is dynamic, interactive and mobile and is far more complex than implied by the model used in the analysis above.

Government and The Macroeconomic: Objectives

Notwithstanding the complexities of the real economy, the link between business activity and spending is clear to see. This spending, as indicated above, comes from consumers, firms, governments and external sources and collectively can be said to represent total demand in the economy for goods and services. Economists frequently indicate this with the following notation:

Aggregate Monetary Demand = Consumer spending + Investment spending

+ Government spending + Export spending

- Import spending or

AMD=C+1+G+X-M

Within this equation, consumer spending (C) is regarded as by far the most important factor in determining the level of total demand.

While economists might disagree about what are the most significant influences on the component elements of AMD, it is widely accepted that governments have a crucial role to play in shaping demand, not only in their own sector but also on the market side of the economy. Government policies on spending and taxation, or on interest rates, clearly have both direct and indirect influences on the behaviour of individuals and firms, which can affect both the demand and supply side of the economy in a variety of ways. Underlying these policies are a number of key objectives which are pursued by government as a prerequisite to a healthy economy and which help to guide the choice of policy options. Understanding the broad choice of policies available to government, and the objectives associated with them, is of prime importance to students of the business environment.

Most governments appear to have a number of key economic objectives, the most important of which are normally the control of inflation, the pursuit of economic growth, a reduction in unemployment, the achievement of an acceptable balance of payments situation, controlling public (i.e. government) borrowing, and a relatively stable exchange rate.

3.3The Economic Conditions

Important economic conditions such as inflation, economic growth, unemployment, balance of payments are some of the economic factors in the economic environment that affect business organization operations. In what follows, we shall briefly discuss some of these factors

Inflation

Inflation is usually defined as an upward and persistent movement in the general level of prices over a given period of time; it can also be characterized as a fall in the value of money. For governments reducing such movements to a minimum is seen as a primary economic objective. Explanations as to why prices tend to rise over time vary considerably, but broadly speaking fall into two main categories. First, supply-siders tend to focus on rising pro- duction costs - particularly wages, energy and imported materials - as a major reason for inflation, with firms passing on increased costs to the consumer in the form of higher wholesale and/or retail prices. Second, excessive demand in the economy, brought about, for example, by tax cuts, cheaper borrowing or excessive government

spending, which encourages firms to take advantage of the consumer's willingness to spend money by increasing their prices. Where indigenous firms are unable to satisfy all the additional demand, the tendency is for imports to increase. This may not only cause further price rises, particularly if imported goods are more expensive or if exchange rate movements become unfavourable, but also can herald a deteriorating balance of payments situation and difficult trading conditions for domestic businesses.

Government concern with inflation - which crosses both party and state boundaries - reflects the fact that rising price levels can have serious consequences for the economy in general and for businesses in particular, especially if a country's domestic inflation rates are significantly higher than those of its main competitors. In markets where price is an important determinant of demand, rising prices may result in some businesses losing sales, and this can affect turnover and may ultimately affect employment if firms reduce their labour force in order to reduce their costs. Added to this, the uncertainty caused by a difficult trading environment may make some businesses unwilling to invest in new plant and equipment, particularly if interest rates are high and if inflation looks unlikely to fall for some time. Such a response, while understandable, is unlikely to improve a firm's future competitiveness or its ability to exploit any possible increases in demand as market conditions change.

Rising prices may also affect businesses by encouraging employees to seek higher wages in order to maintain or increase their living standards. Where firms agree to such wage increases, the temptation, of course, is to pass this on to the consumer in the form of a price rise, especially if demand looks unlikely to be affected to any great extent. Should this process occur generally in the economy, the result may be a wages/prices inflationary spiral, in which wage increases push up prices which push up wage increases which further push up prices and so on. From an international competitive point of view, such an occurrence, if allowed to continue unchecked, could be disastrous for both firms and the economy.

Economic Growth

Growth is an objective shared by governments and organisations alike. For govern- ments, the aim is usually to achieve steady and sustained levels of non-inflationary growth, preferably led by exports (i.e. export-led growth). Such growth is normally indicated by annual increases in real national income or gross domestic product (where ‘real’ = allowing for inflation, and 'gross domestic product (GDP)' = the economy's annual output of goods and services measured in monetary terms).2 To compensate for changes in the size of the population, growth rates tend to be expressed in terms of real national income per capita (i.e. real GDP divided by population).

Exactly what constitutes desirable levels of growth is difficult to say, except in very broad terms. If given a choice, governments would basically prefer:

- steady levels of real growth (e.g. 3-4 per cent p.a.), rather than annual increases in output which vary widely over the business cycle;
- growth rates higher than those of one's chief competitors; and
- growth based on investment in technology and on increased export sales, rather than on excessive government spending or current consumption.

It is worth remembering that, when measured on a monthly or quarterly basis, increases in output can occur at a declining rate and GDP growth can become nega- tive. From a business point of view, the fact that increases in output are related to increases in consumption suggests that economic growth is good for business prospects and hence for investment and employment, and by and large this is the case. The rising living standards normally associated with such growth may, however, encourage increased consumption of imported goods and services at the expense of indigenous producers, to a point where some domestic firms are forced out of business and the economy's manufacturing base becomes significantly reduced (often called deindustrialisation). Equally, if increased consumption is based largely on excessive state spending, the potential gains for businesses may be offset by the need to increase interest rates to fund that spending (where government borrowing is involved) and by the tendency of government demands for funding to crowd out the private sector's search for investment capital. In such cases, the short-term benefits from government-induced consumption may be more than offset by the medium- and long-term problems for the economy that are likely to arise.

Where growth prospects for the economy look good, business confidence tends to increase, and this is often reflected in increased levels of investment and stock holding and ultimately in levels of employment.

Unemployment

In most democratic states the goal of full employment is no longer part of the political agenda as this can hardly be achieved, instead government pronouncements on employment tend to focus on job creation and maintenance and on developing the skills appropriate to future demands. The consensus seems to be that in technologically advanced market-based economies some unemployment is inevitable and that the basic aim should be to reduce unemployment to a level which is both politically and socially acceptable.

As with growth and inflation, unemployment levels tend to be measured at regular intervals (e.g. monthly, quarterly, annually) and the figures are often adjusted to take into account seasonal influences (e.g. school-leavers entering the job market). In addition, the statistics usually provide information on trends in long-term unemployment, areas of skill shortage and on international comparisons, as well as sectoral changes within the economy. All of these indicators provide clues to the current state of the economy and to the prospects for businesses in the coming months and years, but need to be used with care. Unemployment, for example, tends to continue rising for a time even when a recession is over; equally, it is not uncommon for government definitions of unemployment to change or for international unemployment data to be based on different criteria.

The broader social and economic consequences of high levels of unemployment are well documented: it is a waste of resources, it puts pressure on the public services and it is frequently linked with growing social and health problems. Its implication for businesses, however, tends to be less clear-cut. On the one hand, a high level of unemployment implies a pool of labour available for firms seeking workers (though not necessarily with the right skills), generally at wage levels lower than when a shortage of labour occurs. On the other hand, it can also give rise to a fall in overall demand for goods and services which could exacerbate any existing deflationary forces in the economy, causing further unemployment and with it further reductions in demand. Where this occurs, economists tend to describe it as cyclical unemployment (i.e. caused by a general deficiency in demand) in order to differentiate it from unemployment caused by a deficiency in demand for the goods produced by a particular industry (structural unemployment) or by the introduction of new technology which replaces labour (technological unemployment).

Balance of Payments

A country's balance of payments is essentially the net balance of credits (earnings) and debits (payments) arising from its international trade over a given period of time. Where credits exceed debits a balance of payments surplus exists; the opposite is described as a deficit. Understandably governments tend to prefer either equilibrium in the balance of payments or surpluses, rather than deficits. However, it would be fair to say that for some governments facing persistent balance of payments deficits, a sustained reduction in the size of the deficit may be regarded as signifying a 'favourable' balance of payments situation.

Like other economic indicators, the balance of payments statistics come in a variety of forms and at different levels of disaggregation, allowing useful comparisons to be made not only on a country's comparative trading performance, but also on the international competitiveness of particular industries and commodity groups or on the development or decline of specific external markets. Particular emphasis tends to be given to the balance of payments on current account, which measures imports and exports of goods and services and is thus seen as an indicator of the competitiveness of an economy's firms and industries. Sustained current account surpluses tend to suggest favourable trading conditions, which can help to boost growth, increase employment and investment and create a general feeling of confidence amongst the business community. They may also give rise to surpluses which domestic firms can use to finance overseas lending and investment, thus helping to generate higher levels of corporate foreign earnings in future years.

Controlling Public Borrowing

Governments raise large amounts of revenue annually, mainly through taxation, and use this income to spend on a wide variety of public goods and services. Where annual revenue exceeds government spending, a budget surplus occurs and the excess is often used to repay past debt. The accumulated debt of past and present governments represents a country's National Debt.

In practice, most governments often face annual budget deficits rather than budget surpluses and hence have a 'public sector borrowing requirement. While such deficits are not inevitably a problem, in the same way that a small personal overdraft is not necessarily critical for an individual, large scale and persistent deficits are generally seen as a sign of an economy facing current and future difficulties which require urgent government action. The overriding concern over high levels of public borrowing tends to be focused on:

1. Its impact on interest rates, given that higher interest rates tend to be needed to attract funds from private sector uses to public sector uses.
2. The impact of high interest rates on consumption and investment and hence on the prospects of businesses.
3. The danger of the public sector 'crowding out' the private sector's search for funds for investment.
4. The opportunity cost of debt interest, especially in terms of other forms of public spending.
5. The general lack of confidence in the markets about the government's ability to control the economy and the likely effect this might have on inflation, growth and the balance of payments.
6. The need to meet the 'convergence criteria' laid down at Maastricht for entry to the single currency (e.g. central government debt no higher than 3 per cent of GDP).

The consensus seems to be that controlling public borrowing is best tackled by restraining the rate of growth of public spending rather than by increasing revenue through changes in taxation, since the latter could depress demand.

A Stable Exchange Rate

A country's currency has two values: an internal value and an external value. Internally, its value is expressed in terms of the goods and services it can buy and hence it is affected by changes in domestic prices. Externally, its value is expressed as an exchange rate which governs how much of another country's currency it can purchase (e.g. £1 = $2 or $1 =N140).

Since foreign trade normally involves an exchange of currencies, fluctuations in the external value of a currency will influence the price of imports and exports and hence can affect the trading prospects for business, as well as a country's balance of payments and its rate of inflation.

On the whole, governments and businesses involved in international trade tend to prefer exchange rates to remain relatively stable, because of the greater degree of certainty this brings to the trading environment; it also tends to make overseas investors more confident that their funds are likely to hold their value. To this extent, schemes which seek to fix exchange rates within predetermined levels (e.g. the ERM), or which encourage the use of a common currency (e.g. the euro), tend to have the support of the business community, which prefers predictability to uncertainty where trading conditions are concerned.

Fiscal Policy

Fiscal policy involves the use of changes in government spending and taxation to influence the level and composition of aggregate demand in the economy and, given the amounts involved, this clearly has important implications for business. Elementary circular flow analysis suggests, for instance, that reductions in taxation and/or increases in government spending will inject additional income into the economy and will, via the multiplier effect, increase the demand for goods and services, with favourable consequences for business. Reductions in government spending and/or increases in taxation will have the opposite effect, depressing business prospects and probably discouraging investment and causing a rise in unemployment.

Apart from their overall impact on aggregate demand, fiscal changes can be used to achieve specific objectives, some of which will be of direct or indirect benefit to the business community. Reductions in taxes on company profits and/or increases in tax allowances for investment in capital equipment can be used to encourage business to increase investment spending, hence boosting the income of firms producing industrial products and causing some additional spending on consumption.

Similarly, increased government spending targeted at firms involved in exporting, or at the creation of new business, will encourage increased business activity and additionally may lead to more output and employment in the economy.

In considering the use of fiscal policy to achieve their objectives, governments tend to be faced with a large number of practical problems that generally limit their room for manoeuvre. Boosting the economy through increases in spending or reductions in taxation could cause inflationary pressures, as well as encouraging an inflow of imports and increasing the public sector deficit, none of which would be particularly welcomed by entrepreneurs or by the financial markets. By the same token, fiscal attempts to restrain demand in order to reduce inflation will generally depress the economy, causing a fall in output and employment and encouraging firms to abandon or defer investment projects until business prospects improve.

Added to this, it should not be forgotten that government decision-makers are politicians who need to consider the political as well as the economic implications of their chosen courses of action. Thus while cuts in taxation may receive public approval, increases may not, and, if implemented, the latter may encourage higher wage demands. Similarly, the redistribution of government spending from one programme area to another is likely to give rise to widespread protests from those on the receiving end of any cuts; so much so that governments tend to be restricted for the most part to changes at the margin, rather than undertaking a radical reallocation of resources and they may be tempted to fix budgetary allocations for a number of years ahead.

Other factors too - including changes in economic thinking, self-imposed fiscal rules, external constraints on borrowing and international agreements - can also play their part in restraining the use of fiscal policy as an instrument of demand management, whatever a government's preferred course of action may be. Simple prescriptions to boost the economy through large-scale cuts in taxation or increases in government spending often fail to take into account the political and economic realities of the situation faced by most governments.

Monetary Policy

Monetary policy seeks to influence monetary variables such as the money supply or rates of interest in order to regulate the economy. While the supply of money and interest rates (i.e. the cost of borrowing) are interrelated, it is convenient to consider them separately.

As far as changes in interest rates are concerned, these clearly have implications for business activity, as circular flow analysis demonstrates. Lower interest rates not only encourage firms to invest as the cost of borrowing falls, but also encourage consumption as disposable incomes rise and as the cost of loans and overdrafts decreases. Such increased consumption tends to be an added spur to investment, particularly if inflation rates (and, therefore 'real' interest rates) are low and this can help to boost the economy in the short term, as well as improving the supply side in the longer term.

Raising interest rates tends to have the opposite effect - causing a fall in consumption as

mortgages and other prices rise, and deferring investment because of the additional cost of borrowing and the decline in business confidence as consumer spending falls. If interest rates remain persistently high, the encouragement given to savers and the discouragement given to borrowers and spenders may help to generate a recession,
Characterized by falling output, income, spending and employment and increasing business failure.

Changes in the money stock (especially credit) affect the capacity of individuals and firms to borrow and, therefore, to spend. Increases in money supply are generally related to increases in spending and this tends to be good for business prospects, particularly if interest rates are falling as the money supply rises. Restrictions on monetary growth normally work in the opposite direction, especially if such restrictions help to generate increases in interest rates which feed through to both consumption and investment, both of which will tend to decline.

As in the case of fiscal policy, government is usually able to manipulate monetary variables in a variety of ways, including taking action in the money markets to influence interest rates and controlling its own spending to influence monetary growth. Once again, however, circumstances tend to dictate how far and in what way government is free to operate. Attempting to boost the economy by allowing the money supply to grow substantially, for instance, threatens to cause inflationary pressures and to increase spending on imports, both of which run counter to government objectives and do little to assist domestic firms. Similarly, policies to boost consumption and investment through lower interest rates, while welcomed generally by industry, offer no guarantee that any additional spending will be on domestically produced goods and services, and also tend to make the financial mar- kets nervous about government commitments to control inflation in the longer term

This nervousness among market dealers reflects the fact that in modern market economies a government's policies on interest rates and monetary growth cannot be taken in isolation from those of its major trading partners and this operates as an important constraint on government action. The fact is that a reduction in interest rates to boost output and growth in an economy also tends to be reflected in the exchange rate; this usually falls as foreign exchange dealers move funds into those currencies which yield a better return and which also appear a safer investment if the market believes a government is abandoning its counter inflationary policy.

Direct Controls

Fiscal and monetary policies currently represent the chief policy instruments used in modern market economies and hence they have been discussed in some detail. Governments, however, also use a number of other weapons from time to time in their attempts to achieve their macroeconomic objectives. Such weapons, which are designed essentially to achieve a specific objective - such as limiting imports or controlling wage increases - tend to be known as direct controls. Examples of such policies include:

- Incomes policies, which seek to control inflationary pressures by influencing the rate at which wages and salaries rise.
- Import controls, which attempt to improve a country's balance of payments situation, by reducing either the supply of, or the demand for, imported goods and services.
- Regional and urban policies, which are aimed at alleviating urban and regional

problems, particularly differences in income, output, employment, and local and regional decline.

The Role of Financial Institutions

Interactions in the macro economy between governments, businesses and consumers take place within an institutional environment that includes a large number of financial intermediaries. These range from banks and building societies to pension funds, insurance companies, investment trusts and issuing houses, all of which provide a number of services of both direct and indirect benefit to businesses. As part of the financial system within a market-based economy, these institutions fulfill a vital role in channeling funds from those able and willing to lend, to those individuals and organisations wishing to borrow in order to consume or invest. It is appropriate to consider briefly this role of financial intermediation and the supervision exercised over the financial system by the central bank.

Elements of the Financial System

A financial system tends to have three main elements:

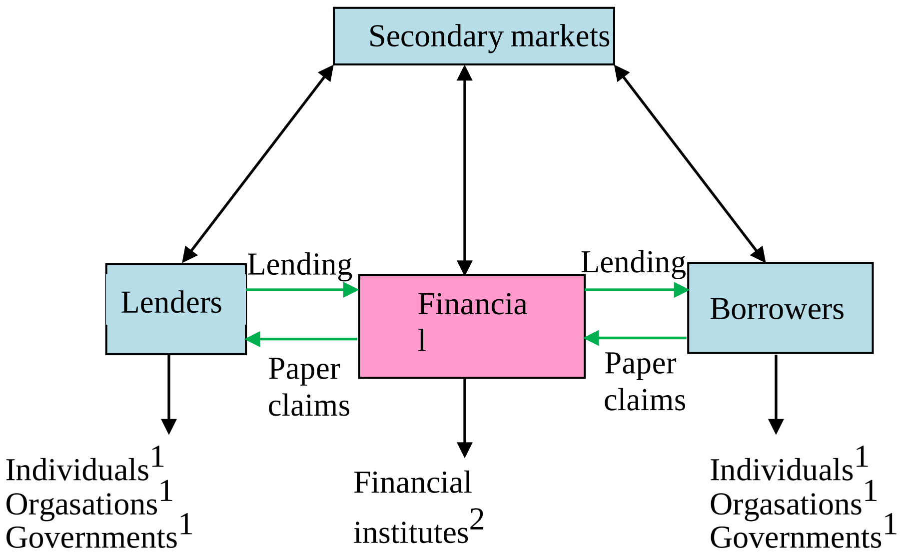
1. Lenders and borrowers-these may be individuals, organisations or governments.
2. Financial institutions, of various kinds, which act as intermediaries between lenders and borrowers and which manage their own asset portfolios in the interest of their shareholders and/or depositors.
3. Financial markets, in which lending and borrowing takes place through the transfer of money and/or other types of asset, including paper assets such as shares and stock.

Financial institutions, as indicated above, comprise a wide variety of organisations, many of which are public companies with shareholders. Markets include the markets for short-term funds of various types (usually termed money markets) and those for long-term finance for both the private and public sectors (usually called the capital market). Stock exchanges normally lie at the centre of the latter, and constitute an important market for existing securities issued by both companies and government.

The vital role played by financial intermediaries in the operation of the financial system is illustrated in the figure below and reflects the various benefits which derive from using an intermediary rather than lending direct to a borrower (e.g. creating a large pool of savings; spreading risk; transferring short-term lending into longer-term borrowing; providing various types of funds transfer services). Lenders on the whole prefer low risk, high returns, flexibility and liquidity, while borrowers prefer to minimize the cost of borrowing and to use the funds in a way that is best suited to their needs. Companies, for example, may borrow to finance stock or work-in-progress or to meet short-term debts and such borrowing may need to be as flexible as possible. Alternatively, they may wish to borrow in order to replace plant and equipment or to buy new premises - borrowing which needs to be over a much longer term and which hopefully will yield a rate of return which makes the use of the funds and the cost of borrowing worthwhile.

The process of channeling funds from lenders to borrowers often gives rise to paper claims, which are generated either by the financial intermediary issuing a claim to the lender (e.g. when a bank borrows by issuing a certificate of deposit) or by the borrower issuing a claim to the financial intermediary (e.g. when government sells stock to a financial institution). These paper claims represent a liability to the issuer and an asset to the holder and can be traded on a secondary market (i.e. a market for existing securities), according to the needs of the individual or organisation holding the paper claim. At any point, financial intermediaries tend to hold a wide range of such assets (claims on borrowers), which they buy or sell ('manage') in order to yield a profit and/or improve their liquidity position. Decisions of this kind, taken on a daily basis, invariably affect the position of investors (e.g. shareholders) and customers (e.g. depositors) and can, under certain circumstances, have serious consequences for the financial intermediary and its stakeholders.

The Role of Financial Intermediaries



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

Given the element of risk, it is perhaps not surprising that some financial institutions tend to be conservative in their attitude towards lending on funds deposited with them, especially in view of their responsibilities to their various stakeholders. UK retail banks, for instance, have a long-standing preference for financing industry's working capital rather than investment spending, and hence the latter has tended to be financed largely by internally generated funds (e.g. retained profits) or by share issues. In comparison, banks in Germany, France, the United States and Japan tend to be more ready to meet industry's medium- and longer-term needs and are often directly involved in regular discussions with their clients concerning corporate strategy, in contrast to the arm's length approach favoured by many of their UK counterparts.

The Role of the Central Bank

A critical element in a country's financial system is its central or state bank. The central Bank of Nigeria exercises overall supervision over the banking sector with the aim of maintaining a stable and efficient financial framework as part of its contribution to a healthy economy. Its activities have a significant influence in the financial markets (especially the foreign exchange market, and the money market). The activities of the central bank include the following roles:

- banker to the government;
- banker to the clearing banks;
- manager of the country's foreign reserves;
- manager of the national debt;
- manager of the issue of notes and coins;
- supervisor of the monetary sector; and
- implementer of the government's monetary policy.

International Economic Institutions and Organizations

Given that external factors constrain the ability of governments to regulate their economy, it is appropriate to conclude this analysis of the macroeconomic context of business with a brief review of a number of important international economic institutions and organisations which affect the trading environment. Foremost among these is the European Union. In the discussions below, attention is focused on the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the European Bank for Reconstruction and Development (EBRD), the World Trade Organisation (WTO) the World Bank.

The International Monetary Fund (IMF)

The IMF is an international organisation currently of 184 member countries. It came into being in 1946 following discussions at Bretton Woods in the USA which sought to agree a world financial order for the post-Second World War period that would avoid the problems associated with the worldwide depression in the interwar years. In essence, the original role of the institution - which today incorporates most countries in the world - was to provide a pool of foreign currencies from its member states that would be used to smooth out trade imbalances between countries, thereby promoting a structured growth in world trade and encouraging exchange rate stability. In this way, the architects of the Fund believed that the danger of international protectionism would be reduced and that all countries would consequently benefit from the boost given to world trade and the greater stability of the international trading environment.

While this role as international 'lender of last resort' still exists, the IMF's focus in recent years has tended to switch towards international surveillance and to helping the developing economies with their mounting debt problems and assisting eastern Europe with reconstruction, following the break-up of the Soviet empires It has also been involved in the past in trying to restore international stability following the global economic turmoil in Asia and elsewhere and some countries would like it to adopt a more enhanced global surveillance role in the wake of the global credit crisis (2008). To some extent its position as an international decision-making body has been diminished by the tendency of the world's leading economic countries to deal with global economic problems outside the IMF's institutional framework. The United States, Japan, Germany, France, Italy, Canada, Britain and Russia now meet regularly as the Group of Eight (G8) leading industrial economies to discuss issues of mutual interest (e.g. the environment, Eastern Europe). These world economic summits, as they are frequently called, have tended to supersede discussions in the IMF and as a result normally attract greater media attention.

The Organisation for Economic Co-operation and Development (OECD)

The OECD came into being in 1961, but its roots go back to 1948 when the Organisation for European Economic Co-operation (OEEC) was established to co- ordinate the distribution of Marshall Aid to the war-torn economies of Western Europe. Today it comprises 30 members, drawn from the rich industrial countries and including the G7 nations, Australia, New Zealand and most other European states. Collectively, these countries account for less than 20 per cent of the world's population, but produce around two-thirds of its output - hence the tendency of commentators to refer to the OECD as the 'rich man's club'. Currently talks are under way to expand the membership of the Organisation to include other countries such as Chile, Russia and Israel.

In essence the OECD is the main forum in which the governments of the world's leading industrial economies meet to discuss economic matters, particularly questions concerned with promoting stable growth and freer trade and with supporting development in poorer non-member countries. Through its council and committees, and backed by an independent secretariat, the organisation is able to take decisions which set out an agreed view and/or course of action on important social and economic issues of common concern. While it does not have the authority to impose ideas, its influence lies in its capacity for intellectual persuasion, particularly its ability through discussion to promote convergent thinking on international economic problems. To assist in the task, the OECD provides a wide variety of economic data on member countries, using standardised measures for national accounting, unemployment and purchasing-power parities. It is for these data - and especially its economic forecasts and surveys - that the organisation is perhaps best known.

The European Bank for Reconstruction and Development (EBRD)

The aims of the EBRD, which was inaugurated in April 1991, are to facilitate the transformation of the states of central and Eastern Europe and beyond from centrally planned to free-market economies and to promote political and economic democracy, respect for human rights and respect for the environment. It is particularly involved with the privatisation process, technical assistance, training and investment in upgrading of the infrastructure and in facilitating economic, legal and financial restructuring. It works in co-operation with its members, private companies and organisations such as the IMF, OECD, the World Bank and the United Nations.

The World Trade Organisation (WTO)

The World Trade Organisation, which came into being on 1 January 1995, superseded the General Agreement on Tariffs and Trade (the GATT), which dated back to 1947. Like the

IMF and the International Bank for Reconstruction and Development (see below), which were established at the same time, the GATT was part of an attempt to reconstruct the international politico-economic environment in the period after the end of the Second World War. Its replacement by the WTO can be said to mark an attempt to put the question of liberalising world trade higher up the international political agenda.

With a membership of around 150 states (plus other observers), the WTO is a permanent international organisation charged with the task of liberalising world trade within an agreed legal and institutional framework. In addition it administers and implements a number of multilateral agreements in fields such as agriculture, textiles and services and is responsible for dealing with disputes arising from the Uruguay Round Final Act. It also provides a forum for the debate, negotiation and adjudication of trade problems and in the latter context is said to have a much stronger and quicker trade compliance and enforcement mechanism than existed under the GATT.

The World Bank (IBRD)

Established in 1945, the World Bank (more formally known as the International Bank for Reconstruction and Development or IBRD) is a specialised agency of the United Nations, set up to encourage economic growth in developing countries through the provision of loans and technical assistance. The IBRD currently has over 180 members.

The European Investment Bank (EIB)

The European Investment Bank was created in 1958 under the Treaty of Rome and is the financing institution of the European Union. Its main task is to contribute to the integration, balanced development and the economic and social cohesion of EU Member States. Using funds raised on the markets, it finances capital projects which support EU objectives within the European Union and elsewhere. Its interests include environmental schemes, projects relating to transport and energy and support for small and medium-sized enterprises.

4.0 Conclusion

Economic factors affect the ability of business to meet its objectives. Businesses prosper during good economic conditions while poor economic conditions hinder their activities. The nature of economic system adopted, the quality of monetary and fiscal policies and the support of international agencies affect the growth and development of business organizations.

5.0 Summary

Business Organizations exist in and is affected by the broader macroeconomic activities which shape their performances. The economic is concerned with how societies allocate scarce economic resources to alternative uses and the 'real costs' of the choices that are made. Broadly speaking two main approaches to the problem of resource allocation exist: state planning and the market based. Most countries in the world operate the market-based economies which operate through a price mechanism. Within such economies the state also plays a key role in some allocation decisions. A number of financial organizations exist in the business economy which can influence business organizations.

Economic forces affect the general health and well-being of a country or world region. They include interest rates, inflation, unemployment, and economic growth. Economic forces produce many opportunities and threat for managers. Low levels of unemployment and falling interest rates mean a change in the customer base. More people have more money to spend, and as a result, organizations have an opportunity to sell more goods and services. Good economic times affect supplies. Resources become easier to acquire, and organizations have an opportunity to flourish.

In contrast, worsening macroeconomic conditions, pose a major threat because they limit managers' ability to gain access to the resources their organization needs. Profit oriented organizations such as retail stores and hotels have fewer customers for their goods and services during economic downturns .Even a moderate deterioration in national or regional economic conditions can seriously affect performance.

Poor economic conditions make the environment more complex and managers' job more difficult and demanding. Managers may need to reduce the number of individuals in their departments and increase the motivation of remaining employees. Successful managers realize the important effects that economic forces have on their organizations, and they pay close attention to what is occurring in the national and regional economies to respond appropriately.

6.0 Self-Assessment Questions

1. Explain the term 'Economic Scarcity'
2 With the aid of a suitable model illustrate the flow of economic activities
3. Identify five macroeconomic variables affecting Business
4. Explain the role of IMF AND WTO in Business Development

7.0 Tutor-Marked Assignment

Explain fully how the economic environment influences the business organization.

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Unit 2: The Technological Forces

Table of Contents

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 3: The Demographical Forces

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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 Assignment

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

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Unit 4: 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 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 socialisation 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 harmonisation 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 'Americanisation' 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 institutionalised 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 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

2. 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.

8.0 References/Further Reading

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