

**COURSE  
GUIDE****ENT 408  
ENTREPRENEURSHIP AND GENDER ISSUES**

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## UNIT 1: ENTREPRENEURSHIP – AN OVERVIEW

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## 1.0 INTRODUCTION

In this unit, we shall discuss entrepreneurship as a factor of production, define 'entrepreneur' 'entrepreneurship', 'enterprise' and 'small scale business', discuss certain key concepts in entrepreneurship.

## 2.0 OBJECTIVES

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

discuss entrepreneurship as a factor of production;  
 define the terms: entrepreneur, entrepreneurship, enterprise and small scale business; explain the relationship that exist between enterprise and entrepreneurship; enumerated and explain certain key concepts in entrepreneurship.

## 3.0 MAIN CONTENT

Wikipedia (2010) state that in economics, factors of production mean inputs and finished goods mean output. Input determines the quantity of output i.e. output depends upon input. Input is the starting point and output is the end point of production process and such input-output relationship is called a production function.

All factors of production like land, labour, capital and entrepreneur are required in combination at a time to produce a commodity. In economics, production means creation or an addition of utility.

## 3.1 Entrepreneurship as a Factor of Production

Factors of production (or productive inputs or resources) are any commodities or services

used to produce goods and services. 'Factors of production' may also refer specifically to the primary factors, which are stocks including land, labor (the ability to work), and capital goods applied to production. The primary factors facilitate production but neither become part of the product (as with raw materials) nor become significantly transformed by the production process (as with fuel used to power machinery). 'Land' includes not only the site of production but natural resources above or below the soil. The factor land may, however, for simplification purposes be merged with capital in some cases (due to land being of little importance in the service sector and manufacturing). Recent usage has distinguished human capital (the stock of knowledge in the labour force) from labour (Samuelson and Nordhaus, 2004). Entrepreneurship is also sometimes considered a factor of production (Sullivan and Sheffrin, 2003). Sometimes the overall state of technology is described as a factor of production (Parkin and Esquivel, 1999). The number and definition of factors varies, depending on theoretical purpose, empirical emphasis, or school of economics (Friedman, 2007).

### 3.1.1 Historical Schools and Factors

In the interpretation of the currently dominant view of classical economic theory developed by neoclassical economists, the term "factors" did not exist until after the classical period and is not to be found in any of the literature of that time (Ricardo, 1820; quoted in Sraffa, 1951). Differences are most stark when it comes to deciding which factor is the most important. For example, in the Austrian view—often shared by neoclassical and other "free market" economists—the primary factor of production is the time of the entrepreneur, which, when combined with other factors, determines the amount of output of a particular good or service. However, other authors argue that "entrepreneurship" is nothing but a specific kind of labor or human capital and should not be treated separately. The Marxian school goes further, seeing labor (in general, including entrepreneurship) as the primary factor of production, since it is required to produce capital goods and to utilize the gifts of nature. But this debate is more about basic economic theory (the role of the factors in the economy) than it is about the definition of the factors of production.

#### (a) Physiocracy School

In French Physiocracy, the main European school of economics before Adam Smith, the productive process is explained as the interaction between participating classes of the population. These classes are therefore the factors of production within physiocracy: capital, entrepreneurship, land, and labor.

The farmer labours on land (sometimes using "crafts") to produce food, fiber, and the like. The artisan labours to produce important capital goods (crafts) to be used by the other economic actors.

The landlord is only a consumer of food and crafts and produces nothing at all.

The merchant labors to export food in exchange for foreign imports.

#### (b) Classical Schools

The classical economics of Adam Smith, David Ricardo, and their followers focuses on physical resources in defining its factors of production, and discusses the distribution of cost and value

among these factors. Adam Smith and David Ricardo referred to the "component parts of price" ((Smith, 1776)) as the costs of using:

Land or natural resource — naturally-occurring goods such as water, air, soil, minerals, flora and fauna that are used in the creation of products. The payment for use and the received income of a land owner is rent.

Labor — human effort used in production which also includes technical and marketing expertise. The payment for someone else's labor and all income received from one's own labor is wages. Labor can also be classified as the physical and mental contribution of an employee to the production of the good(s).

The capital stock — human-made goods (or means of production), which are used in the production of other goods. These include machinery, tools, and buildings.

The classical economists also employed the word "capital" in reference to money. Money, however, was not considered to be a factor of production in the sense of capital stock since it is not used to directly produce any good. The return to loaned money or to loaned stock was styled as interest while the return to the actual proprietor of capital stock (tools, etc.) was styled as profit.

#### (c) Marxian School

Marx considered the "elementary factors of the labour-process" or "productive forces" to

be: Labour ("work itself")

The subject of labour (objects transformed by labor)

The instruments of labour (or means of labour) (Wikipedia, 2010).

The "subject of labour" refers to natural resources and raw materials, including land. The "instruments of labor" are tools, in the broadest sense. They include factory buildings, infrastructure, and other human-made objects that facilitate labor's production of goods and services. This view seems similar to the classical perspective described above. But unlike the classical school and many economists today, Marx made a clear distinction between labor actually done and an individual's "labour power" or ability to work. Labour done is often referred to nowadays as "effort" or "labour services." Labor-power might be seen as a stock which can produce a flow of labour.

Labour, not labour power, is the key factor of production for Marx and the basis for Marx's labour theory of value. The hiring of labor power only results in the production of goods or services ("use-values") when organized and regulated (often by the "management"). How much labour is actually done depends on the importance of conflict or tensions within the labor process.

#### (d) Neoclassical economics

Neoclassical economics, one of the branches of mainstream economics, started with the classical factors of production of land, labor, and capital. However, it developed an alternative theory of value and distribution. Many of its practitioners have added various further factors of production. Further distinctions from classical and neoclassical microeconomics

include the following: Capital — this has many meanings, including the financial capital raised to operate and expand a business. In much of economics, however, "capital" (without any qualification) means goods that can help produce other goods in the future, the result of investment. It refers to machines, roads, factories, schools, infrastructure, and office buildings which humans have produced in order to produce goods and services.

Fixed capital — this includes machinery, factories, equipment, new technology, factories, buildings, computers, and other goods that are designed to increase the productive potential of the economy for future years. Nowadays, many consider computer software to be a form of fixed capital and it is counted as such in the National Income and Product Accounts of the United States and other countries. This type of capital does not change due to the production of the good.

Working capital — this includes the stocks of finished and semi-finished goods that will be economically consumed in the near future or will be made into a finished consumer good in the near future. These are often called inventories. The phrase "working capital" has also been used to refer to liquid assets (money) needed for immediate expenses linked to the production process (to pay salaries, invoices, taxes, interests...) Either way, the amount or nature of this type of capital usually changed during the production process.

Financial capital — this is simply the amount of money the initiator of the business has invested in it. "Financial capital" often refers to his or her net worth tied up in the business (assets minus liabilities) but the phrase often includes money borrowed from others.

Technological progress — for over a century, economists have known that capital and labor do not account for all of economic growth. This is reflected in total factor productivity and the Solow residual used in economic models called production functions that account for the contributions of capital and labor, yet have some unexplained contributor which is commonly called technological progress. Ayres and Warr (2009) present time series of the efficiency of primary energy (exergy) conversion into useful work for the US, UK, Austria and Japan revealing dramatic improvements in model accuracy. With useful work as a factor of production they are able to reproduce historical rates of economic growth with considerable precision and without recourse to exogenous and unexplained technological progress, thereby overcoming the major flaw of the Solow Theory of economic growth.

### 3.1.2 A fourth factor?

As mentioned, recent authors have added to the classical list. For example, J.B. Clark saw the coordinating function in production and distribution as being served by entrepreneurs; Frank Knight introduced managers who co-ordinate using their own money (financial capital) and the financial capital of others. In contrast, many economists today consider "human capital" (skills and education) as the fourth factor of production, with entrepreneurship as a form of human capital. Yet others refer to intellectual capital. More recently, many have begun to see "social capital" as a factor, as contributing to production of goods and services.

#### (b) Entrepreneurship

Consider entrepreneurship as a factor of production, leaving debate aside. In markets, entrepreneurs combine the other factors of production, land, labour, and capital in order to make a profit. Often these entrepreneurs are seen as innovators, developing new ways to

produce and new products. In a planned economy, central planners decide how land, labour, and capital

should be used to provide for maximum benefit for all citizens. Of course, just as with market entrepreneurs, the benefits may mostly accrue to the entrepreneurs themselves.

The word has been used in other ways. The sociologist C. Wright Mills refers to "new entrepreneurs" who work within and between corporate and government bureaucracies in new and different ways (Collar, 1956). Others (such as those practicing public choice theory) refer to "political entrepreneurs," i.e., politicians and other actors. Much controversy rages about the benefits produced by entrepreneurship. But the real issue is about how well institutions they operate in (markets, planning, bureaucracies, and government) serve the public. This concerns such issues as the relative importance of market failure and government failure.

(b) Non tangible forms of capital

(1) Human capital

Contemporary analysis distinguishes tangible, physical, or nonhuman capital goods from other forms of capital such as human capital. Human capital is embodied in a human being and is acquired through education and training, whether formal or on the job. Human capital is important in modern economic theory. Education is a key element in explaining economic growth over time (see growth accounting). It is also often seen as the solution to the "Leontief paradox" in international trade.

(2) Intellectual capital

A more recent coinage is intellectual capital, used especially as to information technology, recorded music, written material. This intellectual property is protected by copyrights, patents, and trademarks. This view posits a new Information Age, which changes the roles and nature of land, labour, and capital. During the Information Age (circa 1971–1991), the Knowledge Age (circa 1991 to 2002), and the Intangible Economy (2002–present) many see the primary factors of production as having become less concrete. These factors of production are now seen as knowledge, collaboration, process-engagement, and time quality. According to economic theory, a "factor of production" is used to create value and allow economic performance. As the four "modern-day" factors are all essentially abstract, the current economic age has been called the Intangible Economy. Intangible factors of production are subject to network effects and the contrary economic laws such as the law of increasing returns (Wikipedia, 2010).

(3) Social capital

Social capital is often hard to define, but to one textbook it is: the stock of trust, mutual understanding, shared values, and socially held knowledge that facilitates the social coordination of economic activity (Goodwin, Nelson, Ackerman, and Weisskopf, 2005).

Knowledge, ideas, and values, and human relationships are transmitted as part of

the culture. This type of capital cannot be owned by individuals and is instead part of the common stock owned by humanity. But they are often crucial to maintaining a peaceful society in which normal economic transactions and production can occur.

Another kind of social capital can be owned individually (Sobel, 2002). This kind of individual asset involves reputation, what accountants call "goodwill", and/or what others call "street cred," along with fame, honor, and prestige. It fits with Pierre Bourdieu's definition of "social capital" as: an attribute of an individual in a social context. One can acquire social capital through purposeful actions and can transform social capital into conventional economic gains. The ability to do so, however, depends on the nature of the social obligations, connections, and networks, available to you.

This means that the value of individual social assets that Bourdieu points to depend on the current "social capital" as defined above.

#### (4) Natural resources

Ayres and Warr (2009) are among the economists who criticize orthodox economics for overlooking the role of natural resources and the effects of declining resource capital.

#### (5) Energy

Energy can be seen as individual factor of production, with an elasticity larger than labour (Kümmel, 2007). A cointegration analysis support results derived from linear exponential (LINEX) production functions (Stresing, Lindenberger, and Kümmel, 2008).

### 3.2 Definition of Terms

Recently, attention has been shifted on small business enterprises (SBEs) in both developed and developing economy. This is as a result of the importance of these SBEs in providing employment, revenue generation and becoming giant firms over time. However, the recent rise in unemployment, and the desire of individuals and nations to become self reliance and sustainable on their own makes this sector more attractive and challenging than ever before.

At the moment, no clearer discipline or management course(s) that can provide all needed information, knowledge, technique and skill required to manage the existing or acquired business. The determinant is whether the investor is ready to take burn by the horn or thread in the deep, dark, debt of uncertainty to run a successful business, and business owner or entrepreneur.

#### 3.2.1 Enterprise

It can be defined as initiative, or purposeful broad plans requiring many coordinates; or in business or financial applications as the overall operating entity. An enterprise is an activity or a project that produces services or products. There are essentially two types of enterprise:

Error! Hyperlink reference not valid., which are run to make a profit for a private individual or group of individuals. This includes small business.

Error! Hyperlink reference not valid., which function to provide services to individuals and groups in the community.

### Business Enterprises

This is type of enterprise established by individual, corporate or government in order to provide essential service(s) while making profit or return. There are lots of different enterprises around; many are small businesses. Sometimes one person owns and runs them; sometimes they're a family business; other businesses are owned and run by partners who aren't family relations.

Entrepreneurs usually decide to set up small business to earn an income from producing and selling products or delivering services to individuals or other businesses. To earn an income from a small business, the enterprise has to run at a profit; that is, some money should be left over for the business owner once all the costs of making the product or delivering a service have been met.

### Common Small Businesses

Some small businesses are easy to recognise because they have a shopfront or a site where you can see them in operation, making or fixing things and serving customers. For example:

- restaurants
- corner shops, milk bars
- printing works
- furniture repair shops
- hairdressing salons
- smash repairers
- small factories
- farms.
- Banks
- Hotels etc

### Roles and objectives of an enterprise

An enterprise of commercial, financial, or business nature or purpose for instance is

- established: To provide income for the owner,
- To create jobs and
- To develop the economy among others.

### 3.2.2 Entrepreneur

Classical economists regarded land, labour, capital and entrepreneur as the main factors of production. The main tasks of the entrepreneur is to organize the production system and assume the risk of production, land, labour and capital will have no economic value unless they are organized by an entrepreneur who on his own account undertakes the financial risk and management control.

The term “entrepreneur”, although is a common term but remains one of the most difficult

concept to define. Much depends on whether the term is used to describe capacity to innovate or whether it refers to ability to organize and manage a business concern. Schumpeter referred to entrepreneurs as “creative destruction” by the innovator. To Drucker, an entrepreneur is the only one who always searches for change, responds to it and exploits it as an opportunity. Glueck (1980) defined an entrepreneur as “an individual who creates a new firm and continues to manage it until it is successful. In short, an entrepreneur is a person who identifies business opportunities and organizes the required resources to initiate successful business activity. An entrepreneur is different from a manager who only plans, organizes and controls a business idea after it has been successfully initiated by the entrepreneur.

### 3.2.3 Entrepreneurship

Entrepreneurship according to Walter (1989) can be defined in terms of the following three essentials and linked attributes:

- (i) Ability to perceive profitable business opportunities.
- (ii) Willingness to act on what is perceived and
- (iii) The necessary organizing skills associated with the project.

Therefore, entrepreneurship refers to the act or process of identifying business opportunities and organizing to initiate a successful business activity.

Entrepreneurship is different from management and entrepreneurship, using the words of Stoner, Freeman and Gilbreth (1995) entrepreneurship involves initiating changes in production, whereas management involves the ongoing coordination of the production process. Entrepreneurship refers to one of the ways of making organizations to be adaptive. It is the practice of corporate entrepreneurship where managers begin and develop new business ventures within the structure of an existing organization.

Meanwhile, it worth noting that entrepreneurs are of two categories viz: craft entrepreneur (who exploits and utilizes personal skills) and opportunistic entrepreneur (who is interested in having the business to grow and expand).

### 3.2.4 Small Scale Business

Most classifications of business units into large and small are based on qualitative and quantitative judgment. For instance, the US Committee for Economic Development (CED) has developed the following definition of a small scale business. “A small scale business is one which possesses at least two of the following four characteristics”.

1. Management: Usually the managers are also the owners.
2. Capital is supplied and the ownership is held by an individual or small group.
3. The area of operation is mainly local
4. The relative size of the firm within its industry must be small when compared with the biggest units in its field.

In Japan, a small-scale industry is defined according to the type of industry. For small medium industry in manufacturing, it is defined as those with ‘f100 million as paid up capital and 300 employees, while small scale business in wholesale trade will have ‘f30 million paid up capital and 100 employees. In Britain, a small scale business is defined in terms of turnover and number of employees. For example, a small scale business is defined as “the industry with an

annual turnover of 'f2 million or less and fewer than 20 paid workers (Nwala, 1992).

In Nigeria, the definition of small-scale business also varies from time to time and from one institution to another. For example, the Central Bank of Nigeria 1996 Monetary Policy Guidelines defined small scale enterprises as enterprises as on whose total cost, excluding cost of land but including working capital, does not exceed N10 million. The National Economic Reconstruction Fund puts the ceiling for small-scale business total investment at N10 million. Section 36b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with:

- (a) Annual turnover of not more than N2 million.
- (b) Net assets value of not more than 1 million.

It will be obvious from the foregoing definitions that the relative size of a firm usually determine in terms of sales volume, investment in assets, number of employees, profit level and other significant quantitative comparisons is considered the most important. In summary, a small business may be defined qualitatively and quantitatively as the one that is:

- (i) Independently owned
- (ii) Independently managed
- (iii) Highly personalized
- (iv) Largely local in its operation
- (v) Financed mainly from internal sources
- (vi) Small in terms of sales turnover, number of employees, assets value, profit etc within the industry.

### 3.3 Small Scale Business and Entrepreneurship

Private enterprises especially indigenous small scale firms have a vital role to play in promoting the social and economic well being of the nation, hence indigenous entrepreneurship is likely to be much more important in small scale business than in giant firms. The promotion of small scale business as a well-recognized and much heralded strategy of industrial development in developed and developing countries, and its ability to enhance entrepreneurial and managerial skills.

Development economists are of the opinion that labour intensive industries can enhance employment generation as well as advance wide variety of developmental goals like improved income distribution, generation and diffusion of technology, and industrial skills, increased utilization of local resources, improved spatial distribution of industrial activities and reduction of rural-urban population movement.

Increased productivity, national income, market leadership, gargantic technological innovativeness and sagacity of Japan, America and other developed countries are based on the foundation laid by small scale industries. Although, economic activities of developed and developing nations is sometimes viewed to be dominated by large scale business such as IBM Delta, Airline, Coca-cola, Toyota, Honda, UAC, Lever Brothers, John Holt to mention just a few. However, it is equally important to note that the present day giant companies were once small-scale industries, which grew over the years to become giant companies. In addition, as many small firms are dependent on large firms for raw materials or finished products, which would be costly without economies of mass production undertaken by the

large business firms, likewise, larger firms are dependent on small firms who assist in distributing their goods and services.

In view of the impact of small-scale industries in improving the socio-economic condition of a nation, most developed and developing countries have made initiatives to promote indigenous entrepreneurship in small-scale business. In Nigeria, for examples, typical actions of the government take the form of policy initiatives and directives to organization, such as Ministry of Commerce, National Directorate of Employment, Ministry of Labour and Productivity, Center for Management Development, Research Institutes etc to act as executing agencies with responsibility for stimulating, supporting and sustaining entrepreneurship development.

### 3.4 Key Concepts in Entrepreneurship

You cannot discuss entrepreneurship without touching on certain key concepts such

as: Entrepreneurship education;  
 Business person;  
 Business magnate;  
 Tycoon;  
 Mogul;  
 Industrialist;  
 Investor;  
 Captain of industry;  
 Erasmus for Young Entrepreneurs; Financiers;  
 Venture capitalists.

#### 3.4.1 Entrepreneurship Education

Entrepreneurship education seeks to provide students with the knowledge, skills and motivation to encourage entrepreneurial success in a variety of settings. Variations of entrepreneurship education are offered at all levels of schooling from primary or secondary schools through graduate university programs (Wikipedia, 2010).

#### Objectives of Entrepreneurship Education

What makes entrepreneurship education distinctive is its focus on realization of opportunity, where management education is focused on the best way to operate existing hierarchies. Both approaches share an interest in achieving "profit" in some form (which in non-profit organizations or government can take the form of increased services or decreased cost or increased responsiveness to the customer/citizen/client). Entrepreneurship education can be oriented towards different ways of realizing opportunities: The most popular one is regular entrepreneurship: opening a new organization (e.g. starting a new business). Another approach is to promote innovation or introduce new products or services or markets in existing firms. This approach is called corporate entrepreneurship or intrapreneurship, and was made popular by author Gifford Pinchot in his book of the same name. Newer research indicates that clustering is now a driving factor. Clustering occurs when a group of employees breaks off from the parent company to found a new company but continues to do business with the parent. Silicon Valley is one such cluster, grown very large.

A recent approach involves creating charitable organizations (or portions of existing charities)

which are designed to be self-supporting in addition to doing their good works. This is usually called social entrepreneurship or social venturing. Even a version of public sector entrepreneurship has come into being in governments, with an increased focus on innovation and customer service. This approach got its start in the policies of the United Kingdom's Margaret Thatcher and the United States' Ronald Reagan.

#### 3.4.2 Businessperson

A businessperson (also businessman, business man, or businesswoman) is someone involved in a particular undertaking of activities for the purpose of generating revenue from a combination of human, financial, and physical capital. An entrepreneur is an example of a business person. Sometimes the term can mean someone who is involved in the management of a company, especially as an owner or an executive. Sometimes it can also mean someone employed in a (usually) profit-oriented enterprise. The term businessperson/man/woman almost always refers to someone with a "white collar" occupation (Wikipedia, 2010).

#### 3.4.3 Business magnate

A business magnate, sometimes referred to as a capitalist, czar, mogul, tycoon, baron, oligarch, or industrialist, is an informal term used to refer to an entrepreneur who has reached prominence and derived a notable amount of wealth from a particular industry (or industries) (Wikipedia, 2010).

Examples of well-known business magnates include Sir Richard Branson of Virgin Group, utility and transportation magnate Samuel Insull, newspaper magnate William Randolph Hearst of the Hearst Corporation, oil magnate John D. Rockefeller of Standard Oil, steel magnate Andrew Carnegie, Lakshmi Mittal of Arcelor Mittal, poultry magnate Frank Perdue of Perdue Farms, automobile magnate Ferdinand Piech of Volkswagen Group, and telecommunications magnate Carlos Slim.

#### 3.4.4 Clipper ship Tycoon

The word magnate itself derives from the Latin word magnates (plural of magnas), meaning "great person" or "great nobleman." The word tycoon is derived from the Japanese word taikun, which means "great lord," and it was used as a title for the shogun (Wikipedia, 2010). The word entered the English language in 1857[2] with the return of Commodore Perry to the United States. U.S. President Abraham Lincoln was humorously referred to as the Tycoon by his aides John Nicolay and John Hay. The term spread to the business community, where it has been used ever since.

#### 3.4.5 Business Mogul

The word mogul refers to the Mughal Empire (mughal being Persian or Arabic for "Mongol") of Indian Subcontinent that existed between 1526 and 1857: the early Mughal emperors claimed a heritage dating back to Mongol ruler Genghis Khan. The modern meaning of the word is supposedly derived from the storied riches of the Mughal emperors, who for example produced the Taj Mahal (Wikipedia, 2010).

#### 3.4.6 Industrialist

As the term industrialist (from Latin *industria*, "diligence, industriousness") was more widely used in the context of "old world" physical industries such as steel, oil, newspapers, shipping and rail transport, it has largely been superseded by the other, more modern terms that encompass a wider range of virtual business and commercial activity (Wikipedia, 2010).

Microsoft co-founder Bill Gates is consistently ranked in the top five of the wealthiest people in the world. Such people are savvy businessmen that usually amass substantial fortunes in the process of running their business. Some are widely known in connection with their business (es) or through other pursuits such as philanthropy. The terms "mogul", "tycoon" and "baron" were often attributed to late 19th and early 20th century North American business magnates in extractive industries such as mining, logging and petroleum, transportation fields such as shipping and railroads, manufacturing, including steelmaking, banking, and newspaper publishing. This era was known as the Second Industrial Revolution or the Gilded Age.

In Russia and some other post-Soviet countries, the term "business oligarch" has become popular.

#### 3.4.7 Captain of Industry

"Captain of industry" was a term originally used in the United Kingdom during the Industrial Revolution describing a business leader whose means of amassing a personal fortune contributes positively to the country in some way. This may have been through increased productivity, expansion of markets, providing more jobs, or acts of philanthropy (Wikipedia, 2010). This contrasts with robber baron, a term used to describe a business leader using political means to achieve their ends.

Some nineteenth-century industrialists who were called "captains of industry" overlap with those called "robber barons". These include people such as J.P. Morgan, Andrew Carnegie, Andrew W. Mellon, and John D. Rockefeller. The term was coined by Thomas Carlyle in his 1843 book, *Past and Present*.

The title is regaining popularity in India, whose billionaires have more wealth than any other country in Asia.

#### 3.4.8 Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs is Europe's new mobility scheme that aims at helping new entrepreneurs to acquire relevant skills for managing a small or medium-sized enterprise (SMEs) by spending time in a business in another EU country. It was initiated by the European Union (EU) on the 19 February 2009. Erasmus for Young Entrepreneurs is financed by the European Commission and is in operation across 21 EU countries with the help of more than 100 intermediary organisations competent in business support. By 2010, a total of 870 stays abroad will be in action (Wikipedia, 2010).

##### Aims of the programme

The programme stimulates entrepreneurship, competitiveness, internationalisation and growth of start-ups and established SMEs in the EU. The programme contributes to the transfer of know-how and fosters cross-border transfer of knowledge and experience between

entrepreneurs (Wikipedia, 2010).

The Erasmus for Young Entrepreneurs has a number of specific objectives:

It offers new entrepreneurs the opportunity to learn from an experienced entrepreneur who is running a small or medium-sized enterprise (SME) in another EU country,

It enables the exchange of experience between new and experienced entrepreneurs, It facilitates access to new markets and the search for potential business partners,

It enhances networking between business people and between SMEs,

It allows experienced entrepreneurs to develop new commercial relations and find out more about opportunities in another EU country.

Erasmus for Young Entrepreneurs provides practical and financial assistance for new entrepreneurs (NE) spending time in the business of experienced host entrepreneurs (HE) in other EU countries. New entrepreneurs travel to an experienced entrepreneur in another EU country and work with him/her for 1 to 6 months. The matching of the new entrepreneurs with the host entrepreneurs is carried out with the help of the intermediary organisations.

#### History and development of ERASMUS

In 2007, the European Parliament introduced a new budget line entitled "Erasmus for Young Entrepreneurs". The European Commission then started to design the Pilot Project with the aim of supporting mobility periods abroad for recently established and nascent entrepreneurs, with a view to improving their skills and fostering the cross-border transfer of knowledge and experience between entrepreneurs.

Erasmus for Young Entrepreneurs comes under the Small Business Act for Europe which considers this initiative a key contribution "to create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded". Erasmus for Young Entrepreneurs is to a certain extent similar to the well-known Erasmus Programme for students since it is a mobility action which addresses a particular target group. However, it is also clearly different: whereas the existing Erasmus programme in higher education enhances student-to- university relationships, the new Erasmus for Young Entrepreneurs focuses on business-to- business relationships. The various EU mobility programmes are complementary to each other offering mobility opportunities to different target groups at different moments of life.

#### 3.4.9 Financiers

Financier is a term for a person who handles typically large sums of money, usually involving money lending, financing projects, large-scale investing, or large-scale money management. The term is French, and derives from finance or payment. A financier today can be someone who makes their living from investments, particularly in investing in up and coming companies and businesses. A financier makes money through this process when his or her investment is paid back with interest or from a certain percentage of the company awarded to them as specified by the business deal (Wikipedia, 2010).

#### Job prerequisites

Officially, there are no degrees or schooling needed to be called a financier as it is a term to describe someone who handles money. Certain financier avenues do require degrees and licenses including venture capitalists, stockbrokers, public treasurers, trust fund managers, and accountants. Investing, on the other hand, has no requirements and is open to all by means of the stock market or by word of mouth requests for money.

#### 3.4.10 Venture Capitalist

Venture capitalists, private equity firms, and hedge fund managers are example of financiers that do not require a license or education attainment. Persons managing funds of high net worth individuals in private partnerships are not regulated - these are typically what is referred to as "hedge funds". Managers of regulated mutual funds, broker-dealers (investment banks), registered investment advisers, brokers and brokerages, and futures commodity merchants all require a form of licensure (such as NASD Series 27) in order to hold themselves out for business; but in these cases attainment of a college degree is not required (Wikipedia, 2010).

Certified Public Accountants attain their status by passing the uniform CPA Exam, which is authored by American Institute of Certified Public Accountants, and administered by the state boards of CPAs in each of the 50 states. CPAs are not financiers by definition. They are public accountants and auditors. CPA status does not preclude acting in the role of a financier. The term financier can also refer to a member of the Italian Guardia di Finanza.

#### **Types of financiers**

Investor/High net worth individual  
Trust Fund Manager  
Venture Capitalist

#### 3.4.11 Infopreneur

Infopreneur is a person whose primary business is gathering and selling electronic information.[1] This term is a neologism portmanteau derived from the words "information" and "entrepreneur". An infopreneur is generally considered an entrepreneur who makes money selling information on the Internet. They use existing data and target an audience. The term is often used on the Internet. The word infopreneur was registered as a trademark (USPTO) on February 1 1984 by Harold F. Weitzen. In 1988, H. Skip Weitzen published "Infopreneurs: Turning Data into Dollars" (John Wiley & Sons) (Wikipedia, 2010).

Before the explosive popularity of the Internet, at the turn of the millennium, such an occupation already existed. These legacy infopreneurs sold their information in other mediums such as audio tapes, audio CDs, CD-ROMs, videos, talk shows, and conferences. The classification of infopreneur has created a new style of business on the Internet, which allows anybody with a computer and an Internet connection to start a business by publishing information that may appeal to a specific market.

There are generally two kinds of infopreneurs: those that sell information they have amassed on their own and those that earn commissions from selling information that they know nothing about. The latter may be considered more of a "information trafficker".

Online publishing

As the infopreneur is his/her own developer, marketer, producer, and distributor - some infopreneurs consider themselves being in the publishing business. Unlike in traditional print publishing, the infopreneur puts down, in electronic form, what he/she knows from experience or what he/she learned and passes them on to the world through publishing on websites, blogs, ebooks, emails, etc.

#### Blogs and advertisements

Information traffickers do consider themselves infopreneurs. After all, they are making money out of information. Many of them utilize the power of the World Wide Web - creating web sites and blogs to act as their storefront. The infopreneur may attract traffic to his/her site by manipulating their site to appear higher on search engine results.[2] This may be done by creating a site that is robust in information, and configuring META keywords and descriptions that accurately describes the web page. But often, infopreneurs that are out to get a "quick buck", will create a mash-together of information by publishing popular, sought after content, often incorporating RSS feeds from more popular sites. The infopreneur then makes money from AdSense ads, affiliate links, referrals and leads, and/or selling ebooks that are related to the search parameters and keywords. Essentially, these infopreneurs "piggy-back" on already established information. For example, there are many such splogs that copy verbatim the articles from Wikipedia.

#### 3.4.12 Investor

An investor is a party that makes an investment into one or more categories of assets --- equity, debt securities, real estate, currency, commodity, derivatives such as put and call options, etc. --- with the objective of making a profit. This definition makes no distinction between those in the primary and secondary markets. That is, someone who provides a business with capital and someone who buys a stock are both investors. Since those in the secondary market are considered investors, speculators are also investors. According to this definition there is no difference (Wikipedia, 2010).

#### Types of investors

The following classes of investors are not mutually exclusive:

- Individual investors (including trusts on behalf of individuals, and umbrella companies formed by two or more to pool investment funds)
- Collectors of art, antiques, and other things of value
- Angel investors (individuals and groups)
- Sweat equity investor
- Venture capital funds, which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds.
- Businesses that make investments, either directly or via a captive fund
- Investment trusts, including real estate investment trusts
- Mutual funds, hedge funds, and other funds, ownership of which may or may not be publicly traded (these funds typically pool money raised from their owner-subscribers to invest in securities)
- Sovereign wealth funds

Also, investors might be classified according to their styles. In this respect, an important distinctive investor psychology trait is risk attitude.

## CONCLUSION

We noted from the unit that all factors of production like land, labour, capital and entrepreneur are required in combination at a time to produce a commodity. In economics, production means creation or an addition of utility. We discussed the various schools of thought as it relate to the concept of entrepreneur. We defined the terms 'enterprise', 'entrepreneur', 'entrepreneurship' and 'small scale businesses'. Finally, we enumerated and discussed some key concepts in entrepreneurship.

## SUMMARY

In this unit, we have,

- discussed entrepreneurship as a factor of production;
- defined the terms: entrepreneur, entrepreneurship, enterprise and small scale business;
- explained the relationship that exist between enterprise and entrepreneurship;
- explained certain key concepts in entrepreneurship.

In the next unit, we shall discuss the terms entrepreneurship/intrapreneurship.

## TUTOR-MARKED ASSIGNMENT

1. In markets, entrepreneurs combine the other factors of production, land, labour, and capital in order to make a profit. Discuss the role of an entrepreneur in relation to this statement.
2. Define the terms: enterprise, entrepreneur, small scale business and entrepreneurship.
3. Write shorts on the following:

Entrepreneurship

- education;
- Business person;
- Business magnate;
- Tycoon;
- Mogul;
- Industrialist;
- Investor;
- Captain of industry;

4. How could small scale businesses contribute to the development of an economy?

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## UNIT 2      EVOLUTION      OF      ENTREPRENEURSHIP

### CONTENTS

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- 2.0 Objectives
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### 1.0 INTRODUCTION

In the last unit, we discussed entrepreneurship as a factor of production; defined the terms: entrepreneur, entrepreneurship, enterprise and small scale business; explained the relationship that exist between enterprise and entrepreneurship; and explained certain key concepts in entrepreneurship.

In this unit, we shall discuss the terms entrepreneurship/intrapreneurship.

### 2.0 OBJECTIVES

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

- define the concept of entrepreneurship and intrapreneurship;
- discuss the importance of intrapreneur in organizations;
- use corporate entrepreneurship skills in organizations;
- understand the operational link between corporate entrepreneur and entrepreneur;
- define entrepreneur and distinguish between entrepreneur, Intrapreneur and Technopreneur;
- enumerate the functions and characteristics of an entrepreneur.

### 3.0 MAIN CONTENT

#### 3.1 Entrepreneurship

The concept entrepreneurship or entrepreneurship refers to entrepreneurship in the context of larger corporations. Kao (1989) notes that the idea of entrepreneurship and creativity in established organization is to ensure that firms maintain their competitive strengths in a turbulent environment.

##### 3.1.1 What is Entrepreneur?

The multi dimensional nature of the entrepreneur as shown above indicates that it will be difficult to have a definition that will accurately capture all the dimensions of the construct. A few of the attempts at the definitions of entrepreneur are presented below.

Schumpeter (1934) defines the entrepreneur in term of innovation and says that the single function of entrepreneur is innovation. Glueck (1980) defines an entrepreneur as an individual who creates a new firm and continues to manage it until it is successful. Carland, Hoy, Boulton and Carland (1984) define entrepreneur as a person who establishes and manages a business concern for the major aim of profit and growth. He has the major characteristics of innovative behaviour and utilization of strategic management practices in his business enterprise.

Drucker (1985) defines the entrepreneur as the innovative individual who perceives business opportunities and organizes the required resources to initiate a successful business activity for profit. Singh (1986) defines the entrepreneur as the self-starter or doer who has organized and builds a successful enterprise. Amit, Glosten and Muller (1993) define the entrepreneur as individual who innovates, identifies and creates business opportunities, assembles and coordinates new combinations of resources; and extracting the most profit from his innovation in uncertain environment.

Ogundele (2000) defines entrepreneurs as the innovating individual, who initiates and nurtures to growth a new and an ongoing business organization, where none existed before. He is the individual who successfully thinks or conceives a new business concern, organizes or initiates actions to start it, and manages it through its initial problems and struggles for survival. He takes all measures that lead the organization to a state of stability and self-sustaining growth. Strictly speaking, an individual is an entrepreneur when he/she performs the above-described functions of an empire builder. This is opposed to the person who is contented with being self-employed and in satisfying the primary human needs for hunger, safety and economic security. The entrepreneur above these is concerned with needs for power, property, and self-actualization. Kuratko and Hodgetts (2001) define entrepreneur as individual who recognizes opportunities where others see chaos and confusion. That the entrepreneur is a catalyst for economic change, which uses purposeful searching, careful planning, and sound judgment when carrying out the entrepreneurial process. Uniquely optimistic and committed, the entrepreneur works creatively to establish new resources or endow old ones with a new capacity, all for the purpose of creating wealth.

The above definitions were merely attempts at describing some of the aspects of entrepreneur's behaviour and functions. They were also based on the perception and academic orientation of the writers. Consequently the search for appropriate conceptualization of entrepreneur is still evolving. The common thread in all the definitions is that the entrepreneur is an individual, who innovates and explores opportunities for making profit.

Entrepreneurial behaviour or entrepreneurship in many organizations is a firm level phenomenon. Stevenson and Jarillo (1990) Covin and Slevin (1991) and Burgelamn (1991) notes that studied organization's corporate strategies give the impression that entrepreneurial activities were the outcome of the interaction of individuals and groups at multiple levels within the firm. Zahra (1991 and 1993) also conceptualized entrepreneurship as firm level phenomenon. Barringer and Blueborn (1999) note that the main assumption that underline the notion of corporate entrepreneurship is that it is a

behavioural phenomenal, all firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial.

### 3.1.1 Need for Entrepreneurships in Organizations

Organizations today are realizing the need for corporate entrepreneurship. This need arose in the response to a number of problems, including:

1. Rapid growth in the number of new and sophisticated competitors
2. A sense of distrust in the traditional methods of corporate management
3. Exit of some brightest and best people who form corporation to become small business entrepreneurs
4. International competition
5. Downsizing of major corporation; and
6. Overall desire to improve efficiency and productivity

Adeleke, Ogundele and Oyenuga (2003) note that in the case of developing countries like Nigeria, an additional reason is the privatization and commercialization process of publicly owned enterprises. Thus, a modern corporation is forced into seeking ways of developing in-house entrepreneurship.

### 3.2 Intrapreneurship

Intrapreneurship is the practice of entrepreneurship by employees within an organization. Intrapreneurship is the act of behaving like an entrepreneur, except within a larger organization. In 1992, The American Heritage Dictionary acknowledged the popular use of a new word, intrapreneur, to mean "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation". Intrapreneurship is now known as the practice of a corporate management style that integrates risk-taking and innovation approaches, as well as the reward and motivational techniques, that are more traditionally thought of as being the province of entrepreneurship

Also, "Intrapreneurship refers to employee initiatives in organizations to undertake something new, without being asked to do so." Hence, the intrapreneur focuses on innovation and creativity, and transforms an idea into a profitable venture, while operating within the organizational environment. Thus, intrapreneurs are Inside entrepreneurs who follow the goal of the organization. Intrapreneurship is an example of motivation through job design, either formally or informally. Intrapreneurship within the firm which is driven to produce social capital in addition to economic capital. Employees, such as marketing executives [Error! Hyperlink reference not valid.](#) or perhaps those engaged in a special project within a larger firm, are encouraged to behave as entrepreneurs, even though they have the resources, capabilities and security of the larger firm to draw upon. Capturing a little of the dynamic nature of entrepreneurial management (trying things until successful, learning from failures, attempting to conserve resources, etc.) adds to the potential of an otherwise static organization, without exposing those employees to the risks or accountability normally associated with entrepreneurial failure.

#### 3.2.1 Intrapreneur

Intrapreneurs are persons who can turn ideas or prototypes into profitable realities, but may not be inventors. They are team-builders with commitment to a strong drive to see their ideas become a reality. Intrapreneurs are often described as “dreamers who do” as they tend to be action-oriented. When faced with failures, or setbacks, intrapreneurs employ an optimistic approach. They objectively deal with their own mistakes and failures learning to avoid making the same mistakes again. This is part of what helps to make them successful (Kuratko and Hodgetts, 2001). Intrapreneurs are self determined goal setters. They go beyond the demand of their duty to accomplish their goals. They do not blame their failures on external forces, but they use the knowledge gained from failure to improve their future performance. They combine vision and action. Dedication to creative idea is important to them. Kuratko and Hodgetts (2001:71) present a list of Ten commandments of an intreprenur and these are shown below.

### 3.2.2 Dimensions of Intrapreneurial Behaviour in Entrepreneurial Management

Let us examine the dimensions of intrapreneurial behaviour in entrepreneurial management in established large organizations. These are:

**Commitment to opportunity:** The promoters are able to engage in commitment to opportunity in a rather revolutionary fashion. The willingness to get in and out quickly has led to entrepreneur’s reputation as gamblers. The pressures which pull a business towards the entrepreneurial end of the spectrum include; action orientation, short decision window, risk management and limited decision constituencies.

**Commitment of resources:** The good entrepreneurs engage in multistage commitment of resources with a minimum commitment at each stage or decision point. The process of commitment of resources is pushed towards the entrepreneurial domain by the following factors, lack of predictable resource needs, lack of long-term control, social needs and international demands.

**Control of resources:** To the promoter all that is needed from a resource is the ability to use it. The entrepreneurs learn to use other people’s resources well, they learn to decide what resources they need to bring in house. The perception of entrepreneur, as exploitative, derives from this dimension; that entrepreneur is an expert in using the skills, talents and ideas of others. When considered from the positive angle this ability is very valuable in fast changing business environment. The pressures towards this entrepreneurial dimension include; increased specialization, risk of obsolescence and increased flexibility.

**Management structure:** The promoter requires knowledge of his/her progress via direct contracts with all of his/her principal actors. Entrepreneurial management is based on the following pressures; need for coordination of key non-controlled resources, flexibility, challenge of owner control and employees desire for independence.

**Reward philosophy:** Because of value driven philosophy of entrepreneurial firms they tend to base compensation on performance. They are also more comfortable rewarding team. The pressures that pull firms towards the promoter end of the spectrum include; individual expectation, investment demands and competition (Stevenson, 1989). The above listed dimensions of entrepreneurial behaviour are relevant to entrepreneurial management in large organization. In fact entrepreneurship is strategic management of small firm when practiced in big organization.

### 3.2.3 Ten Commandments of an intrapreneur

1. I come to work each day willing to be fired
2. Circumvent any orders aimed at stopping your dream
3. Do any job needed to make your project work regardless of your job description
4. Network with good people to assist you
5. Build a spirited team: choose and work with only the best
6. Work underground as long as you can publicity triggers the corporate immune mechanism
7. Be loyal and truthful to your sponsor
8. Remember it's easier to ask forgiveness than permission
9. Be true to your goals, but be realistic about the ways to achieve them
10. Keep the vision strong.

Source: Kuratko, D.F and Hodgetts, R.M. (2001 p. 71).

### 3.2.4 Characteristics of Intrapreneurs

One can focus on the characteristics of intrapreneurs as a way of describing the intrapreneur. Kuratko and Hodgetts (2001) present comparative characteristics of the traditional manager, entrepreneur and intrapreneurs along nineteen dimensions. These dimensions will be employed here to describe the characteristic of intrapreneur. They are as follow:

**Primary motive:** Intrapreneurs wants freedom and access to organization resources goal oriented and self motivated. He also responds to corporate rewards and recognition.

**Time orientation:** Has end goals of 3 to 15 years based on the type of venture. In hurry to meet self-imposed and corporate time-table.

**Tendency to action:** Gets his/her hands dirty, may know how to delegate, but when situation demands does what needs to be done.

**Skills:** Like the entrepreneur he/she knows the business very well. But his/her situation demands ability to progress within the organization, when he/she needs help of other members of the organization.

**Attitude toward courage and destiny:** Self confident and courageous, many are cynical about the system but optimistic about their ability to outwit it (Kuratko and Hodgetts, 2001).

**Focus of attentions:** Both inside and outside. He sells his new venture ideas to insiders. He also focuses on the marketplace and the customers.

**Attitude toward risk:** Like moderate risks. Not afraid of being fired, he/she sees little personal risk.

**Use of market research:** Like the entrepreneur, he/she does his/her own market research and carries out intuitive market evaluation.

**Attitude toward status:** Treasures symbols of freedom and considers traditional status symbols

as a joke.

Attitude toward failure and mistakes: Attempts to hide risky projects from others so as to learn from mistakes without the political cost of public failure. He is also sensitive to the need to appear orderly.

Decision-making style: Skillful in getting others to agree with his private vision. A little more patient and prepared to compromise than the entrepreneur.

Who serves: He/she pleases self, customers and sponsors or mentors.

Attitude toward the system: Dislikes the system but learns to manipulate it.

Problem-solving style: Works out problems within the system or he/she by passes them without leaving.

Family history: Entrepreneurial, small-business, professional or farm background.

Relationship with parent: Better relation with father, than entrepreneur, but still storing.

Socio economic background: Middle class social membership.

Educational level: Often highly educated, especially in the technical areas, but sometimes not.

Relationship with others: He/she sees transactions within hierarchy as basic relationship. To create the climate of in-house entrepreneurial behaviours, organization must develop four characteristics, these are:

- (1) Explicit goals
- (2) system of feedback and positive reinforcement
- (3) An emphasis on individual responsibility and
- (4) Rewards based on results, (Kuratko and Hodgetts, 2001).

It should be noted that specific strategies for corporate entrepreneurship call for the development of a vision as well as development of innovation.

### 3.2.5 Specific Elements of a Corporate Intrapreneurial Strategy

Kuratko and Hodgetts (2001) noted that, to create an entrepreneurial strategy, organizations should be aware of the following:

- (1) The corporations that promote personal growth will attract the best people.
- (2) The challenge of the new entry is to retain the manager as coach, teacher and mentor.
- (3) The best people seek ownership and the best companies will provide it with bonus plans, stock incentive plans, employee stock-option plans, profit-sharing and even employee ownership.
- (4) Authoritarian management is being replaced by a networking people style of management characterized by horizontal coordination and support.
- (5) Intrapreneurship within the corporation allows employees the satisfaction of developing their ideas without the risk of leaving the company.
- (6) Large companies are taking lessons from small businesses and learning how to be

flexible, promote innovation and create new spirit.

### 3.2.6 Steps in Intrapreneurial Development in Organizations

The followings are the necessary actions that could ensure intrapreneurial development in corporate organizations:

- (a) **Developing the vision:** The first step in planning an entrepreneurial strategy for the enterprise is sharing the vision of innovation that the corporate leaders wish to achieve (Collins and Porras, 1996). This shared vision requires identification of specific objective for corporate entrepreneurial strategies and of programmes needed to achieve these objectives.
- (b) **Encouraging innovation:** All writers on entrepreneurship are in agreement that innovation is the distinguishing characteristics of entrepreneurship. Corporation must understand and develop innovation as the key element in their strategy. Kuratko and Hodgetts (2001) stated that one way to understand this concept is to focus on two different types of innovation: radical and incremental.

**Radical innovation:** Is the launching of inaugural breakthroughs e.g. mobile phone in our own environment. These innovations take experimentation and determined vision, which must be recognized and nurtured. The Incremental innovation refers to the systematic evolution of a product or service into newer and larger markets. Incremental innovation, will take over after a radical innovation introduces a breakthrough. Both types of innovation require a champion the person with a vision and ability to share it and top management support.

- (c) **Structuring for an intrapreneurial climate:** The final and most critical step is invested heavily in intrapreneurial activities that allow new ideas to flourish in an innovative environment. When this is coupled with element of innovation strategy, it can enhance the potential for employees to become venture developers. Krackhardt (1993) notes that, to develop employees as a source of innovation in corporations, companies need to provide more nurturing and information – sharing activities. They need to develop a climate that will help innovation-minded people to reach their full potentials. Management has to encourage intrapreneurial activities, and have proper control of human resource policies. It must also sustain a commitment to intrapreneurial projects long enough for a momentum to occur, and to bet on people not on analysis (Sathe, 1988).
- (d) **Developing Venture Teams:** Venture teams hold the potential for producing innovative results in organizations. Reich (1987) termed it collective intrapreneurship. He noted that, in it, individual's skills are integrated into a group. This collective capacity to innovate becomes something greater than the sum of its parts. Over time, as group members' work through various problems and approaches, they learn about each other's abilities. They learn how they can help one another better. Each participant looks out for small adjustment that speeds and smoothes the evolution of the whole. The result of many such small-scale adaptations, effected throughout the organization, is to propel the enterprise forward.

### 3.3 Differences between Entrepreneur and Intrapreneur

An entrepreneur takes substantial risk in being the owner and operator of a business with expectations of financial profit and other rewards that the business may generate. On the contrary, an intrapreneur is an individual employed by an organization for remuneration, which is based on the financial success of the unit he is responsible for. Intrapreneurs share the same traits as entrepreneurs such as conviction, zeal and insight. As the intrapreneur continues to express his ideas vigorously, it will reveal the gap between the philosophy of the organization and the employee. If the organization supports him in pursuing his ideas, he succeeds. If not, he is likely to leave the organization and set up his own business.

Entrepreneurship involves innovation, the ability to take risk and creativity. An entrepreneur will be able to look at things in novel ways. He will have the capacity to take calculated risk and to accept failure as a learning point. An intrapreneur thinks like an entrepreneur looking out for opportunities, which profit the organization. Intrapreneurship is a novel way of making organizations more profitable where imaginative employees entertain entrepreneurial thoughts.

It is in the interest of an organization to encourage intrapreneurs. Intrapreneurship is a significant method for companies to reinvent themselves and improve performance.

### 3.4 Technopreneur

A technopreneur is an individual whose business is in the realm of high technology, who at the same time has the spirit of an entrepreneur. The technopreneur represents new breed that is both innovative and equally enterprising. This concept is derived from combining together, technology and entrepreneur.

Ovia (2007) notes, a technopreneur is an entrepreneur whose business involves high technology or to put more clearly a technology innovator and a businessman all combined in one individual. He notes further that this unusual combination could be found in people like Bill Gates, Steve Jobs, Ralph Elison and also Nigeria Philip Emeagwali whom, Otiono (2007) describes as Africa's Bill Gates and father of internet. The technopreneur, therefore, combines both technological know-how and business expertise. The technopreneurs thus combine the attributes of the scientist and an enterprise person in one individual. Technopreneurs are also emerging in Nigeria.

Amatas (2007) reports the successful innovation and implementation of a formula for wealth creation by Abiola Akingbade, which involves the use of both hardware and software of information and communication technology. Ovia (2007) states that the technopreneurs are beginning to emerge in Nigeria, they consist of men and women who are working relentlessly to assist in actualizing the laudable dream of bridging the yawning digital divide.

#### 3.4.1 Characteristic of Nigerian Technopreneur

- They are naturally gifted
- They are smart
- They are highly creative

They have potential to compete favourably in any part of the world given the enabling environment in which to thrive (Ovia, 2007). It must be added that the technopreneurs possess all the characteristics listed in respect of the entrepreneur. The distinguishing marks are being to combine the unusual or rare attributes of a scientist and business promoter in one

person. An exemplified by Abiola Akingbade, Nigerian technopreneurs are sometimes assemblers of components that make up the whole, and at other times innovators and inventors of highly related technology hardware and software.

### 3.5 Evolutionary Origins of “Entrepreneur”

The concept “entrepreneur” stems from a French word “entreprendre” meaning to undertake, “go-between” or “projector”. In France in the early 16th century the term was used for army leaders. It was applied to business organization in a serious sense in the 18<sup>th</sup> century as noted above, to denote a dealer who buys and sells goods at uncertain prices. Cole (1959) notes that the modern terms as known today, came into use in England only in 1879, when it signified a director or manager of a public musical institution or “one who gets up entertainment”. Mill, (1849) had mentioned it as a French word, which lacked an English equivalent. In modern times the world has been employed to differentiate an active business man from a slow-moving one. The evolutionary origin of the concept entrepreneur could be summarized as shown in the following segments.

Period	Particularizations
Early time	Stems from French: means: between, taker, go between.
Middle Age	Actor and persons in charge of large-scale production projects
17 <sup>th</sup> century	Person bearing risk of profit (loss) in a fixed price contract with government
1755	Richard Cantillon – person bearing risk
1821	Jean Baptist say – separated profits of entrepreneur from profits of capital interest.
1904	Max Weber – Protestant ethics and spirit of capitalism behavioural outlook
1934	Joseph Schumpeter – entrepreneur as innovators developing untried
1961	David McClelland – achievement oriented, energetic, moderate risk taker
1964	Peter Drucker – entrepreneur maximizes opportunities
1975	E.O. Akeredolu-Ale entrepreneur seen from socio cultural and political perspectives
1975	Albert Shapero – takes initiative, accepts risks of failure organizes some social and economic mechanisms.
1980	Karl Vester – entrepreneur seen differently by economists, psychologists, business persons and politicians
1985	Robert Histrich – entrepreneur – assuming financial, psychological and social risks, in creating something different in value and receiving the resulting rewards of monetary and personal satisfaction.
1995	A.U. Inegbenebor – dynamic structure builders for effective performance.
2000	O.J.K Ogundele – empire builder exploiting opportunities

Source: Adapted from Histrich, R.D. and Peters, M.P. (2002) *Entrepreneurship*, New York: McGraw Hill higher education, and Ogundele, O. J .K (2007) *Introduction to Entrepreneurship Development, Corporate Governance & Small Business Management*. Lagos: Molofin Nominees.

It could be seen from table 1 above that the concept entrepreneur has varying origins and usages in different times and places. The function of the entrepreneur is to reform or to revolutionaries the patterns of production, through exploiting an invention, or untried technological method of producing a new product, or producing an old one in new way, new source of supply of material, new outlet for product or new patterns of organization. Innovation is one of the most difficult tasks of the entrepreneur. This is because it involves not only the ability to conceptualize and create but in addition, the ability to come to grip wills all the forces at work in the entrepreneur environment. That is, the capacity to market the innovative products, services, concept or ideas. It is to be noted that the ability to innovate can be noticed throughout history, from the Egyptian's great pyramids out of stone blocks to Laser beams.

#### 4.0 CONCLUSION

We have in this unit examined the various definitions of entrepreneurship and described the behaviours of an entrepreneur. We also defined the intrapreneurship and listed the characteristics of an intrapreneur. We have equally differentiated between entrepreneurship and intrapreneurship. Also, we defined technopreneur and listed the

qualities of a Nigerian technopreneur. Finally, we traced the evolutionary origins of entrepreneur.

## 5.0 SUMMARY

In this unit, we have, defined the concept of entrepreneurship and intrapreneurship; discussed the importance of intrapreneur in organizations; described corporate entrepreneurship skills in organizations; explained the operational link between corporate entrepreneur and entrepreneur; defined entrepreneur and distinguish between entrepreneur, Intrapreneur and Technopreneur; enumerated the functions and characteristics of an entrepreneur. In the next unit, we shall examine the theories of entrepreneurship.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. Define the terms 'entrepreneurship' and 'intrapreneurship'.
2. State the similarities and differences between entrepreneur, intrapreneur and technopreneur.
3. What are the steps in intrapreneurial development in organisations?
4. List and briefly dimensions of intrapreneurial behaviour in entrepreneurial management in established large organizations.
5. List and briefly explain the elements of a Corporate Intrapreneurial Strategy.

## 7.0 REFERENCES/FURTHER READINGS

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## UNIT 3          ENTREPRENEURIAL          THEORIES

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Need for Theories in Entrepreneurship
  - 3.2 Existing Entrepreneurial Theories
  - 3.3 Elements of Opportunity
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### 1.0 INTRODUCTION

In the last unit, we defined the concept of entrepreneurship and intrapreneurship; discussed the importance of intrapreneur in organizations; described corporate entrepreneurship skills in organizations; explained the operational link between corporate entrepreneur and entrepreneur; defined entrepreneur and distinguish between entrepreneur, Intrapreneur and Technopreneur; and enumerated the functions and characteristics of an entrepreneur.

In this unit, we shall examine the theories of entrepreneurship.

### 2.0 OBJECTIVES

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

- understand theoretical frameworks in entrepreneurship;
- discuss entrepreneurship as an interdisciplinary field;
- discuss the contributions of various disciplines in development of entrepreneurship as a field of study;
- understand inter-linkages existing among these disciplines and their contributions.

### 3.0 MAIN CONTENT

#### 3.1 Need for Theories in Entrepreneurship

The field of entrepreneurship continues to struggle with the development of a modern theory of entrepreneurship. In the past 20 years, development of the current theories of entrepreneurship have centered on either opportunity recognition or the individual entrepreneur. At the same time many theoretical insights have come from economics including a rediscovery of the work of Schumpeter. However because there is a lack of clarity about the theoretical assumptions that entrepreneurship scholars use in their work, assumptions from both individual opportunity recognition and economics have been used as if they are interchangeable. This lack of theoretical distinction has hampered theory development in the field of entrepreneurship (Alvarez, 2005).

While explanations of entrepreneurship have adopted different theoretical assumptions, most of these concern three central features of entrepreneurial phenomena: the nature of entrepreneurial opportunities, the nature of entrepreneurs as individuals, and the nature of the decision making context within which entrepreneurs operate. Nonetheless, various theoretical traditions in the field have adopted radically different interpretations with respect to these assumptions of entrepreneurial phenomena, therefore arriving at different explanations of these phenomena. Theories of Entrepreneurship investigate two sets of assumption about the nature of opportunities, the nature of entrepreneurs, and the nature of the decision making context within which entrepreneurs operate. It is suggested that these two sets of assumptions constitute logically consistent theories of entrepreneurship. Moreover, these two theories are complementary and can be applied to widely studied entrepreneurial phenomena — the organization of the entrepreneurial firm. These applications demonstrate both the differences between these two theories and how they can be complementary in nature.

### 3.2 Existing Entrepreneurial Theories

As noted above, several theories have been developed over the years in attempts to explore and explain the entrepreneurship phenomenon. These include among others, economic, socio-cultural, managerial, educational, developmental, experiential, innovation, network, structural and multi-dimensional theories. Each of these theories had been used in the study of the processes of entrepreneurship.

Entrepreneurship as a process involves recognizing opportunities in the environment, mobilizing resources to take advantage of such opportunities, in providing improved goods and services to the ultimate consumers and making profit as a reward of risk taking. As a consequence an entrepreneur is regarded as the individual who perceives opportunities and takes actions to obtain required resources for the provision of new and or improved goods and service (Timmous, 1994 and Smilor, 1997).

Let us now focus on summary of existing entrepreneurship theory.

**Economic Theory:** The economists see the entrepreneur as the man who perceives business opportunities and takes advantage of scarce resources to use them. Relevant, therefore, are the structure of economic incentives that are available in the market. Writers on this approach include (Schumpeter, 1934; and Drucker, 1985). The patterns of economic incentives have acted as stimuli for the emergence of entrepreneurs. They have also influenced the positive responses in terms of behaviour and their performance (Kilby, 1965; and Singh, 1985).

**Political Theory:** The influence of the political factor on the emergence, behaviour and performance of entrepreneurs had been reported by several writers. Schatz (1962 and 1964) discussed two forms of assistance that were provided for indigenous entrepreneur by government in Nigeria. These were (1) the financial support through the federal loans board and (2) the establishment of the Yaba Industrial Estate for use by indigenous entrepreneurs. Ogundele (2000) discussed the provision of training and financial assistance by government to indigenous entrepreneurs through National Directorate of Employment (NDE). Government by way of legislations and provision of infrastructures and other support systems have aided the entrepreneurial processes.

**Ecological Theory:** This approach is concerned with the influence of the environment on business start up, without having to obtain information about the characteristics and motivation of the organization founders (Left, 1979; Marret 1980, and Penning, 1982).

**Historical Theory:** This approach considered past historical antecedents as independent variable on the emergence, behaviour and performance of entrepreneurs. To the writers in this group belong (Cole, 1959; Akeredolu-Ale, 1975; and Rostow, 1982). Akeredolu Ale (1975) specifically emphasized the pre-empting of post war opportunities in explaining the underdevelopment of indigenous entrepreneurship in Nigeria.

**Managerial Theory:** This perspective focuses on the perception of market opportunities. It in addition emphasizes the operational skills required to run a successful enterprise (Kilby, 1971; Meredith, Nelson and Neck, 1991, and Osuagwu, 2001). Kilby (1971) listed thirteen managerial functions, which the entrepreneurs might have to perform for the successful operation of their enterprises. Carland, Hoy Boulton and Carland (1984) regarded the employment of strategic management practices as the function of entrepreneurs. Therefore managerial skills will have direct positive effect on the entrepreneurship processes of emergence, behaviour and performance. The environment that provides opportunities for relevant skills acquisition will tend to promote entrepreneurship.

**Educational Theory:** It is concerned with general level of education in the society. Its proponents contended that education tend to broaden peoples' outlook. It equips people with needed skills to look at the world around them in a more organized and coordinated fashion. This will make them to perform better in entrepreneurial role (Aluko, 1983; Brown and Hisrich, 1986 and Singh, 1986). Akeredolu-Ale (1975) found that more entrepreneurs had lower levels of formal education than the civil servants. He could not establish any direct association between the level of formal education of entrepreneurs and the degree of success achieved. Bowen and Histrich (1986) reported that the general conclusion the entrepreneurs are less well educated than the general population was not supported by their study. Also Singh (1986) found that earlier notion that those lacking educational qualification were usually the ones who went in for business was not borne out on his study. Earlier on Aluko (1983) reported that new breeds of highly educated entrepreneurs were emerging in Nigeria. Ogundele (2000) found that the performance of some entrepreneur in his studied groups was aided by better education which many of them had. The broaden outlook through the educational process could aid in accurate perception of opportunities, and therefore affect entrepreneurial emergence, behaviour and performance.

**Innovation Theory:** Entrepreneurs are here considered as innovators whose task is creative destruction. This results from bringing about novel combination of products and ideas, thus rendering obsolete previously existing products or ideas. Consequently, the process of endowing resource with new wealth producing capacity is central to any conceptualization of entrepreneurship (Schumpeter, 1934, Tushman and Nelson, 1990, Amit Glosten and Muller, (1993). Kiby (1971) considered adaptation as innovative function of entrepreneurship in a developing economy. Amit, Glosten and Muller (1993) and Hobdat (1995) considered innovation as a distinguishing feature of entrepreneurship. It is, they noted, the process of extracting profit from new, unique and variable combination of resources in uncertain and ambiguous environment by exploiting opportunities. Innovation, therefore, is about exploiting opportunities.

**Network Theory:** This theory focuses on the social links which promote or hinder

entrepreneurship. This is because, it considers entrepreneurship as being involved and as interacting in network of continuing social relations that open up or block entrepreneurs' link with existing resources and opportunities. It is concerned with the intricate nature of interpersonal relationship (Aldrich Rosen and Woodward, 1987, Dubini and Aldrich, 1991 and Cardor, Zietsma, Saparito, Matheme and Davis, 2005). As a result relationship in social settings can provide opportunities for entrepreneurship.

**Structural Theory:** This approach examines the effect of internal patterns of relationship among various parts and components of an organization on entrepreneurship. It had been noted that the quality of organizational resources and the efficiency with which entrepreneurs carry out organizational functions affected their performance. The structure of entrepreneurial organization was found to have enabled them to react fast to changing environment and adapting to new demands. In addition internal structural arrangement to context was found as a significant basis for achieving effective performance (Akeredolu Ale, 1975; and Inegbenebor, 1995). Akeredolu-Ale (1975) noted that the entrepreneurs' quality of organizational resources and consequently the efficiency with which they carry out organizational functions affected their performance. Inegbenebor (1995) argued that internal structural arrangement to the context has a significant basis for achieving effective performance. Emphasis was placed on the dynamic flexibility of entrepreneurial organizations. Thus the structural arrangements in entrepreneurial organization make them to be very adaptive to exploiting opportunities.

**Technological Theory:** This theory is concerned with machines, equipment, and tools used in producing goods and rendering services. (Woodward, 1965; Kiby, 1965; and Ekpo Ufot, 1990). Woodward (1965) found that technological complexity considerably influenced administrative structure, thus emphasizing the influence of technology on performance. Kilby (1965) noted that small indigenous entrepreneurial organization exhibited a feature of permissive technology leading to fast adaptation. Entrepreneurial technological innovation can be regarded as direct responses to opportunities in the relevant environment.

**Multi-Factor Approach:** Ogundele and Opeifa (2003) note that the existing theoretical framework reveals that several factors in combination affect the entrepreneurial processes. It is proposed therefore that several rather than a single factor will affect entrepreneurship. In Ogundele (2000), the specific set of factors used as explanatory variables were: (1) social relations (involving elements of socio-cultural and network theories), (2) political factor, (3) economic environment, (4) technology, (5) training and development (6) formal education, (7) previous work experiences, (8) innovation and (9) structural elements of the entrepreneur's organization. This is a multidimensional factors and interdisciplinary approach to the study of entrepreneurship. It is to be noted that this approach is also based on the opportunities that exist at the appropriate level of analysis. The study predicted that the determinants listed above could positively and negatively affect entrepreneurial emergence, behaviour and performance in Nigeria.

Each of the various levels of theoretical formulation presented above is linked with opportunity of one type or the other. The recurrent emphases by various writers on opportunities in relation to entrepreneurship have provided the impetus for proposing the bounded opportunity approach to entrepreneurial study.

Researchers have also shown that perception of opportunities and the employment of strategic management practices are the functions of entrepreneurs (Kilby 1971, Carland Hoy,

Boulton and Carland 1984 and Amit, Glosten and Muller, 1993). Stevenson (1998) and Timmons (1999) emphasized the dynamic nature of the opportunity in the environment and the reactions of the entrepreneur or entrepreneurial team in cashing on the opportunities.

### **Uncertainty Bearing Theory**

Burnett (2000) stated that throughout the theoretical history of entrepreneurship, scholars from multiple disciplines in the social sciences have grappled with a diverse set of interpretations and definitions to conceptualize this abstract idea. Over time, "some writers have identified entrepreneurship with the function of uncertainty-bearing, others with the coordination of productive resources, others with the introduction of innovation, and still others with the provision of capital" (Hoselitz, 1952). Even though certain themes continually resurface throughout the history of entrepreneurship theory, presently there is no single definition of entrepreneurship that is accepted by all economists or that is applicable in every economy.

#### **3.2.1 Features of the Opportunity Approach**

From the summary of the literature on opportunity perspective the following facts are apparent:

- (1) There are several possibilities of opportunities in an environment at any particular point in time.
- (2) All these opportunities at the appropriate place and time affect the emergence, behaviour and performance of entrepreneurs.
- (3) The fact that the opportunities in combinations affect the entrepreneurship processes can be used to show the superiority of this approach over those that were focused on single factor.
- (4) The process of innovation, identification and creation of opportunities by entrepreneurs at a time and over time reflects the dynamic nature of the opportunity approach.
- (5) Among the studies reviewed on entrepreneurship no one raised the opportunity concept to the level of a theoretical proposition or model building.

### **3.3 Elements of Opportunity**

Based on literature review and very careful observation of the entrepreneurial environment the following elements of opportunity are identified.

**Opportunities Are Often Tied to Specific Purposes:** Opportunities are tied to specific purposes and circumstances. There is a specific purpose for every opportunity and in a given location. People have to meet certain individual, read book, listen to radio or tapes and do several other things in given locations. The privatization and commercialization processes in Nigeria open up investment opportunities based on current circumstance.

**Opportunities Are Endless:** Just like waves of the sea, life is a succession of opportunities (Dangote 2005). The opportunities that come on individuals or organization's way may determine the rate of his/its growth or progress. They are arranged as interjection that terminates a phase and opens up the next. The Nigerian Enterprises Promotion Decree 1972 opened up wide opportunities for Nigerians to venture into entrepreneurial career. On the other hand the 1986 Structural Adjustment Programme (SAP) created many hardships and blocked several areas of opportunities for entrepreneurs.

Greatness or Success is a Product of Opportunity: Abioye (1996) noted that every greatness is a product of opportunity. That there were great names that had made marks in the generations who would never have been mentioned if it was not for an opportunity that came their way.

An Opportunity opens up to another: An opportunity well utilized opens up to another. Opportunities are in sizes and phases. Just as in the home, an outer door leads to an inner one so it is with opportunities. Dangote (2005) as pointed out above illustrates this point.

Opportunity Elevates people and organization: Abioye (1996) observed that opportunity does not reduce people rather it increases them. He illustrated it with the Biblical parable of a man with five talents. For utilizing well the opportunity of five talents he received the opportunity to use ten.

Opportunities have Companions: Another aspect of the concept of opportunity is it features of companionship. Opportunities are often enveloped in challenges. To refuse to rise up to challenges or not to see it when it comes ones way is to allow opportunity pass by unattended to (Batty, 1974).

Opportunities involves risk taking: Risk in this sense relates to deliberate departure from the known to the unknown. The individual forsakes what he/she has in the hope of getting a better one that awaits him or her (Schumpeter, 1934, Drucker 1985 and Tushman and Nelson, 1991).

Opportunity involves facing opposition: There is the fact of opposition to opportunity which is failure to utilize it. The reason why some live better than the others is their attitude to opportunities that come their ways. Some embrace theirs while others despise and toy with theirs. The key to success is to learn to emphasize ones advantages and de-emphasize what looks like disadvantages. (Kilby, 1971 and Inegbenebor, 1995).

Opportunity may be in form of Luck: People often say that an element of luck is involved in entrepreneurship. This, others call destiny. However, any destiny not given an appropriate drive will lie dormant and impotent. Every destiny is to be driven to its destination (Batty, 1974).

Exploitation of opportunity involves discipline: This relates to having a sense of denial and control. Discipline places a nonnegotiable and uncompromising demand on people. By discipline, one responds to issues of life not as he or she wants or likes it to be, but as they are required or needed to be done. One refuses to respond to emotions in order to face the realities of life (Abioye, 1996). It requires disciplines in man, money and material management (Stevenson and Sahlman, 1990).

One should expect opportunity always: To look for opportunity as a matter of necessity is a normal thing to do. It is entrepreneurship. This is because opportunity is to be expected always. It is this expectation that translates pictures into reality. What you do not expect you cannot see. Therefore, one should always expect business opportunity (Meredith, Nelson and Neck, 1990).

#### 4.0 CONCLUSION

We noted from the unit that development of the current theories of entrepreneurship have

centered on either opportunity recognition or the individual entrepreneur. We also note that the theories include economic, socio-cultural, managerial, educational, developmental, experiential, innovation, network, structural and multi-dimensional and that each of these theories had been used in the study of the processes of entrepreneurship.

Finally, we discussed the features of opportunity approach to the theory of entrepreneurship as well as the elements of opportunity.

## 5.0 SUMMARY

In this unit, we have,

- discussed the theoretical frameworks in entrepreneurship;
- explained entrepreneurship as an interdisciplinary field;
- discussed the contributions of various disciplines in development of entrepreneurship as a field of study;
- evolved inter-linkages existing among these disciplines and their contributions.

In the next unit, we shall discuss another interesting topic titled 'entrepreneurship development'.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. From the unit, you will note that there are some elements of opportunity in the existing theories on entrepreneurship. List five and discuss them briefly.
2. Write short notes on the following:

- Economic Theory
- Political Theory
- Ecological Theory
- Historical Theory
- Managerial Theory
- Educational Theory
- Innovation Theory
- Network Theory
- Structural Theory
- Technological Theory
- Multi-Factor Approach
- Uncertainty Bearing Theory

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## UNIT 4          ENTREPRENEURSHIP          DEVELOPMENT

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Entrepreneurial Development: Concept and Context
  - 3.2 Evolution, Frontiers, divergence & Stagnation
  - 3.3 Alternative Approaches to Entrepreneurial Development
  - 3.4 Entrepreneurship: An Integrative Behavioural Framework
  - 3.5 Entrepreneurship Development Stages
  - 3.6 Importance of Entrepreneurship Development
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### 1.0 INTRODUCTION

In this unit, we discussed the theoretical frameworks in entrepreneurship; explained entrepreneurship as an interdisciplinary field; discussed the contributions of various disciplines in development of entrepreneurship as a field of study; and evolved inter-linkages existing among these disciplines and their contributions.

In the next unit, we shall discuss another interesting topic titled 'entrepreneurship development'.

### 2.0 OBJECTIVES

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

- discuss Entrepreneurial Development: Concept and Context;
- discuss Evolution, Frontiers, divergence & Stagnation;
- explain Alternative Approaches to Entrepreneurial Development;
- describe Entrepreneurship as An Integrative Behavioural Framework;
- list and discuss the Entrepreneurship Development Stages;
- state the Importance of Entrepreneurship Development.

### 3.0 MAIN CONTENT

#### 3.1 Entrepreneurship Development: Concept and Context

Many developing countries including India are in a state of transition. They are striving to move from a subsistence-oriented, tightly integrated, inward looking local economy to a surplus seeking, market led, outward looking economy. Such a move is possible only with the emergences of a multitude of a small-scale and rural enterprise in all works of life. This requires building up of a wider base of population capable of entrepreneurial behaviour. If we take India as an example in the context of development, we find that the initial build up of

entrepreneurial activity took place in urban center. This was followed by a trickle down effect in rural communities over time. Development strategy today, however, seeks a more proactive and immediate change in India. While much of policy making in this regard treats enterprise creation as a function of appropriate economic conditions (made possible through institutional and economic interventions), others have emphasized training and attitude change as vital elements in the process. But it needs systematic observations and research into the process through which entrepreneurship emerges and sustains itself.

Enterprises and entrepreneurs have been in the center stage of modernization since the days of Industrial Revolution. Economists, sociologists, psychologists and anthropologists have studied this concept, usually within the frontiers of their respective disciplines.

Models of entrepreneurship and research associated with them have identified several major issues such as vagueness in definition, conceptualizing entrepreneurship as a trait, significance of innovation in entrepreneurship, meaning of activities in the post-enterprise creation stage, validity of measures of entrepreneurial propensity and significance of demographic factors.

### 3.2 Evolution, Frontiers, Divergence & Stagnation

For a long time there was no equivalent for the term 'entrepreneur' in the English language. Three words were commonly used to connote the sense the French term carried: adventurer, undertaker and projector; these were used interchangeably and lacked the precision and characteristics of a scientific expression (Gopakumar, 1995).

Richard Cantillon (1680-1734), gave the concept some analytical treatment and assigned the entrepreneur an economic role by emphasizing on 'risk' as a prominent entrepreneurial function (Gopakumar, 1995). J.B Say and J.H. von Thunen. Jean Baptiste say (1767-1832), the French political economist assigned the entrepreneur with a crucial role-'coordination' and made a distinction between the entrepreneur and capitalist (Say, 1967).

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production-which he succinctly terms innovation-the entrepreneur activates the economy to a new level of development.

The concept of innovation and its corollary development embraces five functions:

- 1) introduction of a new good,
- 2) introduction of a new method of production,
- 3) opening of a new market,
- 4) conquest of a new source of supply of raw materials and
- 5) carrying out of a new organization of any industry.

Schumpeter represents a synthesis of different notions of entrepreneurship. His concept of innovation included the elements of risk taking, superintendence and coordination. However, Schumpeter stressed the fact that these attributes unaccompanied by the ability to innovate would not be sufficient to account for entrepreneurship (Gopakumar, 1995).

According to the Harvard School (Cole,1949) “entrepreneurship comprises any purposeful activity that initiate, maintain or develop a profit-oriented business in interaction with internal situation of the business or with the economic, political and social circumstances surrounding the business”. This approach emphasized two types of activities: the organization or coordination activity, and the sensitivity to the environmental characteristics that affect decision making.

Despite its stress on the human factor in the production system, the Harvard tradition never explicitly challenged the equilibrium – obsessed orthodox economic theory. This was challenged by the neo-Austrian School who argued that disequilibrium, rather than equilibrium, was the likely scenario and as such, entrepreneurs operate under fairly uncertain circumstances. The essence of entrepreneurship consists in the alertness of market participants to profit opportunities. A typical entrepreneur, according to Kirzner (1979) is the arbitrageur, the person who discovers opportunity at low prices and sells the same items at high prices because of intertemporal and interspatial demands.

To sum up, major theories and expositions from Cantillon to Kirzner, view the entrepreneur as performing various functional roles as risk taker, decision maker, organizer or coordinator, innovator, employer of factors of production, gap seeker and input completer, arbitrageur, etc. The most appropriate definition of entrepreneurship that would fit into the rural development context, argued here, is the broader one, the one which defines entrepreneurship as: “a force that mobilizes other resources to meet unmet market demands”, “the ability to create and build something from practically nothing”, “the process of creating value by pulling together a unique package of resources to exploit an opportunity”.

### **3.3 Alternative Approaches**

The underlisted are the alternative approaches to the study of entrepreneurship:

#### **3.3.1 Socio-Cultural Approaches**

Some scholars have stressed the importance of socio-cultural milieu in entrepreneurship development. They suggested that the socio-cultural history accounts for the performance of entrepreneurial functions by a considerable number of individuals.

Several writers have used a comparative framework to highlight the ways in which different societies, with differing interests, attitudes, systems of stratification and the like, operate to produce different kinds of businessmen and different patterns of entrepreneurial behaviour (Swayer, 1952).

#### **3.3.2 Psychological Approaches**

The focus in entrepreneurship shifted from the act to the actors (Shacer & Scott, 1991) in the work of McClelland (1961). According to McClelland and Winter (1969) need for achievement (n-Ach) is responsible for economic development. Greater the development of n-Ach, during early socialization of people, the more likely the economic development will be achieved. A society with a generally high level of n-Ach will produce more rapid economic growth. Achievement motivation could be included through training in self reliance, rewarding hard

work and persistence in goal achievement, and creating interest in excellence. In spite of being criticized (Schatz, 1971; Smelser, 1976), McClelland's (1987) analysis has triggered off the 'traits approach' to comprehended entrepreneurial behaviour.

In another psycho-social theory Hagen (1962) relegates economic variables to a relatively minor role and has put an emphasis on certain aspects of the personality. More recently, several other psychological approaches to entrepreneurship have been suggested. Hisrich (1990) identifies several characteristics of entrepreneurs in terms of (a) conditions that make entrepreneurship desirable and possible, (b) the childhood family background, (c) the education level, personal values and motivations and (d) role modeling effects and other support systems. Bird (1989) has also examined entrepreneurial behaviour by focusing on work and the family background, personal values and motivations.

### 3.3.3 Contemporary Focus

The two most common approaches used in researching the characteristics of entrepreneurs have been the trait approach and the demographic approach (Robinson et al., 1991). In the trait approach, the entrepreneur is assumed to be a particular personality type whose characteristics are key to explaining entrepreneurship as a phenomenon (Gartner, 1988; 1989). Following McClelland (1961, 1987), many other researchers have explored areas such as achievement motive, locus of control, risk taking, innovation etc.

In demographic approach, demographic information is used to arrive at a profile of a typical entrepreneur assuming that people with similar background possess similar underlying stable characteristics. The approach presumes that by identifying demographic characteristics of known entrepreneurs it will be possible to predict entrepreneurship in unknown populations (Robinson et al., 1991). The demographic variables found most examined are family background, birth order, role model, marital status, age, education level of parents and self, socio-economic status, previous work experience and work habits.

First, the approach assumes that human behaviour is strongly influenced by demographic characteristics such as sex, race, or birth order.

Second, the practice of using demographic characteristics as surrogates for personality characteristics is not appropriate. There is also a lack of adequate empirical evidence in this regard.

Third, the approach does not help predict who will or will not be an entrepreneur on the basis of knowledge of one's birth order, level of education or parental heritage. Besides, demographic characteristics being static in nature cannot explain a dynamic multifaceted phenomenon like entrepreneurship.

Hannan and Freeman (1977) have used the population-ecology model (PEM), to analyze the concept of entrepreneurship. The PEM seeks to predict the probability of births and deaths within a population of firms within a given industry niche, conferring the environment rather than the person with the status of the key entity in determining organizational survival. Recent research following this approach is focused on the presence, characteristics and change in a population or organization in an ecological context provided by the host society (Reynolds,

1991). Deficiencies of this model have been pointed out by Bygrave and Hoffer(1991). These models, while making statistical predictions at the population level, fail to predict the fate of specific firms.

### 3.4 Entrepreneurship: An Integrative Behavioural Framework

The key elements identified in the integrative behavioural framework of entrepreneurship are Personal Resourcefulness, Achievement Orientation, Strategic Vision, Opportunity Seeking and Innovativeness.

#### 3.4.1 Personal Resourcefulness

The root of the entrepreneurial process can be traced to the initiative taken by some individuals to go beyond the existing way of life. The emphasis is on initiative rather than reaction, although events in the environment may have provided the trigger for the person to express initiative. This aspect seems to have been subsumed within 'innovation' which has been studied more as the 'change' or 'newness' associated with the term rather 'proactiveness'.

'Personal resourcefulness' is the belief in one's own capability for initiating actions directed towards creation and growth of enterprises. Such initiating process requires cognitively mediated self regulations of internal feelings and emotions, thoughts and actions as suggested by Kanungo and Misra(1992).

#### 3.4.2 Achievement-Orientation

While personal initiative and purposeful behaviour can be view as a good starting point of an entrepreneurial effort, many such initiatives fail. The archetype successful entrepreneur is supposed to epitomize achievement motivation (McClelland, 1961) which facilitates the creation and development of enterprises in competitive environments. While critics have raised serious questions regarding the unique or overarching significance of n-Ach in the emergence of entrepreneurship (Smelser, 1976), this element of personality has continued in the mainstream of entrepreneurship theory (Shaver & Scott, 1991). People with high n-Ach are known to seek and assume high degree of personal responsibility, set challenging but realistic goals, work with concrete feedback, research their environment and choose partners with expertise in their work (Kanungo & Bhatnagar, 1978). Such characteristics of high n-Ach people contribute to successful completion of tasks that they venture to take up. Hence, we see achievement orientation as a set of cognitive and behavioural tendencies that are oriented towards ensuring that outcomes such as enterprise creation, survival and growth are realized.

#### 3.4.3 Opportunity-Seeking

The context in which an individual brings to bear his/her initiative, achievement orientation and visioning have a strong bearing on what it produces; when these forces are directed towards realizing surplus or value in a market environment, over a period of time, we see the creation of enterprises. This perspective of the entrepreneur as a merchant adventurer, who in Cantillon's view balances out imperfections in the market (Gopakumar,1995) in pursuit of what Bentham terms wealth, provided the historical basis for the development of entrepreneurship. The wealth is seen as the reward the entrepreneurial individual gains for the risk taken or exercise of judgment where there is greater possibility for error; this distinguishes between certain return from wage labour, and return from risk-oriented production for the market. Hence 'opportunity seeking' would include one's ability to see

situations in terms of unmet needs, identifying markets or gaps for which product concepts are to be evolved, and the search for creating and maintaining a competitive advantage to derive benefits on a sustained basis.

#### 3.4.4 Innovativeness

Schumpeter(1949) went on to conceptualize entrepreneurs as persons who are not necessarily capitalists or those having command over resources, but as ones who create new combinations of the factors of production and the market to derive profit. Innovativeness refers to creation of new products, markets, product-market combinations, methods of production and organization, and the like that enable the enterprise to gain competitive advantage in the market.

It is evident that each of the dispositions referred to may be found in all types of individuals (entrepreneurs and non- entrepreneurs). Then how can we relate these dispositions to entrepreneurship? We propose that when these five elements converge at high intensities, in non-restrictive environments, it is likely to give rise to enterprise formation. Therefore, one may find individuals who had created enterprises in the past now turning weak because they may no longer be proactive enterprise creators; instead they may be content to play the role of managers in their stable business, or turn to community leadership, and the like. Hence, this perspective lends to a process view of entrepreneurship.

### 3.5 Entrepreneurship Development Stages

Typically, entrepreneurship development follows a cycle consisting of stimulating, supporting and sustaining activities (Fadahnsi, 1992). The stimulating activities ensure the supply of entrepreneurs ready to take initiative and organize their enterprises by risk taking through awareness programmes. The support activities however, provide infrastructural facilities, resources like information, finance, technology, ability and skills for enterprises launching. The sustaining activities refer to efforts that facilitate the growth and continuity through expansion, modernization, diversification, technology and provision of enabling environment for growth and survival of small-scale industries.

#### 3.5.1 Entrepreneurship Development in Developed and Developing Countries

The existence of strong and effective small-scale industries has been considered as the best way to improve the socio-economic status of any society. In large number of developed and less developed countries there are excellent examples of government imitative aimed at promoting and sustaining entrepreneurship development in small-scale industries. The main purpose is usually to reduce unemployment. Other underlying reasons include:

A desire to establish an enterprise culture (Britain). A need to assist the disadvantage section of the population (e.g. ethnic minorities in Canada), the need to develop alternative to stagnation sector economy (Gambia) to reduce national dependence on imported goods (Mauritius and Malawi), rural transformation (e.g. Sierra Leone), diversification of the economy and reduction of unemployment (Nigeria) etc.

#### 3.5.2 Entrepreneurship Development in Small Scale Business of some Industrialized Nations.

Japan, Taiwan and America are example of industrialized countries, which recognize the definite

contribution of small-scale business sector in their march toward industrialization. The recognition of small business as a vital sector in development of Japanese economy could be traced to 1920's. Prior to this period, Japanese government emphasized on large-scale business such as steel and petrochemical industries while the small-scale industry was neglected. Although, this strategy improved industrialization in Japan, but a number of construction problems were created hence, the need for integrating small-scale industries into the national industrial policy became apparent. (Owuala, 1992).

Institutional supports for the growth of small-scale enterprises in Japan started after the Second World War. Prior to the emergence of formal sources of finance, informal sources such as trade credits constituted reliable means of financing. In recognition of the important role of small-scale business in Japanese economy, the financial institutions for the small-scale such as Medium Business Finance Corporation. The Peoples Finance Corporation, the Central Bank for Commerce and Investment Cooperatives. Small Business Credit Insurance Corporation and Small Business Investment Company were established. Japanese government supports for small scale industries have made important contribution in Japanese economy such as improving the standard of living, enhancing diffusion of technology, improving large scale business, modernization of small medium enterprise through technological diffusion which laid the foundation for their advanced technology.

Although, to the outsiders, Japan may be considered as a country dominated by large scale business such as Toyota, Honda, Sony and Matsushita etc, in view of the fact that these giant business firms make remarkable impact in the entire Japanese economy and even outside Japan. However, it is equally important to note the fact that these present days giant companies were once small firms which grew over the years to become giant an indication that small medium enterprises constitute important and indispensable foundation for Japanese industrial success and socio-economic growth. For instance, the number of people employed in small medium enterprises increased from 78% in 1969 to 82% in 1981. From 1976 – 1985 small medium enterprises consistently accounted for more than shipment of goods in Japan. Also in the wake of ageing of the Japanese society, many middle aged and elderly people are being absorbed in small medium enterprises.

Small business firms form an integral part of the total business scene in the United States and in most countries of the Europe. Traditionally, American small scale business firms were constituted mainly by small scale farmers, however, the total number of small farmers has declined in the recent years, but number of small non-farm business firms such as manufacturing, mining, wholesaling retailing, service and finance businesses has continued to grow each year (Steinhoff, 1982).

Small business in America means firms locally owned and managed. By customary, US government definition, a "small" business is one with fewer than 500 employees. By this definition, in 1992, 33% of all jobs in American were held by people working in small business organizations (Stoner, Freeman and Gilbert, 1996). In addition, majority of the well-known "giant" organizations in the contemporary American business environment commenced their operation as a small scale business. Wal-Mart, AT and T, General Motors for instance have humble beginning.

In recognition of the important role of small scale business in America, preservation and development of a healthy small business community as being the core areas of federal and state government policies, in America. Many legislative acts have been passed. In addition,

management assistance, financial supports, government aids and other benefits have provided for strong, healthy and profitable development of small scale business in America.

Government Departments and Agencies contributed immensely towards formulation and implementation of supporting policy statements for the development of small-scale business in American. The America Department of Commerce has pioneered a lot of legislations in support of small-scale business. The Small Business Administration was created by the American specifically to serve small-scale firms. Its support ranges from management and financial assistance to help in securing government contracts.

### 3.5.3 Entrepreneurship Development in Developing Countries of Africa

In the period after independence, many developing countries of Africa attempted to achieve industrialization of Africa attempted to achieve industrialization through public investment in large-scale business. The budgets and development plans of these countries were tailored toward investment in elephant projects with little economic viability and market prospect. Majority of these large firms were unable to succeed without heavy protection and subsidies. Economic recession and subsequent structural adjustment policies affected the performance of many of these large corporations. In addition, the budgetary constraints of these countries and policy shift toward privatization have made the various governments of the countries to look increasingly into the private sector to lead in future industrialization.

Specifically, the development of small-scale industries in Nigeria started in the middle of 1970s. Several attempts have been made to establish a viable and successful small-scale industrial climate. For instance, the establishment of Centre for Management Development in 1978. Promotion of the formation of Nigerian Association of Small Scale Industrialists. The various roles of government agencies such as Nigerian Bank for Commerce and Industries NBCI, National Directorate of Employment (NDE), Federal and States Ministry of Commerce, Federal Ministry of Employment, Labour and Productivity, National Youth Service Corps (NYSC), Higher Institution etc. These agencies organized seminars, conferences and workshops to develop entrepreneurs by tapping their latent talents in order to reduce the mounting rate of unemployment.

In addition to these agencies, monetary guidelines of successive annual budgets also guarantee sectoral allocation of loan able funds to the small-scale industrialists. In fact, banks like First Bank of Nigeria, United Bank for Africa, Nigerian International Bank etc. were once selected disbursing banks for small-scale industrialists. Meanwhile, absence of authentic and up-to-date information on the role of small and medium enterprises has affected the performance evaluation of this sector; however, available evidence indicates that the sector makes considerable contribution. A survey conducted by the Nigerian Social and Economic Research (NISER) suggested that small-scale industries accounted for 45% of industrial employment in the country.

### 3.6 Importance of Entrepreneurship Development

Economists and managers recognize the contributions of small-scale industries to the development of the society in general and individuals in particular (Ekpeyoung 1987, Aluko et al 1972, Lawal 1992, Baumback 1982. Stoner et al 1995, Steinhoff 1982). The arguments put forward to justify the expansion of small scale industries as a desirable strategy for industrial

and technological development include:

- (i) Small-scale industries will assist in developing indigenous entrepreneurial and managerial skill.
- (ii) Small scale enterprises as a labour intensive industry are likely to be consistent with employment and income distribution objectives.
- (iii) Small-scale industries enhance the exploitation of untapped industrial opportunities. (iv) Flexibility of small-scale enterprises enhances their adaptation to change.
- (v) Small-scale firms create for widely dispersion of industries in the society and therefore enhance regional economic balance.
- (vi) Existence of small-scale industries preserves competition and prevents monopoly regional economic imbalance.
- (vii) Higher value added to domestic economics
- (viii) Production of intermediate goods required by large enterprises. (ix) Promotion of effective domestic production
- (x) Moderation of rural urban migration
- (xi) Promotion indigenous technology.

### 3.7 Entrepreneurial Development in Nigeria

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

#### 3.7.1 Past Entrepreneurship Developments

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

Most of Nigeria's current woes trace back to a historic overdependence on oil to the negligence of all other sectors, including customary trades and agriculture. Decades of non-inclusive policies alienated the vast majority of Nigerians, plunging the country into a miasma of extreme poverty and ravaging civil and political strife. The climate of economic stagnation spawned a mammoth informal economy that continues to sustain the bulk of Nigeria's 148 million people. It is a measure of Nigeria's inherent entrepreneurial capacity that this informal, unorganised sector presently accounts for 65% of Gross National Product and accounts for 90% of all new jobs.

All these factors have tremendous relevance for Nigeria's future prospects, even more so considering the extent of official neglect and lack of assistance and infrastructure that the country's indigenous entrepreneurs have had to overcome. Harnessing the informal economy and leveraging its full potential is a prerequisite for Nigeria to emerge from the shackles of its Third World legacy.

### 3.7.2 The Future of Entrepreneurial Development in Nigeria

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

The primary focus of Obasanjo's policies centred on accelerated development through entrepreneurial education (which he made mandatory for college students of all disciplines) and the creation of conditions favourable to a new business regime built on innovation and adaptability. The federal government has since initiated successive programmes aimed at promoting enterprises through widespread use of technology and socially relevant business models. The extent of success of these and other measures, however, is still a matter of debate.

According to the 2007 Gallup poll, 69% of respondents planning new businesses had no intention of registering their operations, indicating they would still prefer to be part of the informal economy. In light of Nigeria's long-term goals, this is certainly bad news.

### 3.7.3 Obstacles to Enterprise Development

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

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

- Absence of a pro-active regulatory environment that encourages innovative enterprise development at the grassroots level.

- Significant infrastructural deficits (especially with regards to roads and electricity) and systemic irregularities inimical to small businesses.

- The presence of administrative and trade barriers that curtail capacity building and inhibit access to technical support.

- Absence of regulatory mechanisms for effective oversight of enterprise development initiatives, especially those in the MSME space.

- Poor access to vocational and skills-development training for rural and urban youths involved in the informal economy.

- Rampant political and bureaucratic corruption, together with the absence of social consensus on important macroeconomic policy issues.

More than 73% of Nigerians featuring in the Gallup survey conceded access to finance was the single-most important hurdle in the way to setting up successful enterprises. More telling is the fact that about 60% of respondents claimed that current policies, despite the government's focus on enterprise development, do not make it easy to start a business in Nigeria.

#### 3.7.4 Some Additional Factors to Consider

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

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

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

Inadequate access to finance and the absence of a credit policy that addresses the specific needs of enterprises.

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

To individuals, the advantages of entrepreneurship in small-scale business that result into self-employment include:

- (i) Personal satisfaction. The individual entrepreneur will do what he wants with his life.
- (ii) Entrepreneurship in small-scale businesses guarantees freedom for individuals.
- (iii) It also guarantees exclusive control of income
- (iv) Small scale business may offer job security for the owners
- (v) Social status of entrepreneurs may be improved by means of entrepreneurship in small scale business.

Meanwhile, some of the alleged disadvantages of entrepreneurship in small-scale industries include:

- (i) The possible loss of investment capital if the business fails.
- (ii) Uncertainty of income
- (iii) The possibility of operating in stressful conditions due to excessive long hours of work by the entrepreneur.
- (iv) Majority of small-scale industries have the tendency to fail easily.

#### 4.0 CONCLUSION

In conclusion, it worth noting that the history of the industrialized world pays tribute to the contribution made by the small scale entrepreneurs. The entrepreneurship development in America, Japan, India and Taiwan to mention just a few has recorded considerable success. In fact, the successes recorded made some international agencies like World Bank, IMF and so on to adopt EDP models of some of these countries, for developing countries.

Attempts to create entrepreneurship culture in Nigeria by means of EDP have not achieved the

desired goals. Despite the funding, the programmes have not been able to tap, and train successful entrepreneurs. Meanwhile, a critical look at entrepreneurship development in most of the industrialized nations will reveal the sequence of EDP in these countries. Majority of the industrialized nations once focused their effort on promotion and development of giant industries, which resulted into structural imbalance, and through appropriate policy framework, the development of small-scale enterprises that formed the basis of the industrial and technological growth was put in place.

The implication from the foregoing analysis is that through well coordinated and administered entrepreneurship development programme and appropriate institutional framework, Nigeria can develop entrepreneurship culture that will form the basis of the country's technological and industrial growth.

## 5.0 SUMMARY

In this unit, we have,

- discussed Entrepreneurial Development: Concept and Context;
- discussed Evolution, Frontiers, divergence & Stagnation;
- explained Alternative Approaches to Entrepreneurial Development;
- described entrepreneurship as an integrative behavioural framework;
- listed and discussed the entrepreneurship development stages; stated the Importance of entrepreneurship development; discuss entrepreneurial development in Nigeria.

In the next unit, we shall discuss the qualities/characteristics, types and functions of entrepreneurship.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss briefly the various stages of entrepreneurial development.
2. List and discuss some of the importance entrepreneurial development.
3. Does entrepreneurial development have any shortcomings? List some of them.
4. List four key elements identified in the integrative behavioural framework of entrepreneurship.
5. What are the challenges of entrepreneurship development in Nigeria? How do you see the prospects of ED in Nigeria?

## 7.0 REFERENCES/FURTHER READINGS

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## UNIT 5 CHARACTERISTICS, TYPES AND FUNCTIONS OF ENTREPRENEURS

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Characteristics of Entrepreneurs
  - 3.2 Types of Entrepreneurs
  - 3.3 Functions of Entrepreneurs
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### 1.0 INTRODUCTION

In this unit, we discussed the concept and context of entrepreneurial development; discussed evolution, frontiers, divergence & stagnation; explained the alternative approaches to entrepreneurial development; described entrepreneurship as an integrative behavioural framework; listed and discussed the entrepreneurship development Stages; and stated the importance of entrepreneurship development.

In this unit, we shall discuss the qualities/characteristics, types and functions of entrepreneurship.

### 2.0 OBJECTIVES

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

- list and discuss the characteristics of entrepreneurs;
- classify the entrepreneurs by types;
- enumerate and explain the functions of entrepreneurs.

### 3.0 MAIN CONTENT

#### 3.1 Entrepreneur's Characteristics

The most significant influence on an individual's decision to become an entrepreneur is workplace peers and the social composition of the workplace. The ability of entrepreneurs to innovate relates to innate traits such as extroversion and a proclivity for risk-taking. According to Schumpeter (1934), the capabilities of innovating, introducing new technologies, increasing efficiency and productivity, or generating new products or services, are characteristics of entrepreneurs. Entrepreneurs are catalysts for economic change. Research has found entrepreneurs to be highly creative with a tendency to imagine new solutions by finding opportunities for profit or reward (Olakitan, 2011).

There is a complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. Most studies,

however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent. Although certain entrepreneurial traits are required, entrepreneurial behaviours are dynamic and influenced by environmental factors. Shane and Venkataraman (2000) argue the entrepreneur is solely concerned with opportunity recognition and exploitation; although, the opportunity that is recognised depends on the type of entrepreneur which Ucbasaran et al. (2001) argue there are many different types dependent on their business and personal circumstances. However, it should also be noted that there are approaches that appear highly critical against valorized conceptions of entrepreneurs. For example, there are views that attribute pertinent conceptions to scholarly prejudices, such as unrealistically voluntaristic preconceptions on how a "normal" economic agent ought to behave (Ramoglou, 2011; Gartner, 2001).

Psychological studies show that the psychological propensities for male and female entrepreneurs are more similar than different. Perceived gender differences may be due more to gender stereotyping. There is a growing body of work that shows that entrepreneurial behavior is dependent on social and economic factors. For example, countries which have healthy and diversified labour markets or stronger safety nets show a more favourable ratio of opportunity- driven rather than necessity-driven women entrepreneurs. Empirical studies suggest that women entrepreneurs possess strong negotiating skills and consensus-forming abilities.

Starting from the time of report of the fascinating study of entrepreneurs by McClelland (1961) in which he came out with a list of nine characteristics of the entrepreneur; several other writers have equally illuminated the list of entrepreneur characteristics. McClelland (1961) listed the following characteristics of entrepreneur; need for achievement, desire for responsibility, preference for moderate risks, perception of probability of success, stimulation by feedback, energetic activity, future orientation, skill in organizing and attitude toward money. Kets De Vries (1985) listed need for control, sense of distrust, desire for applause and balancing internal and external lives. Stevenson and Gumpert (1985) presented imagination, flexibility and willingness to accept risks as characteristics of entrepreneur. Gartner (1989) in a review of literature reported several lists of characteristics of entrepreneurs. Kao (1991) identified the following characteristics of entrepreneur.

- Total commitment, determination and perseverance
- Calculated risk taking and risk seeking
- Seeking and using feedback
- Taking initiative and personal responsibility
- Opportunity and goal oriented,
- Drive to achieve and growth
- Persistent problem solving
- Realism and sense of humour,
- Internal locus of control
- Low need for status and power and integrity and reliability

Earlier on, Hornaday (1982) produced a list of forty two (42) characteristics which were often attributed to entrepreneurs; they are contained in table two below.

Table 2: Characteristics often attributed to entrepreneurs

1.	Confidence	22.	Responsibility
2.	Perseverance	23.	Foresight
3.	Energy, diligence	24.	Accuracy, thoroughly
4.	Resourcefulness	25.	Cooperativeness
5.	Ability to take calculated risk	26.	Profit orientation
6.	Dynamism, leadership	27.	Ability to learn from mistakes
7.	Need to achieve	28.	Sense of power
8.	Optimism	29.	Pleasant personality
9.	Versatility, knowledge of product market, machinery, technology	30.	Egotism
10.	Creativity	31.	Courage
11.	Ability to influence others	32.	Imagination
12.	Ability to get along well with people	33.	Perceptiveness
13.	Initiative	34.	Tolerance for ambiguity
14.	Flexibility	35.	Aggressiveness
15.	Intelligence	36.	Capacity for enjoyment
16.	Orientation to clear goal	37.	Efficacy-effectiveness
17.	Positive response to challenge	38.	Ability to trust workers
18.	Independence	39.	Sensitivity to others
19.	Responsiveness to suggestions and criticism	40.	Honesty, integrity
20.	Time competence, efficiency	41.	Commitment
21.	Ability to make decisions quickly	42.	Maturity, balance

Source: Adapted from Kuratko D.F and Hodgets R.M. (2001).

Min (1999) produced a list of ten top characteristics of entrepreneurs.

Table 3: The top ten Characteristics of today Entrepreneurs

1. Recognize and take advantage of opportunity
2. Resourceful
3. Creative
4. Visionary
5. Independent thinker
6. Hard worker
7. Optimistic
8. Innovator
9. Risk taker
10. Leader

Source: Min, S.J. (1999) made not born, entrepreneur of the year magazine, vol, 80.

The characteristics of entrepreneur as seen from the works of writers cited above were examined from two dimension. These are from the negative side as shown in the work of Kets De Vries (1985) and from the positive perspective as reflected in the works of the other writers. Several skills have been described as characteristic of entrepreneur. These include: organizing, planning, innovation, inner control, goal setting, risk taking, decision making, communication, delegation, interpersonal relations, reality perception, self-confidence and independence. The self-confidence and independence result in additional characteristics, which is lack of fear of failure to a very high extent. It should be noted that the list of entrepreneur characteristics given above are by no means exhaustive, but they provide significant information on one of the dimensions of entrepreneur. We shall now examine some of the cited characteristics of entrepreneurs from both the bright or positive and the dark or negative sides.

### 3.1.1 Bright Characteristics of Entrepreneur

It includes the following:

The need for achievement, Desire for responsibility, Preference for moderate risks, Perception of Probability of success, Stimulation by feedback, energetic activity, future orientation, skill in organizing, attitude toward money, commitment, determination and perseverance.

### 3.1.2 The Dark Characteristics

The dark side of entrepreneur exists which are outside the above discussed ones, focusing on successes and achievements. Kets de Vries (1985) discussed the existence of negative factors that may affect entrepreneur and dominate their behaviour. This dimension of entrepreneur has destructive source existing in the energetic force of successful entrepreneur. In general,

Kets de Vries (1985) classified the dark side into four types, need for control, sense of distrust, desire for applause and balancing the internal and external lives of the entrepreneur. Kuratko and Hodgetts (2001) reclassified them into three broad categories; entrepreneur's confrontation with risk, entrepreneur's stress, and the entrepreneur's ego. Let us examine them one after the other:

### 3.1.3 Entrepreneur's Confrontation with Risk

The entrepreneur's actions of starting or buying a new business involve risk. Increase in risks has corresponding increase in rewards. Consequently entrepreneur tends to evaluate risk thoroughly and carefully. O'Neal (1993) notes that people who innovate and start new businesses are willing to accept risk for what they believe in. He notes that they have the ability to cope with a career surrounded in ambiguity, consistent lack of clarity. They have the urge to put their imprint on their innovation.

Although unbridled ego can be destructive, entrepreneur's ego is wrapped up in the enterprise. All of these tend to compound the risk faced by the entrepreneur. Baty (1974) identified three types of risks facing the entrepreneur; these are financial risk, career risks and personal. Liles (1974) also listed four types of risk faced by entrepreneur these are financial risk, career risk, family/social risk and psychic risk.

### 3.1.4 Entrepreneur and Stress

The achievement of entrepreneurs' goals for independence, wealth, work satisfaction, responsibility etc are not without a price, (Akande, 1996). They result in some problems for the entrepreneur. Akande (1996) note that majority of entrepreneurs studied had problems of backaches, indigestion, insomnia or headaches. To achieve their goals entrepreneurs were prepared to live with these effects of stress. Stress in general is great worry caused by difficult situation or something that causes this situation (Ogundele, 2005).

**Entrepreneur's Stress:** Stress is a function of differences between an individual expectations and capacity to meet demands and also differences between the individual's expectations and personality. The inability to meet role demands causes the onset of stress. Entrepreneurs' work demands and expectations far exceed their abilities to perform as organization creators; therefore, they are prone to experience stress.

The entrepreneurs' roles or functions noted earlier on and the operating environment can lead to stress. The creation of a new organization by entrepreneur involve several risks namely; financial, career, family, social and psychic. Added to these are communicating and interacting with several external constituencies, ranging from customers, suppliers, government agencies, regulators, professional associations, consultant etc. These are also his/her relations with members of internal team. All these are stressful.



### 3.1.5 The Entrepreneur Ego

The last of the dark side of the entrepreneur is the inflated ego, coming after the risks and the stress, and they combine to make complete picture of the negative side of entrepreneur. Kets de Vries (1985) note that some characteristics of entrepreneurs that lead to success can be carried to the extreme and thus result in destructive implications for the entrepreneurs. They are: Need for control sense of distrust, desire for success and unrealistic optimism.

### 3.1.6 Start Small Finish Big

Deluca & Hayes {2000}, outlined Fifteen Key Lessons Based on their personal experience as a micro entrepreneur, and the experiences of twenty one other micro entrepreneurs, they will share with you the Fifteen Key Lessons that will help you start small and finish big. These lessons are:

1. Start Small. It's better than never starting at all.
2. Earn a Few Pennies. It's good practice before you earn those dollars.
3. Begin With an Idea. There's probably a good one right under your nose
4. Think Like a Visionary. Always look for the Big Picture.
5. Keep the Faith. Believe in yourself and your business even when others don't.
6. Ready, Fire, Aim! If you think too much about it, you may never start.
7. Profit or Perish. Increase sales, decrease costs. Anything less and your business will perish.
8. Be Positive. The School of Hard Knocks will beat you less and your business will perish.
9. Continuously Improve Your Business. It's the best way to attract customers, and generate sales and profit.
10. Believe In Your People. Or they may get even with you.
11. Never Run Out of Money. It's the most important lesson in business.
12. Attract New Customers Every Day. Awareness, Trial, and Usage work every time.
13. Be Persistent: Don't Give Up. You only fail if you quit.
14. Build a Brand Name! Earn your reputation.
15. Opportunity Waits for No One. Good or bad, breaks are what you make them.

Why are these lessons valuable? Because if you follow them, you are more likely to be successful in the development of your business. These are the lessons we learned while building Sub-way, and they are the same lessons that many other micro entrepreneurs have learned and applied, too. If you plan to grow your business beyond a one or two person enterprise, there will be other lessons to learn, of course. But these Fifteen Key Lessons will help you get started and keep you focused.

### 3.1.7 Entrepreneur Behaviour

Behaviour ordinarily consists of activities, interactions, sentiments and performance of individuals and groups (Bello, 1988). Entrepreneur behaviour therefore refers to the activities, action, interactions, sentiment and the performance of entrepreneurs, based on a set of characteristic, attitudes, motivation and the functions performed in relation to relevant environmental issues of constraining and facilitating dimensions. Singh (1986) notes that

Entrepreneurial Behaviour (EB) is a function of an individual's personality characteristic and environment factors. This was represented as  $EB = F(P, E)$  where:

P = Personality Characteristics  
E = Environmental Factors.

He states that the environmental factors could be either nurturing or impediments. These factors include; social/psychological factors including family, peer group, formal and informal associations, financial, material availability, technology availability/applicability political legislation etc. The Personality characteristics refer to the dimension of entrepreneur that is analyzed in the proceeding segments. Ducker (1977) examine innovative attitude, in people and performance, he asserted that innovation is attitude and practice, the practice here refers to behaviour.

Steveuson and Gumpert (1985) Stevevson and Sahlman (1987), and Stevenson and Groubeck (1994) look at entrepreneur behaviour as a continuum with two extremes. At one extreme is the Promoter type manager who feels confident of his/her ability to seize opportunity regardless of the resources under current control. At the opposite extreme is the trustee type manager who fosters efficient management by emphasizing the efficient utilization of existing resources. The "promoter" is regarded as typical (entrepreneur) who is driven by perception of opportunity, in contrast with the "trustee" regarded as administrator who (administrate) and is driven by resources currently controlled.

An entrepreneur is an owner or manager of a business enterprise who makes money through risk and initiative.<sup>[1][note 1]</sup> The term was originally a loanword from French and was first defined by the Irish-French economist Richard Cantillon. Entrepreneur in English is a term applied to a person who is willing to help launch a new venture or enterprise and accept full responsibility for the outcome. Jean-Baptiste Say, a French economist, is believed to have coined the word "entrepreneur" in the 19th century, when he defined an entrepreneur as "one who undertakes an enterprise, especially a contractor, acting as intermediary between capital and labour".

### 3.1.8 Profession

Entrepreneurs become what they are for several reasons. Many, depending on the person, choose to do so to avoid workplace drama, discrimination, being taken advantage of, or just to be their own boss. No formal education is required to become an entrepreneur, as they rely on their own knowledge and talent to achieve success. Entrepreneurs have a lower risk of being set up to fail or controlled due to the fact that they are often their own boss. Knowledge of ones field, determination, talent, the ability to recover from bad situations, trusted peers and collaborators, supply and demand, and luck are all important factors in becoming a successful entrepreneur (Wikipedia, 2011).

### 3.1.9 Leadership attributes

The entrepreneur leads the firm or organization and also demonstrates leadership qualities by selecting managerial staff. Management skill and strong team building abilities are essential leadership attributes for successful entrepreneurs. Scholar Robert. B. Reich considers leadership, management ability, and team-building as essential qualities of an entrepreneur. This concept has its origins in the work of Richard Cantillon in his *Essai sur la Nature du Commerce en* (1755) and Jean-Baptiste Say in his *Treatise on Political Economy*.

Entrepreneurs emerge from the population on demand, and become leaders because they perceive opportunities available and are well-positioned to take advantage of them. An entrepreneur may perceive that they are among the few to recognize or be able to solve a problem. Joseph Schumpeter saw the entrepreneur as innovators and popularized the uses of the phrase creative destruction to describe his view of the role of entrepreneurs in changing business norms. Creative destruction encompasses changes entrepreneurial activity makes every time a new process, product or company enters the markets.

### 3.1.10 Theory-based Typologies

Recent advances in entrepreneurship research indicate that the differences in entrepreneurs and heterogeneity in their behaviours and actions can be traced back to their founder's identity. For instance, Fauchart and Gruber (2011, *Academy of Management Journal*) have recently shown that -based on social identity theory - three main types of entrepreneurs can be distinguished: Darwinians, Communitarians and Missionaries. These types of founders not only diverge in fundamental ways in terms of their self-views and their social motivations in entrepreneurship, but also engage fairly differently in new firm creation.

## 3.2 Types of entrepreneurs

The literature has distinguished among a number of different types of entrepreneurs, for instance:

### 3.2.1 Social entrepreneur

A social entrepreneur is motivated by a desire to help, improve and transform social, environmental, educational and economic conditions. Key traits and characteristics of highly effective social entrepreneurs include ambition and a lack of acceptance of the status quo or accepting the world "as it is". The social entrepreneur is driven by an emotional desire to address some of the big social and economic conditions in the world, for example, poverty and educational deprivation, rather than by the desire for profit. Social entrepreneurs seek to develop innovative solutions to global problems that can be copied by others to enact change (Wikipedia, 2010).

Social entrepreneurs act within a market aiming to create social value through the improvement of goods and services offered to the community. Their main aim is to help offer a better service improving the community as a whole and are predominately run as non profit schemes. Zahra et al. (2009: 519) said that "social entrepreneurs make significant and diverse contributions to their communities and societies, adopting business models to offer creative solutions to complex and persistent social problems".

### 3.2.2 Serial entrepreneur

A serial entrepreneur is one who continuously comes up with new ideas and starts new businesses (Wikipedia, 2010). In the media, the serial entrepreneur is represented as possessing a higher propensity for risk, innovation and achievement. Serial entrepreneurs are more likely to experience repeated entrepreneurial success. They are more likely to take risks and recover from business failure.

### 3.2.3 Lifestyle entrepreneur

A lifestyle entrepreneur places passion before profit when launching a business in order to combine personal interests and talent with the ability to earn a living. Many entrepreneurs may be primarily motivated by the intention to make their business profitable in order to sell to shareholders. In contrast, a lifestyle entrepreneur intentionally chooses a business model intended to develop and grow their business in order to make a long-term, sustainable and viable living working in a field where they have a particular interest, passion, talent, knowledge or high degree of expertise (Wadhwa, 2010). A lifestyle entrepreneur may decide to become self-employed in order to achieve greater personal freedom, more family time and more time working on projects or business goals that inspire them. A lifestyle entrepreneur may combine a hobby with a profession or they may specifically decide not to expand their business in order to remain in control of their venture. Common goals held by the lifestyle entrepreneur include earning a living doing something that they love, earning a living in a way that facilitates self-employment, achieving a good work/life balance and owning a business without shareholders. Many lifestyle entrepreneurs are very dedicated to their business and may work within the creative industries or tourism industry (Peters, Frehse and Buhalis (2009), where a passion before profit approach to entrepreneurship often prevails. While many entrepreneurs may launch their business with a clear exit strategy, a lifestyle entrepreneur may deliberately and consciously choose to keep their venture fully within their own control. Lifestyle entrepreneurship is becoming increasingly popular as technology provides small business owners with the digital platforms needed to reach a large global market (Wikipedia, 2010). Younger lifestyle entrepreneurs, typically those between 25 and 40 years old, are sometimes referred to as Treps (Goodman, 2011).

### 3.3 Functions of Entrepreneur

Many writers on entrepreneurs have used the functions performed by the entrepreneur, to explain who the entrepreneur is. Jhingan (2003) notes that the functions of an entrepreneur have undergone many changes at the hands of economists. Some economists contend that the function of the entrepreneur is to undertake risks and uncertainty, to others the coordination of productive resources, to Schumpeter, introduction of innovation, further, others focus on provision of capital. Kilby (1971) listed 13 functions that were performed by Nigerian entrepreneurs. They are contained in the segment on management theory of entrepreneur. Fadahunsi (1992) summarized them into 10 functions. These are:

1. Searching for and discovering new information
2. Translating new information into new market, techniques and goods.
3. Seeking and discovering economic opportunities.
4. Evaluating economic opportunities
5. Marshalling financial resources necessary for the enterprise
6. Making time-binding arrangement, time management
7. Taking ultimate responsibility for management
8. Providing for being responsible for motivational system within the firm
9. Providing leadership for the work group
10. Taking the ultimate risk of uncertainty.

Others have classified the function into economic, social and technological spheres (Owualah, 1999 and Ogundele, 2004).

### 3.3.1 Social Functions of Entrepreneur

1. Transforming traditional indigenous industry into a modern enterprise.
2. Stimulating indigenous entrepreneurship, the entrepreneur has in his employment potential rivals.
3. Jobs or employment creation in the community
4. Provision of social welfare service of redistributing wealth and income
5. Providing leadership for the work group
6. Providing for and responsible for the motivational system within the firm

### 3.3.2 Economic Functions of Entrepreneur

1. Marshalling the financial resources necessary for the enterprise or mobilizing saving
2. Bearing the ultimate risk of uncertainty.
3. Providing avenue for the dispersal and diversification of economic activities.
4. Utilization of local raw material and human resources

## CONCLUSION

We have observed from our study of the unit that there is a complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. We note that most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent. We also note that although certain entrepreneurial traits are required, entrepreneurial behaviours are dynamic and influenced by environmental factors.

We listed and discussed the characteristics of an entrepreneur, classified entrepreneurs by types and enumerated the functions of entrepreneurs.

## 5.0 SUMMARY

In this unit, we have,

- listed and discussed the characteristics of entrepreneurs;
- classified the entrepreneurs by types;
- enumerated and explained the functions of entrepreneurs.

In the next unit, you will be introduced to yet another interesting topic titled 'history of entrepreneurship in Nigeria'.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. List the characteristics of entrepreneurs that you know of.
2. Enumerate the types of entrepreneurs and discuss each of them.
3. What are the functions of entrepreneurs? List and discuss each of them.

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## **Unit 6 Female Entrepreneurs In Nigeria (Gwagwalada FCT)**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Nature of Women’s Enterprises
  - 3.2 Types of Entrepreneurs
  - 3.3 Nature of Women’s Enterprises
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### 1.0 Introduction

It is believed that women are naturally endowed with the capacity to do domestic duties and material roles while men were to be breadwinners. At the playground in those days in the village, the girl children gather leaves and sticks (used as firewood) to prepare play food while the male children use mud to build their little castles. This indirectly tells the girl of her future role in the upkeep of the home. A woman has four eyes: two at the front and two at the back. Folorunsho (2009), posit that people are born male or female, grow up to become boy or girl and take up roles as man or woman.

Non-Governmental Organizations (NGOs) and the Government of the day support on girl-child training has greatly changed the idea of women staying at home to nurture and care for the home only. Feminist

anthropologist, biologists and psychologists have explored what had been held as the universal truths about women's nature (Wilson 1991).

The number of women in the labour force is on the increase. It would be more in the 21st century. Projections for the period 1990-2005 indicated that men will leave the labour force in greater number than women by more than 4 million (Kuratko & Hodgets 1995). There is a gradual increase in the number of women employed in the civil service from 10% in 1990 to 14% in 2005 (Federal Office of Statistics, 2006). It has been observed that the number of Nigerian female Doctors and Dentists has considerably increased between 1980 and 1992 (Ojo, 1997).

Gender inequality has reduced to a large extent in Nigeria. The President Obasanjo's administration set a trend by appointing women into major positions and this trend has continued. Women have contributed immensely to productive activities and thus have contributed more to overall development in Nigeria. Women entrepreneurial activities have a positive social effect for the women and their social environment.

## 2.0 OBJECTIVES

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

Understand the problems of Gender Inequality

list and discuss the Nature of Woman's Enterprises in Nigeria and Africa at Large

Identify the impact/ Characteristics of Woman Enterprises in Nigeria and Africa at Large;

enumerate and explain problems faced by Woman in enterprises.

## 3.0 MAIN CONTENT

### 3.1 Nature of Women's Enterprises

Entrepreneurs: are defined by the World Bank as people who perceive profitable opportunities, are willing to take risks in pursuing them and have the ability to organize a business. In egbenebor sees entrepreneurs as ordinary human beings who have developed certain skills, attitudes and behaviour, which enable them to perform their roles in the society (Inegbenebor, 2006). According to Meredith, Nelson and Neck, (1996) entrepreneurs have abilities, which apply to a wide range of careers.

The term women entrepreneurs refer to a wide range of women-owned/run Enterprises. A woman-owned business in USA is defined as a small business that is at least 51 percent owned, managed and operated by one or more women (Women's Business Ownership Act 204 as quoted by Okojie, 2006)

Women entrepreneurs are those women who are involved in starting and owning a business.

Enterprise can be an organization especially business firm ranging from micro, through cottage, small and medium scale industries. The definition given to each of them depends on their asset base and on a particular country.

Women-owned businesses are mainly in the service sectors; others are wholesale and retail sectors, finance, etc. for examples, cassava milling, hair and beauty salon, catering services, groundnut oil production and fashion design, etc.

### 3.2 Types of Women Entrepreneurs

The type of women entrepreneurs depend on two issues, first are those attached to conventional entrepreneurs idea in the form of individualism and self reliance and those whose willingness to accept conventional gender roles subordinate them to men.

(i) Conventional Entrepreneurs: There are those who are highly committed to both entrepreneurial ideas and conventional gender role.

(ii) Innovative Entrepreneurs: Are those who hold strong belief in entrepreneurial ideas but who had a relatively low attachment to conventional gender roles.

(iii) Domestic Entrepreneurs: Are those who organize their business life around the family situation and believe very strong in conventional female roles and hold low attachment to entrepreneurial ideas.

From a research conducted by Beverly Kitching and Atsele Worldie (2004) they arrived at the following: agriculture, manufacturing, hotel/catering, education and trade/retailing (see table 1).

In Lagos female managers comprised 21% in agriculture and 48% in education, 10% in trade and retail and only 6% in finance and services. In Abuja, women ranked 25% in Agriculture 42% in education, 15% in trade/retail, only 5% of women held management positions in finance/services.

### 3.3 Women Enterprises in Nigeria

The economic activities of most women are based on the informal sector of the economy both at rural and urban areas. The reason may be due to the fact that entry to informal sector is easy, and open to all categories of people. It include hairdressers, fashion designers, beauty and skin salons, crafts making

etc. The informal sector is characterized by reliance on indigenous resources, family ownership of enterprise, labour-intensive and adapted technology, unregulated and competitive markets and skills can be acquired outside the formal educational system.

Most women are predominantly in the informal sector because it does not require any minimum level of education as in the formal sector; second, they can combine their activities with domestic responsibility and third is that it requires little capital to establish most businesses in the informal sector. The formal sector on the hand is little bit more difficult to enter. This is because it involves a certain minimum level of education. It involves much capital and frequently relies in overseas ownership. There is operation of protected market through tariffs, trade licenses etc.

### 3.4 Role and Contributions of Women Enterprises in Gwagwalada, Abuja(Nigeria)

Women throughout all ages have made significant contribution to their communities and families. In terms of agriculture, men married many wives many decades ago to help them in their farm work. Women have also been known to be involved in small scale, medium scale and cottage enterprise.

Women-owned enterprises are making good contributions in the following areas in the economy:

(i) Economic: Job creation both for the women and others can be a panacea for the increasing unemployment/under employment rate in the country. Women are afforded opportunities to create their own businesses and make adequate use of their acquired skills and training.

(ii) Social: Women are contributing immensely to both their families and the communities. Most of the women-owned enterprises are serving not only the communities but also larger business organizations. They also offer women the possibilities of effectively managing their dual role as career women and as mothers at home.

(iii) Political: Although politically, there are few women in political position. Encouraging women enterprise will considerably help to reduce the disparities between women and men increase their autonomy and allow them to play a more active role in the political and economic life of their country.

The importance of women entrepreneurs in the Small and Medium Scale Enterprise (SME) cannot be over emphasized. First, women own a sizeable proportion of businesses across the globe. Second is welfare improvement for example agencies with welfare programmes including programme against child trafficking, prostitutions, poverty eradication, etc. can use many women owned enterprises since women are mostly affected by these activities.

Another rationale for the importance of SME is women's productive activities particularly in industries. This has not only empowered them but has enabled them to meaningfully contribute to the overall development of the economy. Their entrepreneurial activities in both small and medium Scale production activities or in the formal/informal sector have added value to the economy and the social aspects of the women and their social environment. The implication of these is that women becoming both economically and socially empowered.

In Gwagwalada, women play important roles in small enterprise development. They are mostly involved in crafts, weaving of sweaters for school children, mat making; farming both production of food crops, fish farming and poultry, mortar and pestle making, retail and whole scale trade.

Most businesses like skin care and beauty businesses, cosmetics, restaurants, café, wholesale and retail shops are owned and run by women in Gwagwalada (See table). From the study, Agriculture, Craft, and business centre is represented by 5% respectively; Hair dressing, beauticians is represented by 4%; Catering, foods and drinks is represented by 16%; 2% represents those involved in Manufacturing, and interior decoration respectively; 8% of the respondents are into tailoring business; 6% are into petroleum products and Education; while 42% are involved in sales of different items ranging from food stuff, clothing materials and household items.

#### Characteristics of Women Entrepreneurs in Gwagwalada

We shall discuss pull and push factors; also we shall look at personal characteristics as and business characteristics. Women business owners can be characterized as young, married, college-education and work experience before and after opening up their own business, family and educational background.

Many surveys have been carried out on male entrepreneurs and little on their female counterpart. Women entrepreneurs are well educated. Most of respondents are in either diploma programme or part degree programmes; others have graduated from secondary and others are university graduates.

When asked whether they wish to go higher in their educational pursuit 59.6% said no for now, 20.2% said yes and are already in a programme respectively.

#### Reasons for Working in Business in Gwagwalada

Women in business were interviewed at Gwagwalada and we got the following responses as their reasons for going into business:

##### Pull and Push Factors in Women Entrepreneurship in Gwagwalada(Nigeria)

(a) No Job: 11.9% of the respondents said that they were not able to secure jobs either in a private or government establishment. This group believe that self employment gives them more time to take care of their family. According to this group of respondents they have remained unemployed for a long time and are not willing to continue looking for job. 1.8% of the respondents was due to loss of job and 2.8% was as a result of having no job and no husband

(b) Poor Salary: 6.4% of the respondents' assert that the salary earned from their employment is not enough therefore they needed other means of making money in order to cope with their family challenges.

- (c) Desire for autonomy: 17.4% of the respondent these respondents believe they can never work for anybody no matter how much the person is ready to pay. They just want to be their own boss.
- (d) Self satisfaction: 22.0% of the respondents said that are just satisfied doing what they love doing best apart from the money they make from it. 4.8% of the respondents just have passion for what they are doing. These women are mostly in education sector
- (e) Retrenchment: 1.8% of the respondents' were affected by rationalization by the government. They have no other means of livelihood but to go into business.
- (f) Family Support: 17.4% of the respondent entered into business to complement their husbands' effort. Some of the women said that their husbands were out of job. According to them their husbands are not doing anything so they to go into business to support their kids.
- (g) Not willing to be confined as a housewife: 10.1% of respondents said they were tired of waiting for their husbands to give them money for even the diminutive needs.
- (h) Challenges: some of the respondents posit that challenges from inlaws and relatives has pushed some of them to own their business. Other challenges mentioned by some of these women are that their husbands are not willing to give them money for the up keep of the house.
- (i) Widow: some of the respondents that are widows said that they are not getting support from in-laws and relatives so they go into business.
- (j) Poor educational background: 4.8% of the women interviewed entered into business due to poor educational background and they don't want to be idle.
- (k) Money Making/ Profit: 100% of our respondents believe that they entered into business to make money. Over 80% of these women they entered into business because they heard that people are making profit from such a business and they too can make profit. Others believe that whether they make profit or not they just love what they are doing.
- (l) Increase in self confidence: Generally apart from specific reasons given over 90% of the women interviewed believe that their contributions to the society through their entrepreneurial activities give them self confidence

### Characteristics

We shall summarize the characteristics of women entrepreneurs from the interview we conducted and interactions we had with women entrepreneurs, we discovered that women exhibited the following characteristics:

- (i) Need for achievement: The women interviewed needed to excel, do their job well and had need to measure personal accomplishment. Most of them had flare for social recognition, prestige and status.
- (ii) Locus of Control Beliefs: That is the extent to which people believe that their behaviours affect what happens to them. Need to meet people's needs by identifying gap in the immediate environment. They set goals and do all it takes to achieve these goals. They are also focused. They compete with a self imposed and objective standard.
- (iii) Risk Propensity: That is the degree to which an individual is willing to take chances and make risky decisions. They are catalyst for innovation.
- (iv) Self-esteem:- The extent to which a person believes that he/she is a worthwhile and deserving individual. This is seen by the women's intention to seek high status entrepreneurial activities, be more confident in their ability to achieve higher level of performance and derive greater intrinsic satisfaction from their jobs.
- (v) Intrinsic job satisfaction: This is inherent satisfaction got from being an entrepreneur
- (vi) Internal locus of control: That is the belief that they are in control of what happens to them.
- (vii) Self Efficacy: That is the extent to which a person's believe in his/her capabilities to perform a task. These women exhibited high level of self-efficacy.

(viii) Education and Experience: Most women are acquiring skills and a majority of the entrepreneurs have at least primary education, some secondary education and others are graduates.

### 3.5 Problems Faced by Women in Entrepreneurship

(i) Finance: One of the major problems faced by female entrepreneurs in Gwagwalada is ability to get access to capital especially start up capital. Most of the time they complain by most women is that guarantees required for external financing may be beyond the scope of their personal assets and used it track record. There is also the

problem of being able to penetrate informal financial network.

Stereotyping and disconnection affects most women ability to gain access to finance. It has been discovered that women suffer the effects of financial and economic downturns more than men (Folorunsho, 2009). Emerson (2000) posits that generally and around the world women are poorer than men as women are disproportionately employed in unpaid, underpaid and non-formal sectors of the economy. The outcome of a research facilitated by International Labour Organization (ILO, 2000)

(ii) Initial amount of capital was relatively low: About 87% of the respondents said that initial amount of capital was relatively low. 13% of them used their wedding gifts to start gift item shop; 10% of them used food stuffs from the house to start off.

(iii) Demolition: They current demolition exercise affected some of our respondents especially store owners.

(iv) Finding customers/clients: It is not easy to convince people in Gwagwalada to try a new product.

(v) Access to Information and professional advice: Most of the women do not have adequate access to information and professional advice. Most of them have inadequate knowledge on computer and Internet activities. Other problems are inadequate education, qualification and little expense or no qualification, difficulty in getting competent staff, low profit, inability to delegate, high level of competition.

(vi) Family Commitment: This includes women's traditional status as wives and mothers, childcare, family pressure. (To make an impact, a woman has to work as twice hard as men).

(vii) Market fluctuations: There is price instability and cost of raw materials fluctuates. This has affected prices of product hence there will be sales drop

(viii) Piracy: There is a lot of piracy in Nigeria. Some people duplicate another person's business without permission. This has affected women owned businesses in Gwagwalada.

(ix) Government regulations: Although there is provision for equal pay for equal work without decimation on account of sex in the Nigerian constitution, Nigerian women still encounter informal discrimination in employment.

### 3.5 Constraints/Challenges

Women entrepreneurs in Nigeria face similar challenges and constraints than their counterparts in other developing countries. Few decades age, the significant contribution of women in sustaining socio-economic well-being of their families had been taken for granted and even neglected by the society. This has resulted in underestimation of woman socio economic contribution to the economy and under utilization of their tremendous potentials in socio economic activities in the Nigeria business environment.

The contributions of most women who dominate the informal sector are not included in the National Income Account. There are many constraints on women and their ability to upgrade their production from time to time. These include:

Poor access to market, information, technology and finance: - most women do not have access to computers and Internet facilities. Others do not know how to operate computers. Most women interviewed do not have time to read newspapers and magazines and watch some educative television programmes. Their role as mothers and wives was a big constraint as it gives them little time for extra training and acquiring of skills. Access to finance is also a major challenge. (See section above on finance).

Role Conflicts: Women owners are likely to experience work – home role conflict regardless of the structure of their family or the number of hours spent at work. This work-home conflict has been associated with the level of business satisfaction and perceived business success. Personal or intrinsic satisfaction is achieved if business meets or exceeds owners expectations and ruin reduce conflict level Role conflict is mostly seen in those who have low self esteem, low self efficacy and external locus of control. These areas have been seen to affect the business satisfaction and health of the business.

Autonomy in business and high level of family satisfaction can reduce the level of role conflict.

Poor linkages with support services, unfavourable policy and regulatory environment: In many developing countries support services such as management and training services, consultancy services etc are inadequate and many women are not aware of such services. It is important to note that most women enterprises are small and are not usually the targets of such schemes.

Women enterprises are faced with compliance cost, which relate to time and money needed to learn about and meet government regulations. Most women have had problems especially those in foods and cosmetics to register with regulatory bodies like NAFDAC (National Agency for Foods and Drugs Administrative Control) and other regulatory bodies. All these increase start up cost for small enterprise.

Inadequate infrastructural provisions: poor electricity supply, poor communication and transportation, is another major challenge. Poor supply in Gwagwalada is very epileptic. They use of an alternative power supply make some of their products expensive. This has affected the profit they would have made from their business.

Globalization: The need to compete in an aggressive environment with rapid technological changes, trade and finance, flows and globalization of production is a big challenge.

Perception of People: - People think men have better management attitude than women. Women are believed to be very materialistic and fashion conscious. In Nigeria, there is this “male thing” an ego in men that make them feel it is a must for men to handle “big jobs”. In their perspectives, women are supposed to be looking after the home. Some men were asked how they perceive working on project sites, all the men interviewed believe that women cannot do site jobs Certain women believe that for a woman to have the same opportunity as men she has to be “connected” to the people on top. Other constraints which are a part of the greatest barriers experienced by women in enterprise are:

ignorance of information, technology may support services available to them, financial discrimination, lack of training and business knowledge, underestimating the financial and emotional cost of sustaining a business and poor payment to their staff.

Future Challenges

In the 1970's and 1980's most women entrepreneurs had little formal preparation for a business career. Most of them felt under paid, had job dissatisfaction and broke away to establish their own. Others saved many to start up a venture with little or no experience.

Today a lot of changes are taken place in the way women entrepreneurs prepare to start their own venture. The major influence on female entrepreneurs is formal education, greater economic opportunities, and changes in social values among others. There would be a continuous increase in the number of women entrepreneurs and they will be in every industry.

Women entrepreneurs will continue to be prominent in the service industry. This is because this section is less capital intensive. This industry tends to offer more opportunities to develop selected niches that are critical along start up and growth phases of operations (Kuratko et.al)

The women will be expected as entrepreneurs to make up Funding gap, increase the growth of the service sector, change preparation for a business career and greatly involved in the ongoing research on women entrepreneur.

In future many women will become entrepreneurs. They must make effort to improve their access to information, credit facilities etc. They must also acquire more skills and find a way to deal with the work-home role conflict.

### 3.6 Causes of Women-Owned Business Failure in Gwagwalada

The causes are inadequate access to capital, bad management, national disaster (for example flood around New Kutunku layout and areas around Abattoir), business depression, fraud, competition, deceit, demolition exercise, inflation, poor location, high cost of capital, neglect, unstable economy, poor patronage of product, poor finance and record keeping, poor management ability and the “big one” ignorance, inadequate access to information. Some of the women do not have time to read papers or listen to news. The excuse is that after a hard days job they will have to take care of household chores. Power fluctuation has not helped matter as some cannot afford the use of standby generator.

### 3.7 Secrets to Success

Most-women that have made it in their entrepreneurial activities select a career, which gives them intrinsic satisfaction, accepts responsibilities have focused, achievable and measure goals. They have internal locus of control, high self esteem and self efficacy. The goals were related to the skills and they are sure of what they are doing/they are dynamic and are conscious of the dynamism of their environment.

They were innovative and creative to look for peoples’ needs and identify gaps in their immediate environment and try to meet them. They have unique ways of putting together personal qualities, finance and other resolution by their willingness and ability to seek out an investment opportunity, establish an enterprise based on it and use the opportunities successfully.

Successful women conceive a business idea, studies, if the idea is not promising drops the idea but if the venture is feasible, carrying out further investigations if need be, please operate and do proper evaluation. These women made use of available supporting services like access to micro credits by micro financing institutions and NGOs. They are informed about changes in technology, provision of markets, building for cottage industries, transportation, storage and packaging improvement information.

Successful women in business go for management training. They are ready to spend on capacity building. They also have good accounting system, take care of those working for them and they believe that they are adding value to the economy. The women who were successful claim to have the backing and support of their family members.

### 4.0 Conclusion

The contributions of women to economic development cannot be overemphasized. The government NGOs, private establishment can help to meet these challenges by providing adequate support services; create more awareness about the availability of these services; create

market both locally and internationally for women entrepreneurs. Entrepreneurship is not for everybody. It requires hard work than the normal 8-4 job but more rewarding.

It can be frustrating and stressful at times. You must believe in yourself as a woman and never be intimidated. Believe in your concept, get feedback get access to adequate information about what you are doing and the sky will not even be your limit.

### 5.0 Summary

Entrepreneurship represents an appropriate opportunity for women across the globe. This potential is yet to be achieved in most favourable manner in most developing countries. There are many constraints and challenges on and their ability to upgrade their production from time to time.

**Table 1 Percentage of Female Managers in Nigeria**

Sector/% Woman Managers	Abuja	Lagos
Agriculture	25%	21%
Manufacturing	2%	5%
Hotel/Catering	4%	4%
Education	42%	48%
Trade/Retail	14%	10%
Finance/Service	5%	6%

**Table 2: Type of business the Respondent are involve in**

Type of business	Frequency	Percentage(%)
Agriculture; Farming; Farm produce; Poultry; Fishing	5	4.5
Catering services, banking, food, drink	16	14.7
Hairdressing, beautification	4	3.7
Tailoring	8	7.3
Sales	42	38.6
Manufacturing	2	1.6
Craft; bead making; pottery; boom etc	5	4.6
More than one business	5	4.6
Education(school owners & primary coaching)	6	5.5
Interior decoration	2	1.8
Transport	3	2.8
Business centre	5	4.6
Petroleum product	6	5.5
<b>TOTAL</b>	<b>109</b>	<b>100.0</b>

**Table 3: Frequency distribution on Respondent's Marital status Educational Status and Desire to Further Education.**

	Frequency(109)	Percentage%
Marital Status:		
Never married	8	7.3
Ever married	101	92.7
Educational status:		
No basic education	7	6.4
Primary Education	26	23.9
Post Primary Education	42	38.5
Tertiary, HND& Equivalent	34	31.2
Desire to Further Education:		
No for Now	65	59.6
Yes	22	20.2
Already in a programme to further Education	22	20.2
Do you want another Job:		
No	83	76.1
Yes	26	23.9

**Table 4: Reason for Entrepreneurship?**

	Frequency	Percentage
No Job	13	11.9
Loss of Job	2	1.8
Support my Family	19	17.4
I don't want to be idle	11	10.4
No Husband, No Job	3	2.8
I cant work for any body	19	17.4
I Love handwork; business	24	22.0
Poor salary	7	6.4
Passion	6	5.5
No formal education and I can't be idle	5	4.6
TOTAL	109	100.0

#### 6.0 TUTOR-MARKED ASSIGNMENT

- 1) Women entrepreneurs in Nigeria face similar challenges and constraints than their counterparts in other developing countries.
- 2) What are characteristics of women entrepreneurs.
- 3) Discuss types of Women Entrepreneurs

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## Unit 7 Gender studies

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content

### 3.1 Importance of gender studies

- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

## 1.0 Introduction

**Gender studies** is a field for interdisciplinary study devoted to gender identity and gendered representation as central categories of analysis. This field includes women's studies (concerning women, feminism, gender, and politics), men's studies and LGBT studies. Sometimes, gender studies is offered together with study of sexuality. These disciplines study gender and sexuality in the fields of literature, language, geography, history, political science, sociology, anthropology, cinema, media studies, human development, law, and medicine. It also analyzes how race, ethnicity, location, class, nationality, and disability intersect with the categories of gender and sexuality.

Regarding gender, Simone de Beauvoir said: "One is not born a woman, one becomes one". This view proposes that in gender studies, the term "gender" should be used to refer to the social and cultural constructions of masculinities and femininities and not to the state of being male or female in its entirety. However, this view is not held by all gender theorists. Beauvoir's is a view that many sociologists support though there are many other contributors to the field of gender studies with different backgrounds and opposing views, such as psychoanalyst Jacques Lacan and feminists such as Judith Butler.

## 2.0 OBJECTIVES

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

Understand differences in Gender image

Understanding Importance of gender studies

### **3.1 Importance of gender studies**

The field of gender studies explores the ways that femininity and masculinity affect an individual's thought process. This is relevant in a variety of realms, such as social organizations and institutions, interpersonal relationships, and understandings of identity and sexuality. Gender studies is a discipline created originally by activists, and those who study it today see it as their mission to identify, analyze, and correct social inequities both locally and globally.

Gender Studies explores power as it relates to gender and other forms of identity, including sexuality, race, class, religion, and nationality. Gender Studies encompasses interdisciplinary fields, which include exploration of the histories and experiences of diverse women and men as well as studies of sexualities, masculinities, femininities, and gender systems in society. It also analyzes how gender plays out in politics, intimate life, culture, the workplace, athletics, technology, health, science, and in the very production of knowledge itself. College courses emphasize critical thinking and analysis along with social justice activism. These courses teach interdisciplinary methods, relate debates in the field to key intellectual and social movements, explore intersections of feminist studies, masculinity studies, and queer studies, and assist students with professional development. Gender Studies emphasize the relationships between gender and society historically and cross-culturally, and the changes now occurring in the roles of women and men, the participation of women in the major institutions of society, and women themselves. Gender is then understood as not a freestanding category, but rather one that takes shape through its intersection with other relations of power, including sexuality, race, ethnicity, class, nationality, and religion. It offers historical, contemporary, and transnational analyses of how gender and sexual formations arise in different contexts such as colonialism, nationalism, and globalization. Globalization describes the ways that gender operates in different national and cultural contexts. Through this understanding, many graduates get advanced degrees in a profession such as law or business. Graduates report working in a range of areas including communications and media, arts and education, business, politics and government, the law, health, and non-profit sector. In addition to its focus on the history and achievements of women, gender scholarship has inspired research and curricula that address men's lives, masculinity, and the lives of people who identify as Gay, Lesbian, Bisexual or Transgender.

#### **Women's studies**

Women's studies is an interdisciplinary academic field devoted to topics concerning women, feminism, gender, and politics. It often includes feminist theory, women's history (e.g. a history of women's suffrage) and social history, women's fiction, women's health, feminist psychoanalysis and the feminist and gender studies-influenced practice of most of the humanities and social sciences.

#### **Men's studies**

Men's studies is an interdisciplinary academic field devoted to topics concerning men, masculism, gender, and politics. It often includes feminist theory, men's history and social history, men's fiction, men's health, feminist psychoanalysis and the feminist and gender studies-influenced practice of most of the humanities and social sciences. Timothy Laurie and Anna Hickey-Moody suggest that there 'have always been dangers present in the institutionalization of "masculinity studies" as a semi-gated community', and note that 'a certain triumphalism vis-à-vis feminist philosophy haunts much masculinities research'.

#### 4.0 Conclusion

Human differentiation on the basis of gender is a fundamental phenomenon that affects virtually every aspect of people's daily lives. Human evolution provides bodily structures and biological potentialities that permit a range of possibilities rather than dictate a fixed type of gender differentiation. People contribute to their self-development and bring about social changes that define and structure gender relationships through their agentic actions within the interrelated systems of influence.

#### 5.0 Summary

In this unit discussion focused on:

**Gender studies** the field includes women's studies (concerning women, feminism, gender, and politics), men's studies and LGBT studies. Sometimes, gender studies is offered together with study of sexuality.

**Importance of gender studies** This is relevant in a variety of realms, such as social organizations and institutions, interpersonal relationships, and understandings of identity and sexuality.

#### 6.0 TUTOR-MARKED ASSIGNMENT

- 1) What are the importance of gender studies
- 2) What did you understand by gender studies.

#### 7.0 References

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### Unit 8 The development of gender theory

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content

#### 3.1 Evolutionary Explanations of Gender

- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

## **1.0 Introduction**

The history of gender studies looks at the different perspectives of gender. This discipline examines the ways in which historical, cultural, and social events shape the role of gender in different societies. The field of gender studies, while focusing on the differences between men and women, also looks at sexual differences and less binary definitions of gender categorization.

After the revolution of the universal suffrage of the twentieth century and the women's liberation movement of the 1960 and 1970s promoted a revision from the feminists to "actively interrogate" the usual and accepted versions of history as it was known at the time. It was the goal of many feminist scholars to question original assumptions regarding women's and men's attributes, to actually measure them, and to report observed differences between women and men. Initially, these programs were essentially feminist, designed to recognize contributions made by women as well as by men. Soon, men began to look at masculinity the same way that women were looking at femininity, and developed an area of study called "men's studies." It was not until the late 1980s and 1990s that scholars recognized a need for study in the field of sexuality. This was due to the increasing interest in lesbian and gay rights, and scholars found that most individuals will associate sexuality and gender together, rather than as separate entities.

## **2.0 OBJECTIVES**

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

Understand socio cultural behaviour of Male and Female

Understanding Importance of gender Theories

Identify school of thoughts Associated with Gender Issues.

## **3.1 Evolutionary Explanations of Gender**

As the evolutionary approach is a biological one, it suggests that aspects of human behavior have been coded by our genes because they were or are adaptive.

A central claim of evolutionary psychology is that the brain (and therefore the mind) evolved to solve problems encountered by our hunter-gatherer ancestors during the upper Pleistocene period over 10,000 years ago.

The evolutionary approach argues that gender role division appears as an adaptation to the challenges faced by the ancestral humans in the EEA (the environment of evolutionary adaptation).



The mind is therefore equipped with 'instincts' that enabled our ancestors to survive and reproduce.

The two sexes developed different strategies to ensure their survival and reproductive success. This explains why men and women differ psychologically: They tend to occupy different social roles.

To support the evolutionary perspective, the division of labour was shown to be an advantage. 10,000 years ago there was division of labour between males and females. Men were the hunter gatherers, breadwinners, while the mother was at home acting as the 'angel of the house' and looking after the children.

Hunting for food required speed, agility, good visual perception. So men developed this skill.

If a woman was to hunt, this would reduce the group's reproductive success, as the woman was the one who was pregnant or producing milk. Although, the women could contribute to the important business of growing food, making clothing and shelter and so on. This enhances reproductive success but it is also important in avoiding starvation – an additional adaptive advantage.

### Critical Evaluation

Deterministic approach which implies that men and women have little choice or control over their behaviors: women are natural 'nurturers' and men are naturally aggressive and competitive.

The consequence is that in modern society equal opportunities policies are doomed to fail as men are 'naturally' more competitive, risk taking and likely to progress up the career ladder.

#### 4.0 Conclusion

#### 5.0 Summary

#### 6.0 Tutor-Marked Assignment

- 1) Hunting for food required speed, agility, good visual perception. Discuss.
- 2) Explain gender evolution.
- 3) The history of gender studies considered different perspectives of gender.

#### 7.0 References/Further Readings

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## **Unit 8 Biological Theories of Gender**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Hormones

3.2 Chromosomes

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/Further Readings

### **Introduction**

People often get confused between the terms sex and gender. Sex refers to biological differences between males and females. For example, chromosomes (female XX, male XY), reproductive organs (ovaries, testes), hormones (oestrogen, testosterone).

Gender refers to the cultural differences expected (by society / culture) of men and women according to their sex. A person's sex does not change from birth, but their gender can.

In the past people tend to have very clear ideas about what was appropriate to each sex and anyone behaving differently was regarded as deviant.

Today we accept a lot more diversity and see gender as a continuum (i.e. scale) rather than two categories. So men are free to show their “feminine side” and women are free to show their “masculine traits”.

The biological approach suggests there is no distinction between sex and gender, thus biological sex creates gendered behavior.

Gender is determined by two biological factors: hormones and chromosomes.

## **2.0 OBJECTIVES**

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

Define **Hormones**

**Define the Chromosomes**

Understanding **the Sex-determining Region**

Understanding **the Characteristics of Hormones and Chromosomes**

### **3.1.0 Hormones**

Hormones are chemical substances secreted by glands throughout the body and carried in the bloodstream. The same sex hormones occur in both men and women, but differ in amounts and in the effect that they have upon different parts of the body.

Testosterone is a sex hormone, which is more present in males than females, and affects development and behavior both before and after birth.

Testosterone, when released in the womb, causes the development of male sex organs (at 7 weeks) and acts upon the hypothalamus which results in the masculinization of the brain.

Testosterone can cause typically male behaviors such as aggression, competitiveness, visio-spatial abilities, higher sexual drive etc. An area of the hypothalamus at the base of the brain called the sexually dimorphic nucleus is much larger in male than in females.

At the same time testosterone acts on the developing brain. The brain is divided into two hemispheres, left and right. In all humans the left side of the brain is more specialised for language skills and the right for non-verbal and spatial skills.

Shaywitz et al (1995) used MRI scans to examine brain whilst men and women carried out language tasks and found that women used both hemispheres, left only used by men.

It appears that in males brain hemispheres work more independently than in females, and testosterone influences this lateralization.

#### **3.1.1 Empirical Evidence**

The effects of testosterone have been confirmed in animal studies.

Quadango et al. (1977) found that female monkeys who were deliberately exposed to testosterone during prenatal development later engaged in more rough and tumble play than other females.

Young (1966) changed the sexual behavior of both male and female rats by manipulating the amount of male and female hormones that the rats received during their early development.



They displayed “reversed” sexual behavior and the effects were unchangeable. A number of non-reproductive behaviors in rats are also effected by testosterone exposure around birth. These included exploratory behavior, aggression and play.

Young believed that the exposure had changed the sexually dimorphic nucleus (SDN) in the brain, as male rats had a larger SDN than females. The results have proven to be highly replicable.

### 3.1.2 Critical Evaluation

Because this study was conducted in a lab it has low ecological validity. For example, in the lab hormones are injected in one single high dose. Whereas in real life, hormones tend to be released by the body in pulses, in a graduated fashion. Therefore, the results might not be generalizable outside of the lab, to a more naturalistic setting.

This study also raises the issue of whether it’s morally and/or scientifically right to use animals in research.

Ultimately psychologists must ask themselves whether in their research the ends justify the means. By this we mean that all research using human or non-human animals must be considered in terms of the value of the results when compared to the cost (both moral and financial) of carrying out the work. Main criterion is that benefits must outweigh costs. But benefits are almost always to humans and costs to animals.

We should be cautious when extrapolating the results of animal research to a human population. This is because the physiologies (e.g. brains) of humans and animals species are not identical. Also, the social and cultural variables within a human population are more complex when compared to social interactions between rats. The consequence of this means the external validity of the research is uncertain. However, a study by Hines (1982) suggests it might be possible to generalize the results to humans.

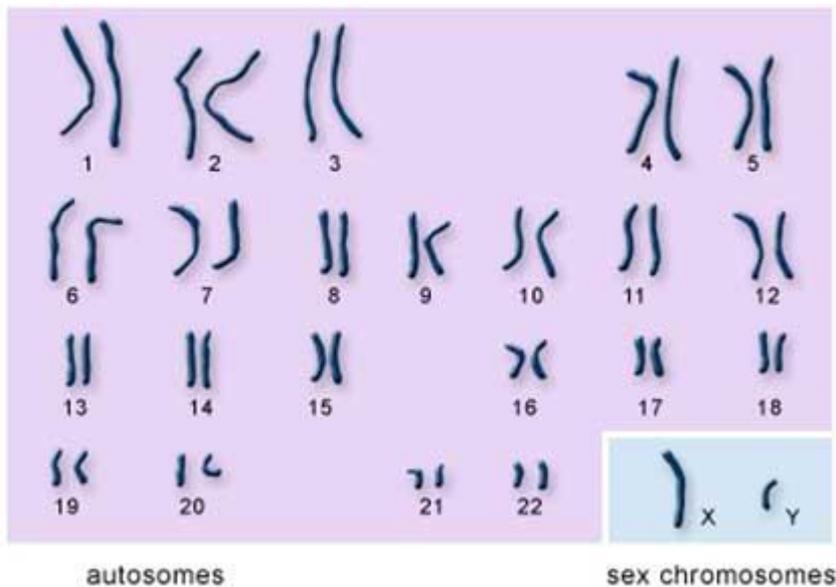
Hines (1982) studied female babies born to mothers who had been given injections of male hormones during pregnancy to prevent miscarriage. They were found to be more aggressive than normal female children. Hines concluded that the extra testosterone in the womb had affected later behavior.

### 3.2 Chromosomes

The normal human body contains 23 pairs of chromosomes. A chromosome is a long thin structure containing thousands of genes, which are biochemical units of heredity and govern the development of every human being.

Each pair of chromosomes controls different aspects of development, and biological sex is determined by the 23rd chromosome pair. Chromosomes physically resemble the letters X and Y.

- Males = XY
- Females = XX



U.S. National Library of Medicine

#### SRY Gene (Sex-determining Region Y gene)

At about 6 weeks, the SRY gene on the Y chromosome causes the gonads (sex organs) of the embryo to develop as testes.



If the embryo has no Y chromosome, it will not have the SRY gene, without the SRY gene, the gonads will develop as ovaries.

Sometimes the SRY gene is missing from the Y chromosome, or doesn't activate. The foetus grows, is born, and lives as a little girl, and later as a woman, but her chromosomes are XY. Such people are, usually, clearly women to themselves and everyone else.

Koopman et al. (1991) found that mice that were genetically female developed into male mice if the SRY gene was implanted.

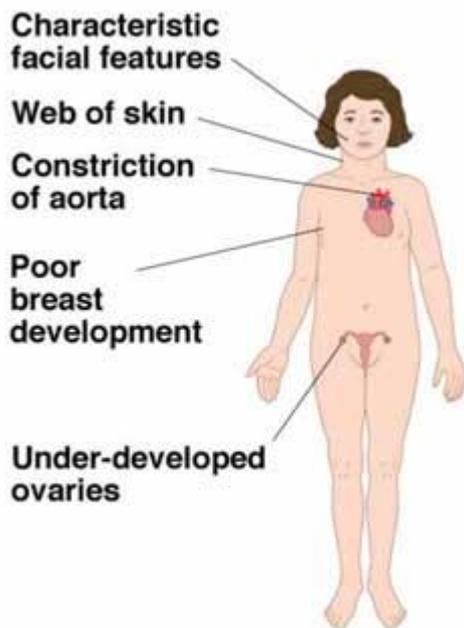
One of the most controversial uses of this discovery was as a means for gender verification at the Olympic Games, under a system implemented by the International Olympic Committee in 1992. Athletes with a SRY gene were not permitted to participate as females.

### 3.2.1 Atypical Chromosomes

Individuals with atypical chromosomes develop differently than individuals with typical chromosomes - socially, physically and cognitively.

Studying people with Turner's syndrome and Klinefelter's syndrome might help our understanding of gender because by studying people with atypical sex chromosomes and comparing their development with that of people with typical sex chromosomes, psychologists are able to establish which types of behavior are genetic (e.g. determined by chromosomes).

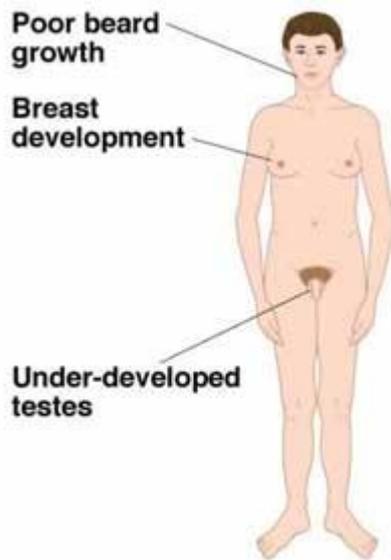
**3.2.2 Turner's syndrome (XO)** occurs when females develop with only one X chromosome on chromosome 23 (1 in 5000 chance).



The absence of the second X chromosome results in a child with a female external appearance but whose ovaries have failed to develop. The physical characteristics of individuals with Turner's syndrome include lack of maturation at puberty and webbing of the neck.

In addition to physical differences, there are differences in cognitive skills and behavior compared with typical chromosome patterns. The affected individuals have higher than average verbal ability but lower than average spatial ability, visual memory and mathematical skills. They also have difficulty in social adjustment at school and generally have poor relationships with their peers.

**3.3.3 Klinefelter's syndrome (XXY)** affects 1 in every 750 males. In addition to having a Y chromosome, these men also have an additional X on the 23rd chromosome, leading to the arrangement XXY.



Physically they appear male, though the effect of the additional X chromosome causes less body hair and under-developed genitals. The syndrome becomes noticeable in childhood, as the boy has poor language skills. At three years of age, the child may still not talk. At school, their poor language skills affect reading ability.

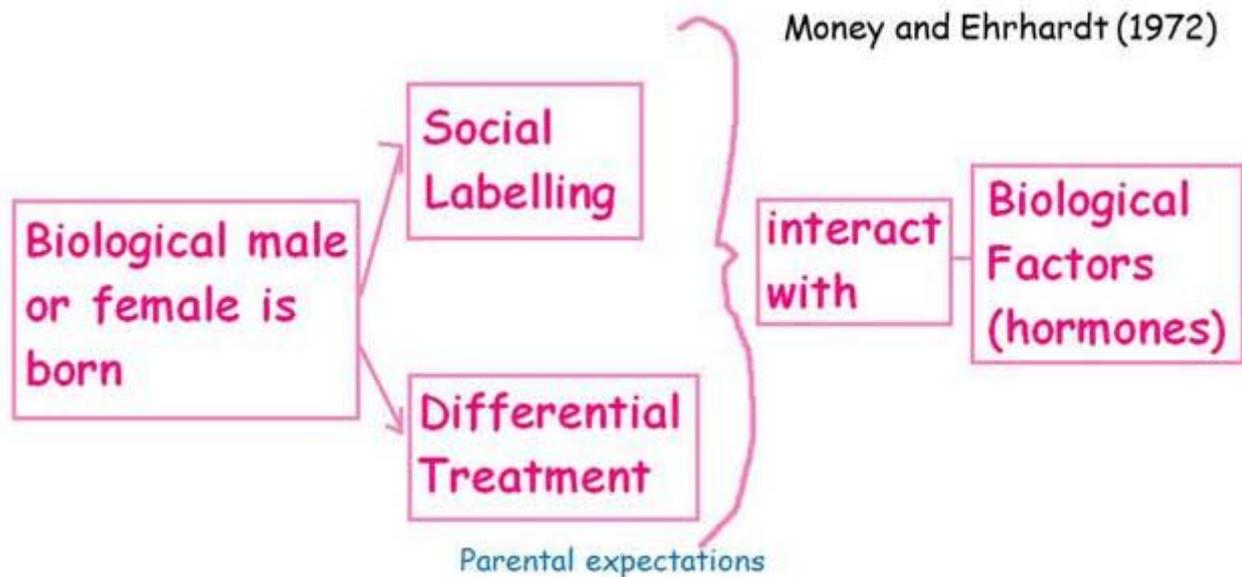
When they are babies, their temperament is described as passive and co-operative. This calmness and shyness remains with them throughout their lives. This suggests that level of aggression have a biological rather than environmental component.

### 3.3.4 The Biosocial Approach to Gender

The biosocial approach (Money and Ehrhardt, 1972) is an interactionist approach where by nature and nurture both play a role in gender development.

John Money's (1972) theory was that once a biological male or female is born, social labeling and differential treatment of boys and girls interact with biological factors to steer development. This theory was an attempt to integrate the influences of nature and nurture.

Gender role preferences determined by a series of critical events:



**Prenatal:** exposure to hormones on the womb (determined by chromosomes). It states that biology caused by genetics, XY for a boy and XX for a girl will give them a physical sex.

**Postnatal:** Parents and others label and react towards a child on the basis of his or her genitals.

- Parents and other people label and begin to react to the child based on his or her genitals. It is when their sex has been labelled through external genitals, their gender development will begin.
- The social labeling of a baby as a boy or girl leads to different treatment which produces the child's sense of gender identity.
- Western Societies view gender as having two categories, masculine and feminine, and see men and women as different species.

The way they are treated socially in combination with their biological sex will determine the child's gender.

The approach assumes that gender identity is neutral before the age of 3, and can be changed, e.g. a biological boy raised as a girl will develop the gender identity of a girl. This is known as the theory of neutrality.

### 3.3.5 Empirical Evidence

Rubin et al, 1974, interviewed 30 parents and asked them to use adjective pairs to describe their babies. Although there were no measurable differences in size between the babies, parents consistently described boy babies as better coordinated, stronger and more alert than daughters. This shows that parents label their babies.

## 4.0 Conclusion

Gender refers to the cultural differences expected (by society / culture) of men and women according to their sex. A person's sex does not change from birth, but their gender can. The biological approach suggests there is no distinction between sex and gender, thus biological sex creates gendered behavior. Gender is determined by two biological factors: hormones and chromosomes.

## 5.0 Summary

Sex refers to biological differences between males and females. For example, chromosomes (female XX, male XY), reproductive organs (ovaries, testes), hormones (oestrogen, testosterone). The biological approach suggests there is no distinction between sex and gender, thus biological sex creates gendered behavior.

## 6.0 Tutor-Marked Assignment

1) Write short note on the following:

a. Hormones

b. Turner's syndrome

c. Klinefelter's syndrome

2) Explain the Biosocial Approach to Gender

3) Explain the cultural Difference on Gender

## 7.0 References/Further Readings

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## **Unit9 GENDER DIFFERENCES IN ENTREPRENEURSHIP**

### **1.0 Introduction**

In recent years, women's entrepreneurial activity has been recognized as a possible significant component to economic development. According to Global Entrepreneurship Monitor (GEM) research (Allien et al., 2007; Bosma et al., 2008), women's entrepreneurial activity has been the key contributor to economic growth in a number of countries, especially in emerging markets. Entrepreneurship is also becoming an increasingly important source of employment for women across countries. While a number of research studies reveal a growing number of women entrepreneurs and women-owned businesses, findings show that the level of male entrepreneurial activity is still higher compared to that of women. Cross-national empirical studies report significant differences in female and male entrepreneurial activity, with various factors affecting small business performance across countries. Women tend to possess less business experience, and their businesses are usually undercapitalized. Their business growth is slower, suggesting a preference for lower risk and lower confidence (Langowitz & Minniti, 2007; Verheurl et al., 2006).

### **2.0 Objectives**

This unit shall focus on factors influencing differences in entrepreneurial activity between the two genders. The objectives of this unit are to determine factors influencing the gender

differences. The framework is composed of economic, technology, socio-demographic, financial, and perceptual factors.

### 3.0 Main Content

#### 3.1 Socio-demographic factors

#### 3.2 Financial factors

#### 3.3 Perceptual factors

#### 3.1 Socio-demographic factors

Education and training. Among the variety of factors influencing entrepreneurial activity, education level of business owners has some influence. Education and training background is seen as one of possible constraints when obtaining external financial support (Coleman, 2002) and informal investments in particular. According to Verheul & Stel (2007), increase in education level of entrepreneurs leads to an increase in entrepreneurial income and productivity. Moreover, education is claimed to be an important factor when starting entrepreneurial activity. Educational level of entrepreneurs has been researched by a wide range of researchers. Several studies such as Bosma et al. (2004), Swinney et al. (2006) and Verheul & Stel (2007) distinguished a positive relationship between high level of education of business founder or owner and overall performance of the business.

Females though are less likely to have business degrees, special trainings and employment experience in business (Coleman, 2002). The research of Swinney et al. (2006) indicated that business performance in male-led companies was higher than in their female-run counterparts with the same level of education till female owners received a college degree. Training is considered as an important element in someone's performance increase and professional growth. For those getting into starting or developing a new business, additional training on starting a new business could provide a necessary support and give additional confidence. In relation to entrepreneurial activity and observed peculiarities of female entrepreneurs, trainings on starting a new business are seen to be a valuable asset.

#### 3.2 Financial factors

*Availability of financial capital.* Availability of financial capital is one of the main issues when starting and growing own business. Entrepreneurs often face the fact that financial institutions are unwilling to lend money to nascent and early-stage businesses mainly due to high risks involved and lack of information available on the profitability of small businesses (Verheul et al., 2006). As females tend to have businesses smaller in size and possess less business experience, it should involve certain difficulties for them when obtaining external financial support (Bird & Brush, 2002; Carter, 2000; Coleman, 2002); moreover, they are less likely to search for external funding compared to males (Heilbrunn, 2005). Muravyev (2007) points out two factors that create constraints when getting external funding: the probability of obtaining a bank loan and the interest rate for the loan. According to this research, female business owners are less likely to receive a bank loan and when they obtain one, they are more likely to be charged a higher interest rate. In addition to these, according to Brush (1992), females start their businesses in less attractive sectors for external funding.

#### 3.3 Perceptual factors

Life satisfaction. The level of satisfaction influences entrepreneurial activity and, based on observations on country level in Europe made by Noorderhaven et al. (2004), the share of entrepreneurs seems to be higher in those countries where people are less satisfied with the society they live in and their lives in general. Furthermore, the less people are satisfied with life

and society they live in, the higher is the probability that they would seek the opportunity to start their own businesses, considering that there are good conditions for a business start-up. Those not satisfied who become entrepreneurs tend to get to a higher level of satisfaction afterwards. In terms of gender differences, Verheul et al. (2006) point out that those males who are not satisfied with their jobs and life are more probable to make a start towards creating their own business than females who are not satisfied. Further, they conclude that in a positive manner, life satisfaction influences females more; female entrepreneurial activity is more influenced by the level of satisfaction with life, society and further, conditions acceptable for a business start-up, rather than male.

#### 4.0 Conclusion

Entrepreneurship is also becoming an increasingly important source of employment for women across countries. While a number of research studies reveal a growing number of women entrepreneurs and women-owned businesses, findings show that the level of male entrepreneurial activity is still higher compared to that of women.

#### 5.0 Summary

The majority of existing studies note that females tend to demonstrate a higher probability to engage in entrepreneurship than males (cf. Verheul et al., 2006). However, other studies (e.g. Verheul et al., 2003, Grilo & Irigoyen, 2006) provide evidence that female entrepreneurs select different activities than men, and are less likely to see themselves as entrepreneurs. Grilo & Irigoyen (2006) further conclude that females are less likely to progress in entrepreneurial process and risk-aversion is a more important factor for them than for male entrepreneurs. Fear of failure is estimated as a barrier for women in entrepreneurial activities and committing as entrepreneurs in general.

#### 6.0 Tutor Marked Assignment

- 1) How does the level of satisfaction influences entrepreneurial activity
- 2) Discuss Socio-demographic factors of gender difference.
- 3) Summarize the financial factors of gender difference.

#### 7.0 References and Further Readings

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## **Unit10 ENTREPRENEURSHIP THEORIES AND MODELS**

### 1.1 Introduction

The historical evolution of ideas about the entrepreneur is a wide-ranging subject and one that can be organized in different ways—theorist by theorist, period by period, issue by issue and so forth. What follows is a compromise between these possibilities. The paper starts with some very broad reflections about economic change over several thousand years and the connections between these changes and the economic thinking of the time. A recognizably ‘modern’ idea of the entrepreneur begins to emerge in the eighteenth century and the following two sections are devoted to the role of entrepreneurship in classical and neoclassical economic theory. In the next five sections, the paper looks at particular areas that have been associated with debates about the entrepreneurial role—uncertainty, innovation, economic efficiency, the theory of the firm, and economic development. A final section presents a brief summary and comments on the place of the entrepreneur in evolutionary models.

The following section does not examine entrepreneurship through the ages using a constant and clearly defined concept throughout. Rather, it provides some historical context and links this to contemporary attitudes towards trade, economic change and the perceived agents of change. It shows that advances in pure analytical thought were required before helpful definitions of

entrepreneurship could be derived, and that without these advances an important ingredient of any theory of economic change was missing.

## 2.0 Objective

This unit would consider entrepreneurship theories across century. A reader who is already familiar with important distinctions between capitalist, innovator, uncertainty bearer, judgemental decision-maker, market-maker and so forth should be aware that these will be discussed in greater detail as the unit advances.

## 3.0 Main Content

### 3.2 The entrepreneur in economic history

### 3.3 The entrepreneur in classical political economy

### 3.4 The entrepreneur in neoclassical theory

### 3.5 Entrepreneurship and uncertainty

### 3.6 Entrepreneurship and innovation

### 3.7 Entrepreneurship and economic efficiency

### 2.8 Entrepreneurship and the theory of the firm

### 2.9 Entrepreneurship and economic development

### 3.2 The entrepreneur in economic history

Entrepreneurship is not a concept that has a tightly agreed definition. In modern common usage an 'entrepreneur' is 'a person who undertakes an enterprise, especially a commercial one, often at personal financial risk'. It is the product of a 'modern' post-enlightenment world in which continual change has become the norm, where 'progress' (technical, social and economic) has become expected and where notions of liberal individualism predominate. The ancient and mediaeval worlds seem not to have developed a concept of entrepreneurship that could plausibly be seen as similar to the modern notion. Philosophers gave only limited attention to economic matters and, in so far as agriculture, industry and trade were discussed, much thinking would have been a sub-branch of politics or ethics. In the Aristotelian tradition, economic thought was highly normative. Trade was a suspect activity liable to undermine the good order of society and sterile in itself. Even if the reality was more complicated, early social thought concerned static societies built upon caste or social position where justice was the outcome of each group faithfully performing its allotted function. In the hierarchy of social esteem, the noble warrior took pride of place, agriculture was respected and compatible with the inculcation of certain

virtues, industry in support of military power was too useful to neglect, but commerce was the province of less respected if not completely despised social groups.

It is not difficult to understand this early suspicion of commerce and the trader. The landed aristocrat had large, illiquid and specific (to a geographical region) investments to protect. As with a player in a modern game theoretic model of oligopoly, such a person could plausibly commit to fight interlopers. For the widely travelled merchant with access to ships and with assets in liquid and non-specific form, the temptation simply to move elsewhere when the fighting started and to deal with the winners would have been compelling. The aristocrat's position depended upon a willingness to deter others and to fight for what was his. The merchant's position derived from an ability to go where he was treated tolerably and to flee from unrewarding environments. Where violent conflict was endemic or its likelihood significant, nobles and merchants were thus hardly natural allies.

Another reason for the early disapproval of trade, and in particular, the use of money was its association with situations of 'distress'. Where agricultural production dominates and this is mainly accomplished on large estates using slaves or serfs, the economy has many of the features of an extended 'household'. Indeed the modern English word 'economics' derives from the Greek *oikonomiā* or 'law of the household'. Production and consumption in these conditions are largely undertaken locally within the relatively self-sufficient household, and trade with outsiders is limited to luxury goods for high status members, or imports of food and other staple goods at high prices in the event of crop failure. The result would tend to be an association of the merchant with frippery on the one hand and ruthless exploitation on the other.

In the mediaeval era, the authority of St Augustine held that it was unjust to buy below or sell above the 'just price', while 'usury'—interest on the use of money—was condemned in the religious teaching of the era. Each of these doctrines should be seen in the context of the conditions of the time and scholars have argued about their precise interpretation and force, but even allowing for scholarly refinements, the doctrine of the just price would appear to be highly subversive of entrepreneurial activity. When the whole of society is viewed in terms of duty and obligation in the performance of divinely assigned and sanctioned roles; and when preparation for the next life rather than the improvement of material conditions in this one has the higher priority, entrepreneurship could hardly be expected to feature prominently in the prevailing economic thinking.

Absence of a well-developed conception of the entrepreneur in the philosophy of the time in no way implies that economic conditions were completely static, trade suppressed or technology totally unprogressive. Roman law, for example, developed (p. 36) highly individualistic concepts of private property and contract which permitted the development of an extensive and sophisticated European trading network. Venetian dominance of Mediterranean trade in the early middle ages could not have developed without an environment sufficiently conducive to entrepreneurial activity. Even the mediaeval economy outside the city-states, which in its social stratification and apparent stability is popularly seen as stagnant, is now regarded by historians as having experienced considerable technological advance.<sup>3</sup> Nevertheless, the distinct notion of an

entrepreneurial role awaited an era in which success in commerce and the political power of the state were more closely associated.

With the rise of the modern nation states of France, Spain and England from the late fifteenth century onwards, rulers began to take on at least one characteristic of the merchant. No longer able to rely on feudal obligation from the nobility to protect their interests, the accumulation of treasure, and hence the ability to pay armies, became associated with the maintenance and projection of political power. The mercantilist doctrine that emerged from this era was criticized by later classical economists for confounding money with real national wealth although it is doubtful whether mercantilist writers succumbed fully to such a fallacy. For present purposes, however, it is relevant to note that the building of the power and revenue of the state was the central concern. Such a project is unlikely to be conducive to the growth of decentralized and competitive markets and thus might be seen as inimical to the social development of the entrepreneur. Bureaucratic intervention, the selling of monopolies, licensing and taxation are not the most obvious routes to the entrepreneurial society. However, compared with the world that had preceded them, the sixteenth and seventeenth centuries were the more conducive to entrepreneurship.

The state as an economic organization, an idea which underlay mercantilist thinking, and the accumulation of treasure that was seen as a means of building state power, required the input of entrepreneurial and not merely bureaucratic talent, at least in the context of the competitive states of Europe. The whole enterprise may have been statist at heart but it relied on people to develop overseas markets, to build great trading companies, to strengthen domestic industry and to generate a large tax base. People of energy and talent could migrate between jurisdictions, and the willingness of other places to receive them placed limits on the exploitation that they would tolerate in any given location. English words now often used to describe entrepreneurs such as 'buccaneer' and 'privateer' derive from this period as the state tolerated or even encouraged the piratical disruption of the trade routes of other nations. As the profits of trade increased, the old aristocracy in England began to accept trade as a respectable activity. Money talked. Defoe commented that 'Trade is here so far from being inconsistent with a gentleman, that, in short, trade in England makes gentlemen' while Voltaire observed that 'It is only because the English have taken to trade ... that England can have two hundred men of war and subsidize allied kings'.

It was, however, the agricultural and industrial revolutions of the eighteenth and nineteenth centuries that finally produced the modern multi-faceted image of the entrepreneur. As rulers gradually submitted to constitutional constraints on their power, and property rights became more secure within the nation states, entrepreneurial energy was released at a historically unprecedented rate. In England in particular, major advances in agricultural productivity and innovations in transport, mining, textiles, steel, shipbuilding, engineering and banking became associated with particular names. The Duke of Bridgewater in the construction of canals, Richard Arkwright in the transformation of the cotton industry and the evolution of the factory system, Mathew Boulton, John Roebuck and James Watt in the development of steam power, George

Hudson in the promotion of railways—these and others introduced the revolutionary changes that still colour our image of the entrepreneur.

The ‘men of business’ of the nineteenth century represented a new social phenomenon. Checkland (1964: 103) writes ‘It is probably not far from the truth to say that the period from 1815 to 1885 in Britain represents the range of human experience in which individual economic initiative had its greatest opportunity to operate upon men and things, and in so doing to remake an ancient society’. From this period derives the idea of the heroic entrepreneur, a transformer or founder of industries, an undertaker of massive feats of engineering, an opener of continents. Such activities required the raising of enormous quantities of capital, the development of new organizational methods and the coordination of vast numbers of people. The failures could be as spectacular as the successes. Entrepreneurship of this order required as much strategic insight, tactical awareness, and personal energy, power of leadership, organizational flair, ruthlessness and determination as military conquest. And like the military commander, the entrepreneur began to be studied and respected.

In the twentieth century, the cult of the entrepreneur initially receded. The large-scale organizations established in the nineteenth century and the corporations developing in the newer electrical, chemical, communications and motor industries began to look more managerial and professional than heroically entrepreneurial. The entrepreneurs having blazed their pioneering trail, it began to be seriously considered that professional scientists, technicians and managers would be able to maintain momentum. By the 1940s Schumpeter (1942) was advancing this view, and others such as Jewkes (1948) were specifically asking the question ‘Is the Businessman Obsolete?’ Later developments in the century were to redress the balance somewhat. In the UK, for example, the shipbuilding, coal, steel and cotton industries all but disappeared and this substantial and continuing restructuring undermined the notion that change of this degree could be brought about by managerialism alone. The growth of the service sector of the economy, and the development of computer technology, and communications may also have contributed to a rise in self-employment and small-scale entrepreneurship.

From this brief historical review it is apparent that popular conceptions of the entrepreneur have evolved over time. The somewhat varied notions that still prevail reflect this history. The small-scale trader and peddler, the self-employed craftsman, the ‘buccaneering’ chancer, the innovator and improver as well as the founder of entirely new technologies and industries are all seen as entrepreneurs. It is evident, however, that a coherent theoretical treatment of entrepreneurship is not automatically suggested by the history of economic and social change. The birth of classical political economy coincided with the upheavals of the agricultural and industrial revolutions of the eighteenth century and an interest in ‘The Nature and Causes of the Wealth of Nations’. Yet, both in its classical and later neoclassical formulations, economics as a discipline has not found it easy to find a formal place for the entrepreneur.

### 3.3 The entrepreneur in classical political economy

Classical economics did not incorporate a systematic treatment of entrepreneurship. The system of economic thought that prevailed during the 'hey day' of the 'men of business' paid no particular attention to them except as a form of skilled labour or as providers of capital. The classical system rested upon foundations that subtly drew attention away from the role of the entrepreneur. This is most clearly seen in the work of Ricardo.<sup>7</sup> The three factors of land, labour and capital received rewards in the form of rent, wages and profits. Over time, 'the condition of the labourer will generally decline, and that of the landlord will always be improved' as population growth presses on limited resources of land and rents rise, while 'the natural tendency of profits then is to fall with capital accumulation. The dynamics of the system were derived from Malthus and a supposed 'natural' tendency of populations to outstrip the means of subsistence. Subsistence might itself afford more than the means to mere survival, if advancing notions about tolerable standards of living could be harnessed to 'moral restraint', but the classical economists never seemed very confident about this. In so far as an entrepreneur can be found in this system he or she is a supplier of the capital required for a one-way journey to the stationary state.

Ricardo recognizes that 'this gravitation as it were of profits, is happily checked at repeated intervals by the improvements in machinery ... as well as by discoveries in the science of agriculture'. But his use of the word 'gravitation' indicates an ultimately decisive natural force, one from which no object on earth had escaped at the time Ricardo was writing. It also suggests the Newtonian basis of classical thinking in economics. Objects might move in this system, but they did so 'automatically' in response to natural and impersonal forces. This mind-set was not conducive to a well-developed role for the entrepreneur within classical theory.

Thus, although the work of Ricardo provides a good example of the exclusion of the entrepreneur or the conflation of entrepreneur with capitalist, the same observation has been made of Smith, Senior, Marx and Mill. For Smith, the labour theory of value was an outcome of his 'natural law' preconceptions, and Schumpeter (1949) speculates that these 'led Adam Smith to emphasize the role of labor to the exclusion of the productive function of designing the plan according to which this labor is being applied'. It should be recognized, however, that the writings of the classical economists are open to widely differing interpretations and that Adam Smith, perhaps because he offered a much less formal 'model' of the economy than did David Ricardo, can be seen as the originator of an approach to economic growth which implicitly ascribes a central role to the entrepreneur.

Holcombe (2001), for example, contrasts Smithian and Ricardian models of growth and argues that the Smithian approach is completely different from Ricardo's pessimism. Smith's central concern was with the causes of growth and the opening chapter of *The Wealth of Nations*, indeed its opening sentence, ascribes growing wealth to the division of labour. This division of labour was 'limited by the extent of the market' but Smith did not see 'the extent of the market' as a final and limiting constraint leading to a stationary state. Instead, Smith can be interpreted as describing a dynamic process of a continuously increasing division of labour accompanying continuously increasing market size. The motivating force of this expansion is described as follows: 'Every individual who employs his capital in the support of domestic industry, necessarily

endeavours so to direct that industry, that its produce may be of the greatest possible value'. This passage is famous for the 'invisible hand' metaphor by which the individual is led 'to promote an end which was no part of his intention'—the enrichment of society as a whole. 'To promote an end' is to encourage movement in a certain direction rather than to achieve a resting point, however, and Smith might therefore be interpreted as offering a theory of growth that has entrepreneurial decision-making at its core. The efforts of people to 'better their condition' will lead to increasing productivity, a more extensive division of labour and an expanding market.

The tension between a Smithian approach to economics based upon the above reading, which is compatible with a process of continuing economic advance, and a more formal Ricardian approach, which emphasizes the nature and inevitability of a final end state, is of continuing relevance and will be discussed further on. Marx, in his economic analysis, was entirely Ricardian in spite of references to the 'wonders' brought about by the bourgeoisie that reveal a complete awareness of the massive industrial and commercial achievements of his age. This disjunction between a common sense reaction to actual events, which could hardly see the investment of such massive amounts of capital in entirely new industries as 'automatic', and classical Ricardian economic theory, was also apparent in the work of J. S. Mill.

Mill is credited as introducing the word 'entrepreneur' into English economics, although Schumpeter (1949) opines that he did not go much further than including 'superintendence' as a necessary input into production. Gross profits had to be sufficient to provide 'a sufficient equivalent for abstinence, indemnity for risk, and remuneration for the labour and skill required for superintendence'. Abstinence reflects the usual classical association of entrepreneur with capitalist. Superintendence makes a portion of the entrepreneur's reward effectively a wage. Even innovation and invention could be seen as a type of labour. 'The labour of invention is often estimated and paid on the very same plan as that of execution'. It was, however, Mill's inclusion of 'indemnity for risk' as part of profit that perhaps lay behind his preference for the word 'undertaker' rather than 'manager' and supports the case that he saw the entrepreneurial function as something qualitatively different from capitalist or worker. Interest is the reward for abstinence 'while the difference between the interest and the gross profit remunerates the exertions and risks of the undertaker'.

The association of entrepreneurship with risk bearing is an important strand of thought that survives to this day, and is reflected in the dictionary definition quoted earlier, but it has given rise to substantial controversy. Schumpeter (1954: 556) was sufficiently convinced that this 'served to push the car still further on the wrong track' to devote an extended footnote to explaining the supposed fallacy involved in Mill's position. Because losses can only be experienced by resource owners, and because capital is the only resource under discussion, it is evident that losses are borne by capitalists. If a capitalist lends to an entrepreneur, he or she takes the risk that the debt will not be repaid. If the entrepreneur has sufficient wealth to cover the debt, then 'he too is a capitalist and, in case of failure, the loss again falls upon him as a capitalist and not as an entrepreneur'. For Schumpeter, the supply of capital and the supply of entrepreneurial services were quite distinct, and risk attached to the former not the latter.

Although this argument at first sight seems to have the inescapable force of a syllogism—all losses accrue to resource owners, only capitalists are resource owners, ergo only capitalists experience losses—it is still possible to question the interpretation of the conclusion as well as the validity of the premises. Both Mill and Schumpeter paid tribute to the French tradition in this field and in particular to the work of Cantillon (1755) and Say (1803). Cantillon, who first introduced the term ‘entrepreneur’, envisaged an agent who contracts with suppliers at known prices in order to produce goods that could be sold later at uncertain prices. Here we have a clear statement that the entrepreneur's profit is a residual. It is what remains after all contractual commitments have been honoured. Schumpeter (1949) remarks approvingly that this conception is ‘not infelicitous’ as it ‘emphasizes the elements of direction and speculation that certainly do enter somewhere into entrepreneurial activity’.

This French tradition fits uneasily, however, with Schumpeter's rejection of the entrepreneur as a bearer of risks. The receipt of residual income as conceived by Cantillon, unlike the more modern theory of Israel Kirzner which is discussed below, would seem to require the acceptance of risk. If the future residual income is not certain but takes the form, as it were, of a lottery ticket, the holder must be a risk bearer. Schumpeter seems to assume that speculation using other people's money is necessarily riskless. An entrepreneur who starts with nothing ‘cannot lose’. But it is still a ‘state contingent claim’ that the entrepreneur is holding even if the returns are highly geared and negative financial outcomes do not feature. Thus the conclusion ‘only capitalists experience losses’ is not quite the same as ‘only capitalists bear risks’.

An objection might also be raised to the premise that all resource owners are capitalists. We can, of course, always define things this way. But the interpretation of human capital raises problems. An entrepreneur who has persuaded a financier to advance money by means of a fixed interest loan may have used the intangible resources of character, experience, track record and reputation. Failure and bankruptcy would be expected to affect the ability of the entrepreneur to raise similar finance in the future and thus would result in a ‘write down’ of this entrepreneur's human capital. Viewed in this light it seems reasonable to take the ‘common sense’ position that the entrepreneur can experience losses. The alternative is to insist that the entrepreneur still loses as a ‘capitalist’, and that, in spite of the person-specificity of entrepreneurial human capital, it is a distinct entity quite separate from the speculative and organizational skills that he or she supplies. This, however, would seem to open up the possibility of disputes to rival in sophistry those of mediaeval scholasticism.

### 3.4 The entrepreneur in neoclassical theory

It is sometimes argued that the development of neoclassical analysis beginning with Menger and Jevons in the 1870s, heralded a change of emphasis from the ‘magnificent dynamics’ of classical theory to ‘precise statics’. Robbins (1935: 16) later described this central concern as ‘the relationship between ends and scarce means which have alternative uses’. At the heart of this new economics were a clearly stated subjectivism and the systematic application of marginal analysis. Jevons (1871) immediately establishes these foundations with his ‘novel opinion’ that ‘value depends entirely upon utility’, by which he meant marginal utility.

An economics based upon subjective value theory and marginal analysis, rather than an objective (labour) theory of value, resulted in some subtle changes in thinking about entrepreneurship. On the one hand, the new discipline was capable of being developed in highly formal and mathematical ways. Rational allocation of any given amount of a scarce resource requires that its marginal benefit should be equal in every potential use. This 'first order condition for maximization' applies to any rational person whether consumer or producer. Working out whether all these individual maximizing decisions could be made mutually compatible was obviously a major interest and it was one of the greatest intellectual achievements of neoclassical economics to show the coordinating role of prices. Walras and other 'general equilibrium' theorists investigated the conditions under which a set of prices existed, in a world of 'price takers', that was compatible with universal market clearing. In this equilibrium, economic rents might accrue to resources such as land or even differential skill, but business profit would be zero. Schumpeter (1953: 893), who greatly admired Walras's work, remarks that his contribution to the analysis of the entrepreneur was 'important though negative'. Walras 'indicated a belief to the effect that entrepreneurs' profits can arise only in conditions that fail to fulfill the requirements of static equilibrium'.

Unfortunately, it was the apparent failure of prices to ensure universal market clearing that was more obvious to observers in the inter-war years than their benign potential as a coordinating mechanism. It was not unnatural, in the face of mass unemployment, to wonder whether alternative resource-allocating mechanisms might produce better results. Such thoughts were not particularly subversive of the calculating, rationalist or marginalist basis of neoclassical economics. Ensuring that resources are allocated rationally to achieve specified ends is the sort of 'scientific' problem that looks suitable for experts, technicians and managers. Refinements of neoclassical theory were thus capable of diverting attention from entrepreneurship entirely—either by a highly static Walrasian formalization of competitive equilibrium, or by conceiving the entire economy as one giant maximization problem. It was the latter view that lay behind the so-called 'calculation debate' about the feasibility of socialist planning during the 1930s and 1940s. The rational, calculating, maximizing, equi-marginal principles of economics could be used by officials to achieve a social optimum—or so it seemed.

Neoclassical thinking was capable of leading in quite a different direction, however. If attention is directed at its subjectivist foundations rather than its calculating rationalism, the problem of reconciling multifarious individual subjective 'ends' with multifarious individually perceived 'means' looks distinctly less of an engineering problem and more of a problem of social institutions and organization. Competitive market processes could be seen as a mechanism by which these ends were revealed, resources discovered and developed, and the various possibilities latent in the resources explored. Participants in this type of market are active bargainers and pricesetters rather than passive Walrasian 'price takers'. Thinking along these lines does not lead so much to 'precise statics' as to 'imprecise dynamics'. Instead of the 'magnificent dynamics' of classical theory leading with Newtonian predictability to the stationary state, we have a dynamics, magnificent or otherwise, of a more evolutionary, unpredictable and Darwinian conception. The modern 'Austrian' school, which includes writers such as Hayek (1945,

1978), Shackle (1972, 1982) and Kirzner (1973, 1979), represents this strand of thought. Clearly, entrepreneurship fits more naturally into this tradition than into static analysis.

The sharp dividing line that has become established since the 1940s between ‘Austrian’ and ‘neoclassical’ thinking, however, was much less apparent to writers of the period between 1870 and 1940. The increasing formality of the analysis might be static but the ‘vision’ was of economic evolution, or ‘progress’ little different from that of J. S. Mill. This is most clearly seen in the work of Marshall (1912: 165) who emphasized evolutionary change instituted by ‘business management’ rather than ‘entrepreneurship’. Under the heading of ‘management’, however, Marshall argues that ‘the superintendence of labour is but one side and often not the most important side of business work’. In addition, he identifies the accumulation of knowledge about products and processes, the forecasting of market movements, the seeing of opportunities for new commodities and processes, the exercise of judgement, the undertaking of risks and the leadership of people. While therefore clearly stating that there were two ‘sides’ to business activity, we might now say an administrative side and an entrepreneurial side, Marshall does not feel impelled to distinguish them clearly and to assign separate rewards for each.

### 3.5 Entrepreneurship and uncertainty

It was Knight (1921) who effectively proposed to deconstruct the Marshallian business manager and highlight the entrepreneurial element. Starting from the proposition that no profit existed in a Walrasian perfectly competitive equilibrium, it followed that pure profits were related to the existence of disequilibrium.

Disequilibrium must imply unexpected change. Fully anticipated change is quite compatible with sophisticated versions of the Walrasian system in which economic agents trade in futures contracts. Similarly, in a world of complete markets and where probabilities could be assigned to potential outcomes, even risk-bearing could be ‘optimized’ by trading-in state contingent claims. In such a world it was not clear that ‘risk bearing’ and profit were related. ‘Market’ prices would ensure that bearers of risk would be compensated and that risk was distributed optimally across the population. For Knight, profit was related not to risk bearing but to uncertainty bearing. An uncertain situation was one in which probabilities could not be assigned to outcomes so that decision-making was impossible to model in terms of neoclassical optimization. ‘It will appear that a *measurable* uncertainty, or “risk” proper, as we shall use the term, is so far different from an *unmeasurable* one that it is not in effect an uncertainty at all’.

A world of true uncertainty gave rise to the possibility of pure profits and losses (*residual* income as distinct from *contractual* income) and a distinct role for the entrepreneur. ‘With uncertainty present doing things, the actual execution of activity becomes in a real sense a secondary part of life; the primary problem or function is deciding what to do and how to do it’. This view of

entrepreneurship is thus a comprehensive twentieth-century elaboration and refinement of the French tradition. What is required from the entrepreneur is judgement in the face of uncertainty. The entrepreneur, having made a judgemental decision, must be able to implement the decision, which will usually involve hiring other inputs. In this way, Knight's analysis of pure profit leads to a view of the firm with the entrepreneur as the central contractual agent and the residual claimant. In so far as the entrepreneur needs to manage resources in order to implement a plan of action, and in so far as these management activities are 'routine', part of his or her income will be a wage. The rest will be pure profit—a return to good judgement and pure luck.

Schumpeter's objection to the idea that the entrepreneur undertakes 'risk bearing' has already been discussed and would presumably apply to Knight's uncertainty-based theory. Knight specifically discusses these problems when he remarks that 'it is impossible for entrepreneurship to be completely specialized or exist in a pure form' except by imagining a 'rare and improbable case' in which the entrepreneur provides no capital and undertakes no managerial responsibility. Nevertheless, Knight argues that 'judgement of men' is much more pertinent to successful entrepreneurship than 'judgement of things'. Once we admit the possibility that one person might 'have knowledge, or opinions on which they are willing to act, of other men's capacities for the entrepreneur function' then we can envisage a financier being willing to commit resources to a Knightian 'entrepreneur'. Presumably this is what the modern venture capitalist is effectively doing when financing start-ups or management buy-outs, an activity that represents a clearer apparent separation of entrepreneur from capitalist than was common in the classical era. Similarly, the distinction between manager and entrepreneur can be equally problematic in practice even though the theoretical distinction is clear. An entrepreneur has to exercise 'control' in order to put a judgement about resource allocation into effect. This will tend to result in some 'management' activity unless we can imagine a 'pure' case in which the entrepreneur contracts with managers who can be trusted to follow through on his or her judgemental decisions.

### 3.6 Entrepreneurship and innovation

Schumpeter's most celebrated contribution to the theory of the entrepreneur did not concern his criticism of J. S. Mill, already discussed, concerning risk bearing. This was ultimately a sub-dispute to his main thesis. His main point is that whether they saw the entrepreneur as a capitalist, a skilled manager or as a risk bearer, the classical economists had overlooked the most important role. The introduction of new products and processes requires organizational skills quite separate from simple management and it is this dynamic task of exploration and innovation that is the distinctly entrepreneurial one. Schumpeter (1912) is particularly associated with this idea of the entrepreneur as a revolutionary innovator.

In a period soon after the 'men of business' in the UK and the 'robber barons' in the US, Schumpeter emphasized the role in economic development of people with the vision and willpower 'to found a private kingdom'. The role of the entrepreneur 'is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility ...' (Schumpeter 1942: 132). He coined the now famous metaphor 'gale of creative destruction' to describe the competitive processes of capitalist development. This

unceasing gale derives from the energy of entrepreneurs who, through their innovations, undermine the market position of their rivals. Such competitive threats do not simply strike 'at the margins of the profits and the outputs of existing firms but at their foundations and their very lives'. Entrepreneurship, for Schumpeter, is the force that prevents the economic system running down and continually resists the approach of the classical stationary state.

Two features of Schumpeter's work on the entrepreneur are particularly distinctive. The first is his view of innovation as revolutionary and discontinuous rather than small-scale, marginal, gradual and cumulative. The second is his (later) view that, as capitalism develops and matures, large firms become the powerhouses of innovation and usurp the entrepreneurial role that was originally so associated with extraordinary and energetic individuals. 'Economic progress tends to become depersonalized and automatized' (Schumpeter 1942: 133) while teams of technicians and specialists eventually receive 'wages such as are paid for current administrative work'. The second of these propositions, somewhat paradoxically, is similar to Mill's mid-nineteenth century classical formulation mentioned above, with an additional emphasis on large firms. Both propositions have been subject to re-examination and criticism. Bhidé (2000), for example, uses the history of the microcomputer revolution at the end of the twentieth century to investigate Schumpeter's propositions and concludes that firms of varying sizes play a role in innovation as do large research departments and small-scale enthusiasts. 'Individual entrepreneurs and large companies play complementary roles and (this) helps explain why new combinations evolve in a gradual rather than a discontinuous way'.

### 3.7 Entrepreneurship and economic efficiency

Schumpeter's conception of the entrepreneur focuses attention on the process of technological innovation. A complementary approach concerns the process of uncovering and exploiting all the economic possibilities latent in an existing state of technology—the process of diffusion. Here the emphasis is on the discovery of potential gains to trade and hence, by implication, the move from less to more efficient allocations of resources. Casson (1982: 23) for example, presents a theory which is built on Knightian foundations. 'An entrepreneur is someone who specializes in taking judgemental decisions about the coordination of scarce resources'. Over time, opportunities for pure profit are continually occurring and the Walrasian conditions for 'competitive equilibrium' are never achieved. The entrepreneur fulfils the function of an intermediary or 'market-maker' exploiting divergences in the marginal valuations of goods on the part of consumers or marginal opportunity costs on the part of producers to achieve a pure profit. Wherever 'market failure' exists—that is, wherever some re-allocation of resources might conceptually harm no one and benefit at least one person—a profit might be achieved by effecting the re-allocation. Pure profit derives from the 'gains to trade' spotted, or better 'conjectured', by the entrepreneur and is captured by what is essentially a process of arbitrage which, assuming the entrepreneur's judgement is correct, yields a positive residual.

This rather abstract formulation of entrepreneurial activity encompasses simple trading activity, the establishment and growth of firms, the design of suitable incentive contracts, as well as the development of entirely new institutional arrangements. Where perfect Walrasian conditions are

contravened and markets do not exist, or property rights in goods and resources are ill defined, entrepreneurial gains will be available to those who can think of ways of overcoming the resulting inefficiencies. Firms subject to external costs or benefits might merge their activities so as to 'internalize' these spillovers. Monopoly restrictions might open possibilities for new entry. Valuable information that cannot be traded in markets because of its 'public good' characteristics might be generated and protected within a firm and used by entrepreneurs to expand the scope of their own activities. Market failure thus implies the possibility of future gain and becomes a generator of entrepreneurial opportunities.

The idea of the entrepreneur as an intermediary, 'market-maker' and hence coordinator of transactions, has resulted in the development of various sub-branches of the literature during the last 30 years. One strand is represented by the neo-Austrian School and the work of Israel Kirzner. A distinctive feature of Kirzner's approach is his emphasis on alertness to currently unexploited opportunities for trade. Pure profit is not a return for bearing uncertainty as much as a reward for pure alertness. The gains from trade have to be noticed before they can be achieved. By spotting potential gains to trade and then arranging the transactions that will capture them, the entrepreneur is the instigator of changes that are efficiency-enhancing. Further, these changes move the economy towards equilibrium. 'The movement from disequilibrium to equilibrium is nothing but the entrepreneurial-competitive process(1973: 218).

It is worth contrasting this view of the entrepreneurial process with that of Schumpeter. For the classical economists, entrepreneurial activities were associated with innovation and thus constituted a force acting against the 'gravitational' attraction of the stationary state. Schumpeter's entrepreneur is clearly of this type—innovative, disruptive and resisting equilibrium. The neoclassical economists had a different problem. No longer in thrall to Malthusian dynamics and the labour theory of value the neoclassical theorists had a sophisticated account of the state of competitive equilibrium but not of the process by which it was approached. Walras introduced a hypothetical 'auctioneer' into his system to adjust prices up or down in response to excess demands or supplies, but although this provided a reasonable theoretical 'model' of a dynamic adjustment process the auctioneer was still a 'deus ex machina'. To explain equilibrating change without recourse to a fictional outside auctioneer required the introduction of some agent of change within the system. Kirzner's entrepreneur provides this dynamic element and it is generally, though not exclusively, the 'Austrian' tradition that has emphasized its importance.

The 'neo-Austrian' view of entrepreneurship, because it derives from a recognition that resource allocation is an *information* problem and not simply a *calculation* problem, tends to see it as an activity capable of being pursued by virtually any economic agent. Entrepreneurs are not necessarily specialists and they do not necessarily operate on a very large scale. They may make use of very local knowledge—'knowledge of people, of local conditions and of special circumstances'—and some of this knowledge may be 'tacit knowledge', difficult or impossible to communicate to others verbally or in the form of written documents and blueprints. Entrepreneurship moves the system from the bottom up, so to speak, rather than the top down

and it does so through the trading activities of market makers. In this, the neo-Austrians are in the tradition of Alfred Marshall whose theory of economic progress is 'an incremental, experimental, evolutionary theory'. It should be apparent, however, that the subjectivism of the neo-Austrian economists is capable of undermining the whole concept of 'equilibrium'. In the absence of any objective set of constraints waiting to be discovered through entrepreneurial alertness, Austrian thinking could lead to a view of economic change that was all process and no particular destination. Once entrepreneurs were conceived to be creative, the economic system, not unlike the natural world, was liable to large Schumpeterian shocks and not merely long periods of incremental adaptation to given underlying conditions.

## 2.8 Entrepreneurship and the theory of the firm

Almost all approaches to the entrepreneur have one thing in common. The entrepreneur contracts with a set of other people and, after all contractual commitments have been honoured, claims the residual. Cantillon, Von Thünen, Schumpeter, Knight, Kirzner and Casson, in spite of very great differences of emphasis, could at least agree to this basic conception. It is a conception that inevitably places the entrepreneur at the heart of the modern theory of the firm first proposed by Coase (1937). This theory was originally developed without explicit reference to entrepreneurship although Coase was tutored by Arnold Plant at the London School of Economics in the 1930s and there was undoubtedly an LSE tradition in business organization which was well aware of its importance. The tradition can be seen running through to Edwards and Townsend (1967) and in the writings of Jack Wiseman and Basil Yamey.

The problem faced by Coase was the apparent inability of neoclassical economics to explain the structure of firms or indeed their very existence. Then, as now in elementary treatments of the subject, the firm was defined as a technological relationship between inputs and outputs and the details of its internal organization were simply omitted as unnecessary for the purposes of price theory. Any attempt to explain organizational structure thus required adjustments to the Walrasian framework and Coase's contribution was to introduce transactions cost as the key ingredient. For Austrian theorists, the problem with the Walrasian system was its implicit assumption of full information. For Coase, the problem was its assumption of a zero cost of transacting. The two ideas are obviously closely related since transactions cost derives from incomplete information, but Coase's formulation was more suited to the comparative analysis of contractual arrangements and could be approached using standard techniques of rational maximization.

Coase rationalized the firm as the centre of a set of 'internal' employment contracts which substituted for 'outside' market contracts. Other things constant, resources would be administered within the firm when the costs of doing so were lower than the costs of contracting outside. The boundary of the firm was defined in typical neoclassical style such that the transactions cost of the marginal contract was the same in 'the firm' and in 'the market'. If transactions costs are treated as objective and are known to all transactors, the theory can be developed without reference to entrepreneurship. Alchian and Demsetz (1972) for example, present a model in which 'team production' and the impossibility of measuring and rewarding

individual contributions to output lead to the requirement for a 'monitor' to detect and punish 'shirking'. This person is a residual claimant in order to provide the incentive to monitor the team which, on the assumption that the monitoring technology is well known, is a purely routine managerial task. The residual will turn out, in equilibrium, to provide a competitive market return to monitoring. Thus firms exist even in a purely neoclassical world once information is no longer perfect and has to be 'produced' but, as would be expected, it is the manager who is the central contractual agent.

If, on the other hand, transactions costs are subjective, conjectural and uncertain the firm as the coordinator of a set of contracts can be seen as an organization inherently associated with the entrepreneurial process. Knight's view of the entrepreneur, the neo-Austrian approach to the entrepreneur and Coase's conception of the firm can therefore be regarded as complementary and the tradition has been developed further in recent years by Casson (2001). The theory of the firm is re-orientated around the analysis of information flows rather than flows of physical inputs and outputs. Casson criticizes neoclassical thinking that tends to ignore 'cultural' factors and is built not simply on methodological individualism but on a particularly desiccated and socially unconnected type of individualism. Some features of the firm can no doubt be explained as a response to predicted opportunism on the part of contractors but entrepreneurs are in the business of reducing transactions costs and improving the quality of information flows by building trust through continuing associations as well as by the power of leadership. Casson prefers a 'theory of the firm centred on the entrepreneur as the founder and prime mover within it.

The firm is also a significant element in discussions of the finance of the entrepreneur. Knight, as we have seen, thought that pure entrepreneurship could be envisaged only in 'rare and improbable cases'. The entrepreneur will almost always have to provide some capital and labour (managerial) services in addition to pure entrepreneurship. Modern theory, however, has explained several observed financial arrangements as methods of mitigating contractual hazards and directing resources to otherwise 'unqualified' entrepreneurs. One example is the existence of debt contracts with agreed repayment schedules and finance secured upon slowly depreciating and non firm-specific capital. Equity sharing arrangements with venture capitalists can also enable entrepreneurs with very limited access to personal wealth to finance their ideas. These methods can be viable even when contractual performance is completely 'unverifiable'. However, they apply to 'start-ups' and the finance of entrepreneurs without a track record or an established reputation. A further theoretical development makes the long-established corporation itself a mechanism for channelling resources to pure entrepreneurs.

Kirzner (1979: 105) argues that modern corporations represent 'an ingenious, unplanned device that eases the access of entrepreneurial talent to sources of large-scale financing.' The argument is most fully explored by Wu (1989). Wu sees economic development since mediaeval times as leading to the gradual emergence of specialized markets in land, labour and capital. Apparently insuperable contractual hazards prevented a market in entrepreneurship from developing. The non-contractibility of entrepreneurial services leads the entrepreneurs to 'take the initiative to organize production through non market means, that is, by organizing a firm'. Although for

centuries entrepreneurship was associated with the provision of capital, the modern corporation permits the final stage of specialization to occur. 'The long historical evolution towards functional specialisation among factors of production had reached its destination'. The word evolution is important here, for it is the *evolution of reputation* that provides some assurance to capitalists that a return will be provided on their capital. The firm is 'a coalition of entrepreneurs' who share 'pure entrepreneurial profit' between them while paying a market return to the providers of capital. Loss of confidence in the willingness of the entrepreneurs to pay such a return would deprive them of future access to capital and the entrepreneurial profit that might be generated with it. This view of the modern corporation is certainly consistent with business ideas about 'intrapreneurship', 'corporate venturing' and 'corporate entrepreneurship'.

## 2.9 Entrepreneurship and economic development

As Baumol (1968) argued, the omission of the entrepreneur from neoclassical analysis was inevitable given the central place accorded to models of constrained optimization. Even early neoclassical models of economic growth relied upon exogenously given rates of technical change and rates of population growth rather than any discussion of the sources of entrepreneurial initiative. Attempts to make the rate of technical progress endogenous linked it automatically to the rate of capital accumulation or required the introduction of theoretical innovations such as 'invention possibility frontiers' to act as a constraint on entrepreneurial 'choice'. The 'supply of entrepreneurship' did not seem amenable to neoclassical treatment and Schumpeter (1954: 897) explicitly warns against drawing 'supply curves for entrepreneurial services even if we believe in supply curves for any other kind of work'.

One line of enquiry, however, has proved much more amenable to neoclassical treatment. Baumol (1968: 70) suggested that the question of what can be done to encourage the entrepreneur's activity can be approached by examining 'the determinants of the payoff to his activity'. This is a theme to which he returned more than twenty years later. Baumol (1990) treats the overall supply of entrepreneurial talent as given but argues that its allocation to innovation on the one hand or depredation, crime or 'rent-seeking' on the other is a matter of choice. Clearly, societies that manage to encourage entrepreneurial talent to undertake 'productive activities' are likely to develop faster than those societies that give relatively high rewards to 'unproductive' or purely redistributive activities. Historical instances such as the dynamism of the 'High Middle Ages' in Europe and the relative failure of mediaeval China are, argues Baumol, consistent with this thesis.

The theory of rent-seeking was developed initially to explain why the social losses associated with tariff restrictions, quotas, monopoly privileges, taxes and regulations often seemed to be much larger than the simple 'static' efficiency estimates suggested. One straightforward answer was that these interventions were usually beneficial to some partial private interests and permitted monopoly returns (rents) to be made. It therefore made sense for private interests to invest real resources in trying to create these rents—lobbying governments to impose differential costs on their rivals and to erect barriers to entry. These 'rent-seeking' activities were socially wasteful and re-distributive rather than efficiency-enhancing. They represented a form of social loss in

addition to, and quite distinct from, the resulting static inefficiency in the allocation of resources. Clearly talents suited to entrepreneurship are likely to be equally well adapted to exploiting potential private gains to rent-seeking.

This approach to entrepreneurship directs attention to political and legal factors such as the security of property rights, the burden and administration of the tax system, the enforcement of contracts, the development of company law, the impact of bankruptcy provisions and so forth. De Soto (1987), for example, argued that workers in the 'extra-legal' sector in Peru were not passive proletarians ripe for revolution but actually represented talented entrepreneurs trying to overcome the institutional barriers that confronted them. This change of view has had a profound impact on development economics. It has led to empirical work such as De Soto (2000) in which poor or non-existent title to property and other legal restrictions are highlighted as inhibitions to entrepreneurship. Conversely, Olson (1982) made growing returns to rent-seeking an important component of his explanation for the gradual ossification of previously dynamic societies. Rent seeking has also played a part in more formal models of economic growth. Murphy et al. (1991) develop a model in which talent is allocated across various sectors including a 'rent-seeking' sector. The overall rate of growth of each productive sector depends upon the talent of the best entrepreneur present in the sector because it is his or her ideas that are imitated in future periods. The incentive to enter a sector depends upon the private rate of return available, with high ability individuals able to earn larger returns than lower ability individuals. Where rent-seeking is highly rewarding to the most talented, society loses both by sacrificing immediate output and by experiencing a lower rate of growth because the productive sector is made up of the less talented entrepreneurs. To encourage entrepreneurs to reject rent-seeking it is thus necessary to investigate the determinants of the relative rewards accruing to the two activities.

#### 4.0 Conclusion

The central importance of entrepreneurship to economic development and competitive processes is not something that has been discovered just recently. The systematic incorporation of the entrepreneur into economic theory, however, posed enormous methodological difficulties. Economics, whether classical or neoclassical, was primarily concerned with the analysis of long run 'natural' or 'equilibrium' states and this focus tended to divert attention from entrepreneurial activity. Treating entrepreneurship as another 'factor of production' made it difficult to distinguish it from a species of 'management'. Treating entrepreneurship as something qualitatively different from other 'inputs' tended to subvert the calculating rationalism underlying economics and opened up doctrinal disputes that had no solution. Some neoclassical economists such as Alfred Marshall tried to chart a middle way unacceptable to purists on both sides by introducing elements of entrepreneurship informally into their work as a descriptive and interpretative commentary to the theory.

#### 5.0 Summary

In microeconomics, for example, Nelson and Winter (1982) proposed an evolutionary model of the firm. The firm is seen as operating according to an established set of 'routines' and in addition it 'searches' for new ones. Search 'is the counterpart of that of mutation in biological evolutionary theory'. Successful routines lead to growth and imitation by others. The entrepreneurial function is here associated with search and 'mutation'. Competitive advantage is not conferred merely by access to special information but also by the ability through the firm's 'routines' to generate a flow of such information. Clearly, entrepreneurial 'mutation' and economic selection through competition are not quite the same as random mutation and natural selection. Nelson and Winters' searchers are not acting randomly and blindly but actively looking ahead at future possibilities. Nevertheless, the system is evolutionary rather than deterministic.

Entrepreneurship is thus gradually finding a somewhat more formal place in economic theory. This does not imply that the methodological disputes discussed earlier have been resolved. Nor does it mean that a general theory of entrepreneurship has become accepted. It does, however, reflect the central importance of the economics of information in the research efforts of the late twentieth and early twenty-first centuries.

### 6.0 Tutor Marked Assignment

- 1) Summarize the of Entrepreneurship and economic development
- 2) Discuss the concept of Entrepreneurship and economic efficiency
- 3) What did you understand on entrepreneur in classical political economy.
- 4) How can Entrepreneurship and uncertainty exist.

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The Oxford Handbook of Entrepreneurship

## **UNIT 11      HISTORY OF ENTREPRENEURSHIP IN NIGERIA**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
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### **1.0 INTRODUCTION**

You are welcome to module 2 of this course. In the last unit, in this unit, we listed and discussed the characteristics of entrepreneurs; classified the entrepreneurs by types; and enumerated and explained the functions of entrepreneurs.

In this unit, we shall examine the history of entrepreneurship in Nigeria.

### **2.0 OBJECTIVES**

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

- trace the history of entrepreneurship;
- list and explain the role of authors and practitioners in the evolution of entrepreneurship.

### **3.0 MAIN CONTENT**

#### **3.1 History of Entrepreneurship**

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

The entrepreneur is a factor in microeconomics, and the study of entrepreneurship dates back to the work of Richard Cantillon and Adam Smith in the late 17th and early 18th centuries, but

was largely ignored theoretically until the late 19th and early 20th centuries and empirically until a profound resurgence in business and economics in the last 40 years.

In the 20th century, the understanding of entrepreneurship owes much to the work of economist Joseph Schumpeter in the 1930s and other Austrian economists such as Carl Menger, Ludwig von Mises and Friedrich von Hayek. In Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation.<sup>[4]</sup> Entrepreneurship employs what Schumpeter called "the gale of creative destruction" to replace in whole or in part inferior innovations across markets and industries, simultaneously creating new products including new business models. In this way, creative destruction is largely responsible for the dynamism of industries and long-run economic growth. The supposition that entrepreneurship leads to economic growth is an interpretation of the residual in endogenous growth theory and as such is hotly debated in academic economics. An alternate description posited by Israel Kirzner suggests that the majority of innovations may be much more incremental improvements such as the replacement of paper with plastic in the construction of a drinking straw.

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

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

### **3.1.1 Authors and Practitioners in Entrepreneurship**

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

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

Risk, which is measurable statistically (such as the probability of drawing a red color ball from a jar containing 5 red balls and 5 white balls).

Ambiguity, which is hard to measure statistically (such as the probability of drawing a red ball from a jar containing 5 red balls but with an unknown number of white balls).

True Uncertainty or Knightian Uncertainty, which is impossible to estimate or predict statistically (such as the probability of drawing a red ball from a jar whose number of red

balls is unknown as well as the number of other colored balls).

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

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

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

### **3.1.2 Concept**

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

### **3.1.3 Promotion**

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

## **3.2 How Entrepreneurship all started in Nigeria.**

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

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

### **3.7.5 The Early Stage**

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

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

### **3.7.6 The Modern Stage**

Modern entrepreneurship in Nigeria started with the coming of the colonial masters, who brought in their wears and made Nigerians their middle men. In this way, modern entrepreneurship was conceived. Most of the modern entrepreneurs were engaged in retail trade or sole proprietorship.

One of the major factors that have in many ways discouraged this flow of entrepreneurship development in Nigeria is the value system brought about by formal education. For many decades, formal education has been the preserve of the privilege. With formal education people had the opportunity of being employed in the civil service, because in those days the economy was large enough to absorb into the prestigious occupation all Nigerians their goods. As such, the system made Nigerians to be dependent on the colonial masters.

Again the contrast between Nigerian and foreign entrepreneurs during the colonial era was very detrimental and the competitive business strategy of the foreign entrepreneurs was ruinous and against moral standards established by society. They did not adhere to the theory of "live and let's live". For instance, the United African Company (UAC) that was responsible for a substantial percentage of the import and export trade of Nigeria, had the policy of dealing directly with producers and refused to make use of the services of Nigerian entrepreneurs. The refusal of the expatriates to utilize the services of local businessmen inhibited their expansion and acquisition of necessary skills and attitude. Because of this, many eventually folded up. Those that folded up built up resentment against business which became very demoralizing to other prospective entrepreneurs. As a result, the flow of entrepreneurship in the country was slowed down. But, with more people being educated and the fact that government could no longer employ most school leavers, economic programs to encourage individuals to go into private business and be self reliant were initiated.

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

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

## 5.0 SUMMARY

In this unit, we

traced global history of entrepreneurship;

listed and extolled the contributions of the authors and practitioners during the evolution of entrepreneurship;

traced the history and development of entrepreneurship over two

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

economy.

## 6.0 TUTOR MARKED ASSIGNMENT

1. Does entrepreneurship have any history? Briefly trace the history of this phenomenon.

2. How did Entrepreneurship developed in Nigeria? Briefly discuss.

## 7.0 REFERENCES AND FURTHER READINGS

Nicks (2008). [<img src='http://a.stanzapub.com/delivery/avw.php?zoneid=594&cb=0ee9fd8ca3e45c24044f344def4876fb&n=456fe6' border='0' alt='' /></a>](http://a.stanzapub.com/delivery/ck.php?n=456fe6&cb=0ee9fd8ca3e45c24044f344def4876fb)

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## **UNIT 12 THE ROLE OF ENTREPRENEURSHIP IN AN ECONOMY**

### **CONTENTS**

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

### **1.0 INTRODUCTION**

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

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

### **2.0 OBJECTIVES**

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

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

### **3.0 MAIN CONTENT**

#### **3.1 The Entrepreneurial Process**

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

Collins (1993) traced that in 1945, Masaru Ibuka and seven employees started a company in a

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

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

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

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

***Existing concept/new business*** – Some individuals start new businesses based on old concepts. For example, if someone opens a convenience food store, the idea is not new and the founder may not be described as innovative, but the business still represents a financial risk to the owner, and the person is developing something where nothing previously existed. Most people would consider this person an entrepreneur, although others may disagree because of the lack of creativity and innovation involved. It should be pointed out, however, that individuals who engage in this type of activity seldom do so without introducing some change. The likelihood of a business succeeding if it is patterned exactly after one that already exists is remote. Therefore, most entrepreneurs who start a business to compete with those that already exist do so in the hope that theirs will offer something new or better. The additional something is born of creativity.

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

### 3.2 Factors of Entrepreneurship

From the above discussion, one would discover that there is more than one factor to consider when studying entrepreneurs. There is no agreement as to why some people choose self-employment and others choose to work for someone else. One recent study by Leo-Paul (1997) has identified four spheres of influence in determining entrepreneurial behaviour: the

individual, the enthocultural environment, the circumstances in society; and a combination of these. These factors are discussed below.

## The Individual

Despite the fact that personality traits have not been found to be reliable predictors of future behaviour, Boyz and Vozikis (1994, quoted in Lambing and Kuehl, 2007) opined that many studies still focus on the entrepreneur's personality. Some people, such as Peter Drucker, do not believe that traits are a deciding factor, and believe that anyone can be taught to be an entrepreneur. According to a Goodman (1994, quoted in Lambing and Kuehl, 2007),

*“For every risk seeker, I’ll show you someone who’s risk averse. For every first-born child who is a successful entrepreneur, there’s a successful last-born or only child. For every entrepreneur who grew up listening to tales of entrepreneurial success at the dinner table [had entrepreneurial parents] there are those whose parents were military or corporate or absent”.*

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

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

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

1. **Passion for the Business** – The entrepreneur must have more than a casual interest in the business because he or she must overcome many hurdles and obstacles. If there is no passion or consuming interest, the business will not succeed. “Burning passion? Absolutely”, says Quinn (2002, quoted in Lambing and Kuehl, 2007).
2. **Tenacity despite failure** – Because of the hurdles and obstacles that must be overcome, the entrepreneur must be consistently persistent. Many successful entrepreneurs succeeded only after they had failed several times. It has been stated that “Successful entrepreneurs don’t have failures. They have learning experiences” (Goodman, 1994, quoted in Lambing and Kuehl, 2007).
3. **Confidence** – Entrepreneurs are confident in their abilities and the business concept. They believe they have the ability to accomplish whatever they set out to do (Lambing and Kuehl, 2007). This confidence is not unfounded, however. Often they have an in-depth knowledge of the market and the industry, and they have conducted months (and sometimes years) of investigation. It is common for entrepreneurs to learn an industry while working for someone else. This allows them to gain knowledge and make mistakes before striking out on their own.
4. **Self-determination** – Nearly every authority on entrepreneurship recognizes the importance

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

5. **Management of risk** – Risk is at the very heart of running your own business, and the ability to manage risk is one of the qualities of any successful entrepreneur (Dorsey, 2003, quoted in Lambing and Kuehl, 2007). The general public often believes that entrepreneurs take high risks; however, that is usually not true. First, more than two-thirds of those trying to get a business started have a full or part time job or they are running another business. They do not put all of their resources and time into the venture until it appears to be viable. Entrepreneurs often define the risks early in the process and minimize them to the extent possible.
6. **Seeing changes as opportunities** – To the general public, change is often frightening and is something to be avoided. Entrepreneurs, however, see change as normal and necessary. They search for change, respond to it, and exploit it as an opportunity, which is the basis of innovation (Lambing and Kuehl, 2007).
7. **Tolerance for ambiguity** – The life of an entrepreneur is unstructured. No one is setting schedules or step-by-step processes for the entrepreneur to follow. There is no guarantee of success. Uncontrollable factors such as the economy, the weather, and changes in consumer tastes often have a dramatic effect on a business. An entrepreneur's life has been described as a professional life riddled with ambiguity – a consistent lack of clarity. The successful entrepreneur feels comfortable with this uncertainty" (Oneal, 1993, quoted in Lambing and Kuehl, 2007).
8. **Initiative and a need for achievement** – Almost everyone agrees that successful entrepreneurs take the initiative in situations where others may not. Their willingness to act on their ideas often distinguishes them from those who are not entrepreneurs. Many people have good ideas, but these ideas are not converted into action. Entrepreneurs act on their ideas because they have a high need for achievement, shown in many studies to be higher than that of the general population. That achievement motive is converted into drive and initiative that results in accomplishments.
9. **Detail orientation and perfectionism** – Entrepreneurs are often perfectionists, and striving for excellence, or "perfection", helps make the business successful. Attention to detail and the need for perfection results in a quality product or service. However, this often becomes a source of frustration for employees, who may not be perfectionists themselves. Because of this, the employees may perceive the entrepreneur as a difficult employer. For instance, I know of an entrepreneur who is into printing and has magnificent printing press in the heart of Abuja, Nigeria. There is virtually no human being, no matter how good you are, that this man would not abuse, dress down or embarrass. Such is the trait in an entrepreneur. For an employee who wants to make a career in that enterprise, he must be tolerant and pretend that nothing happened.
10. **Perception of passing time** – Entrepreneurs are aware that time is passing quickly, and they therefore often appear to be impatient. Because of this time orientation, nothing is ever done soon enough and everything is a crisis (Lambing and Kuehl, 2007).

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

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

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

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

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

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

**14. Self-efficacy** – A recent study has suggested that the concept of self-efficacy influences a person’s entrepreneurial intentions Boyz and Vozikis (quoted in Lambing and Kuehl, 2007). Self-efficacy has been defined as a person’s belief in his or her capability to perform a task. One study found that a sense of personal efficacy that is both accurate and strong is essential to the initiation and persistence of performance in all aspects of human development (Lent and Hackett, quoted in Lambing and Kuehl, 2007).

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

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

### **Cultural Factors**

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

### **Circumstances in Society**

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

### **A Combination of Factors**

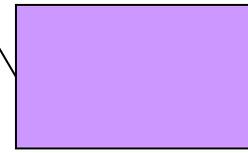
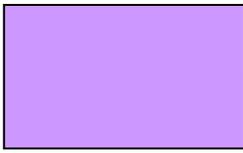
Whether a person becomes an entrepreneur or decides to be an employee is therefore the result of many factors, including the three we have just discussed above. Because such tendencies might be enhanced under the right set of circumstances, some people suggest that we should concentrate on nurturing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

## **3.3 Advantages and Disadvantages of Entrepreneurship**

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

**Figure 3.1 Advantages and Disadvantages of Entrepreneurship**





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

### 3.4.1 Advantages

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

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

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

### 3.4.2 Disadvantages

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

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

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

**Burden of responsibility/jack-of-all-trades** – The entrepreneur has a burden of responsibility unlike that of corporate workers. In corporations, employees are usually surrounded by other people at the same level with the same concerns. It is possible to share information at lunch or after work, to have a sense of companionship. The entrepreneur, however, knows that it is lonely at the top. No one else in the company has invested his or her life savings; no one else must ensure that enough money is available to meet the payroll at the end of the month.

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

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

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

### **3.5 The Role of Entrepreneurship in an Economy**

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

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

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

Koce (2009) defined social responsibility as the obligation (of managers) to pursue the policies, to make decisions, or to follow lines of action which are desirable in terms of objectives and values of our society. The social responsibility of economic enterprises is in the efficient use of resources, to produce economic wealth (production of goods and services to satisfy people's

material wants). In the production of goods and services, a business enterprise is socially responsible in such a way, that no restriction is placed upon the legitimate rights and interests of any person. To observe by word and deed the ethical standards of society, business enterprises discharge their obligations to employees by giving them better-than-competitive wage and fringe benefits, economical prices and quality merchandise to consumers, gifts and scholarships to educational institutions in their vicinity in terms of education and research which have a direct relationship to the future of the business by making available better trained human resources or advanced knowledge which will be beneficial to the business, donations, provision of social infrastructures e.g., clinic, good roads, etc to the community where the enterprise is situated, donating services and maintaining uneconomical operations, job generation for people of the community and free tax collections and donations of services for gifted managers to the government.

## **8.0 CONCLUSION**

We reviewed the earlier definitions of entrepreneurship and considered some other ones for a better comprehension of the topic. We described the entrepreneurial process and the factors that contribute to entrepreneurship. We enumerated and explained the advantages and disadvantages of entrepreneurship while discussing the role of entrepreneurship in an economy.

## **5.0 SUMMARY**

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

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

## **6.0 TUTOR MARKED ASSIGNMENT**

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

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## UNIT 13      SMALL SCALE INDUSTRIES IN NIGERIA

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Small Scale Business
  - 3.2 Small Scale Business and Entrepreneurship
  - 3.3 Problems and Prospects of Small Scale Business in Nigeria
  - 3.4 Symptoms of Business Failures
  - 3.5 Survival Strategies for Small Scale Business in Nigeria
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References and Further Readings

### 1.0 INTRODUCTION

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

In this unit, we shall consider another topic, small scale industries in Nigeria.

### 2.0 OBJECTIVES

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

- discuss small scale business;
- state the role of small scale business in entrepreneurship development;
- enumerate the problems of small scale business;
- identify the symptoms of business failures;
- understand survival strategies for small scale business in Nigeria.

### 3.0 MAIN CONTENT

#### 3.1 Small Scale Business

Most classifications of business units into large and small are based on qualitative and quantitative judgment. For instance, the US Committee for Economic Development (CED) has developed the following definition of a small scale business. ***“A small scale business is one which possesses at least two of the following four characteristics”.***

1. Management: Usually the managers are also the owners.
2. Capital is supplied and the ownership is held by an individual or small group.
3. The area of operation is mainly local
4. The relative size of the firm within its industry must be small when compared with the

biggest units in its field.

In Japan, a small-scale industry is defined according to the type of industry. For small medium industry in manufacturing, it is defined as those with 'f100 million as paid up capital and 300 employees, while small scale business in wholesale trade will have 'f30 million paid up capital and 100 employees. In Britain, a small scale business is defined in terms of turnover and number of employees. For example, a small scale business is defined as "the industry with an annual turnover of 'f2 million or less and fewer than 20 paid workers (Nwala, 1992).

In Nigeria, the definition of small-scale business also varies from time to time and from one institution to another. For example, the Central Bank of Nigeria 1996 Monetary Policy Guidelines defined small scale enterprises as enterprises as on whose total cost, excluding cost of land but including working capital, does not exceed N10 million. The National Economic Reconstruction Fund puts the ceiling for small-scale business total investment at N10 million. Section 36b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with:

- (a) Annual turnover of not more than N2 million.
- (b) Net assets value of not more than 1 million.

It will be obvious from the foregoing definitions that the relative size of a firm usually determine in terms of sales volume, investment in assets, number of employees, profit level and other significant quantitative comparisons is considered the most important. ***In summary, a small business may be defined qualitatively and quantitatively as the one that is:***

- Independently owned
- Independently managed
- Highly personalized
- Largely local in its operation
- Financed mainly from internal sources
- Small in terms of sales turnover, number of employees, assets value, profit etc within the industry.

### 3.2 Small Scale Business and Entrepreneurship

Private enterprises especially indigenous small scale firms have a vital role to play in promoting the social and economic well being of the nation, hence indigenous entrepreneurship is likely to be much more important in small scale business than in giant firms. The promotion of small scale business as a well-recognized and much heralded strategy of industrial development in developed and developing countries, and its ability to enhance entrepreneurial and managerial skills.

Development economists are of the opinion that labour intensive industries can enhance employment generation as well as advance wide variety of developmental goals like improved income distribution, generation and diffusion of technology, and industrial skills, increased utilization of local resources, improved spatial distribution of industrial activities and reduction of rural-urban population movement.

Increased productivity, national income, market leadership, gargantic technological innovativeness and sagacity of Japan, America and other developed countries are based on the foundation laid by small scale industries. Although, economic activities of developed and

developing nations is sometimes viewed to be dominated by large scale business such as IBM Delta, Airline, Coca-cola, Toyota, Honda, UAC, Lever Brothers, John Holt to mention just a

few. However, it is equally important to note that the present day giant companies were once small-scale industries, which grew over the years to become giant companies. In addition, as many small firms are dependent on large firms for raw materials or finished products, which would be costly without economies of mass production undertaken by the large business firms, likewise, larger firms are dependent on small firms who assist in distributing their goods and services.

In view of the impact of small-scale industries in improving the socio-economic condition of a nation, most developed and developing countries have made initiatives to promote indigenous entrepreneurship in small-scale business. In Nigeria, for examples, typical actions of the government take the form of policy initiatives and directives to organization, such as Ministry of Commerce, National Directorate of Employment, Ministry of Labour and Productivity, Center for Management Development, Research Institutes etc to act as executing agencies with responsibility for stimulating, supporting and sustaining entrepreneurship development.

### **3.3 Problems and Prospects of Small Scale Industries in Nigeria**

Small scale businesses have limitations and problems that account for their failures. Many of these limitations and problems are unique to this enterprise that is they result from the small size of the business, while others are general to all business organizations irrespective of size. All business organizations irrespective of their objectives have philosophy of growth, survival and adaptiveness (Lawal, 1993). The inability of a business to maintain this philosophy can be regarded as business failure.

A business may fail financially or economically, financial failure may result from either technical or bankruptcy insolvency. The inability of a business to meet its current obligations as they fall due even if its total assets exceed the total liabilities is known as technical insolvency. Bankruptcy insolvency occurs where a firm's total assets could not meet the total liabilities. Economic failure occurs when firm's total revenues do not cover the total costs.

#### **3.3.1 Problems of Small Scale Business**

Business failure problems may be classified into two main categories, viz: internal and external factors. The internal problems are mainly management problems. Majority of small-scale businesses failures may be caused by the poor quality of management. The poor operated small-scale business will fail, the well managed will succeed.

##### **(a) Internal Factors**

Many of the internal factors affecting a small-scale business include:

- (i) *Wrong Choice of Business:* Establishing a business on a wrong footing may lead to its sudden failure. Entrepreneurs should choose business fields that are promising rather than slogging it out with business opportunities already crowded.
- (ii) *Lack of business connection.* Inability of an entrepreneur to foster good relationship with customers and creditors may lead to the collapse of a business.
- (iii) *Lack of Experience.* Lack of knowledge particularly technical know-how in the particular business undertaken by the entrepreneur.
- (iv) *Poor financial control.* Inability to maintain proper accounting records and control may result to fraudulent practices, which may affect the survival of a business.



- (v) *Lack of managerial know-how.* Majority of small-scale industries lack the necessary managerial know-how for effective and efficient running of a business
- (vi) *Over Extension of Credit.* In their eagerness to make sales, most small scale business extends unwarranted credit to customers, without a clear cut credit policy and method of collection. Hence, many small businesses run into problems of over extension of credit.
- (vii) *Unreasonable Expenses.* Excessive expenses can affect the survival of a business; expenses must be kept to an absolute minimum to ensure success.
- (viii) *Inventory problems.* Overstocking or buying slow-moving goods can be very costly for a small scale business.
- (ix) *Location problem.* Poor location may affect a business. Inability of a business to be located where substantial portion of the customers can be easily reached may contribute to business failure.
- (x) *Absence of productivity improvement techniques.*
- (xi) *Unethical Business Practices.* Such as product adulteration, dishonesty, bribery and corruption may contribute to business failure.
- (xii) *Lack of Adequate Attention.* Neglect of the business by the entrepreneur may results from bad habits, poor health, marital difficulties, complacency or laziness. For a business to survive, the entrepreneur must give adequate attention.
- (xiii) *Personal Characteristics.* Personal characteristics can be a major factor for success or failure. Self-employed persons must have mature, balanced personality and an aggressive diplomatic character. These characteristics are essential for dealing with a number of internal and external groups. Small scale industrialists fail because of inadequate personal characteristics.
- (xiv) *Marketing problems.* Among the contributory factors of business failure is the marketing problems that manifest in a variety of ways such as non-standardization of products, inappropriate pricing, poor promotional activities etc.
- (xv) *Inability to Attract Qualified Manpower.* Most small-scale businesses cannot afford to employ competent and skilled manpower due to the financial status and reputation.
- (xvi) *Lack of Employees Satisfaction.* Even, where small-scale businesses are fortunate to employ qualified manpower, the general working conditions are very poor. Even, the autocratic leadership style of some entrepreneurs contributes to the business failure.

## **(b) External Problems**

These are some uncontrollable external factors that form the environment within which small businesses must operate. The main environmental problems include:

- (i) **Capital shortage:** Small-scale businesses have serious financial problems in at least the following aspects:
  - (a) Securing funds. The level of income, inability to meet the stringent conditions of banks and insufficient funds generated through personal savings.
  - (b) Building and maintaining adequate financial reserves.
  - (c) Securing Long Term Equity Capital
- (ii) **Competition:** Entrepreneurs that slog it out in already crowded businesses are likely to face the problem of competition with large corporations. Majority of these giant firms have competitive advantage over small-scale businesses because of economic of scale.

- (iii) **Lack of Access to Technology:** One of the main problems affecting the success of small scale industries is how to do things e.g. how to design, produce and distribute goods and services. Small-scale industries are characterized by obsolete technology due to poor financial status and inadequacy of the extension services.
- (iv) **Lack of Raw Materials:** Small-scale industries that rely solely on imported raw materials may likely find it difficult to secure the required inputs for production.
- (v) **Deficient Policy Framework:** For small-scale business to survive there is need for appropriate enabling environment. This may result from unfair government and local authority regulations, inadequate infrastructural facilities, cumbersome laws and regulations.
- (vi) **Limited Availability of Extension Services:** Research institutions, industrial development centers, management institutes, and other institutional framework for success of small scale business. These institutes are poorly funded; hence they are unable to properly execute their functions.

### 3.4 Symptoms of Business Failures

In discussing the various causes of business failures, attempt should be made to distinguish the symptoms of failure from the problems. The symptoms of failure are the indicators of failure that alert the entrepreneur of impending problems that may lead to the collapse of the business, if the problems remain unsolved. Once the symptoms are sighted and they converge, the more dangerous they are, therefore become evident failure signals, if corrective measures are not taken. These symptoms include:

- (i) **Deterioration of Working Capital.** Working capital is the amount of cash necessary to cover anticipated current expenditure. The main components of working capital are the current assets. Therefore, when receivables, cash and inventories cannot be easily converted into cash and the amount of working capital cannot sufficiently meet the obligations of the current creditors, the business failure may likely be experienced. In practice, the working capital position of a small scale business may be affected by continued operating in losses, unusual non-recurring losses, payment of excessive managerial bonuses, over-investment in fixed assets, excessive long term repayment, absence of cash planning etc.
- (ii) **High Debt Ratio.** The higher the rate debt financing to the amount contributed by the owners. The more the need for corrective measures. High debt ratio signifies a risky business. It implies that the business is solely financed by creditor's funds. This may reduce the reputation of the business.
- (iii) **Declining Sales.** Inability of the business to maintain consistent growth in sales turnover.
- (iv) **Declining capacity utilization.** Persistent reduction in production capacity
- (v) **Low Quality of Product.** Declining quality of product.

- (vi) **High labour turnover.** The rate of which employees leave the firm
- (vii) **High Rate of Fraudulent practices.** Increase in fraud.

### 3.5 Survival Strategies for Small Scale Business in Nigeria

Business success and failure are two sides of the same coin. A business will succeed if it is properly managed and it operates in appropriate enabling environment. In short, survival strategies for small-scale business can be discussed from two perspectives. Internal and external survival strategies.

#### 3.5.1 Internal Survival Strategies

Survival of small scale businesses requires adequate knowledge of the market and customers. ***In general, successful internal management of small-scale business will require the following:***

- (i) Careful analysis of the markets
- (ii) Proper planning and effective launching of the business. Assessing the entrepreneurs' readiness for the business and the feasibility of the proposed investment.
- (iii) Proper financial and accounting practices to prevent fraudulent practices.
- (iv) Maintenance of adequate records such as financial, expense, personal credit sales records, inventory records etc.
- (v) Thoughtful selection of goods.
- (vi) Choosing a strategic location
- (vii) Maintaining strong reliable and effective relationship with customers, suppliers and community.
- (viii) Effective credit control system.
- (ix) Employment and motivation of skillful personnel.
- (x) Developing a well planned marketing strategy.
- (xi) Maintenance and observance of sound ethical practices.
- (xii) Utilizing productivity improvement techniques such as TQM, Motion and Time study etc.
- (xiii) Acquiring necessary entrepreneurship skills through formal entrepreneurship development programme (EDP)
- (xiv) Effective management of the business, properly designed organization, motivation, controlling etc, will contribute to the survival of small-scale businesses.
- (xv) Improving on the quality of goods and services rendered.
- (xvi) Personal factors. Effective management in some instant depends on personal factors. The ability to manage is obviously a human attribute.
- (xvii) Understanding the business areas will contribute to the success of the entrepreneur.

#### 3.5.2 External Survival Strategies

The external survival strategies may focus on three main areas:

- (A) Creation of an enabling environment. In view of the fact that small scale businesses are affected by problems such as lack of supportive environment. The following strategies may be recommended:

- (i) Improving the institutional capacity of government agencies through proper funding to enable them contribute effectively to the success of small scale business.
  - (ii) Liberalization of the existing regulatory environment relating to small scale business to enable this sector contributes positively to the development of the nation.
  - (iii) Provision of physical infrastructure and expansion of the existing ones to provide services.
  - (iv) Assisting the small scale industrialists in creation of markets for their goods and services. The government may establish a policy that encourages the purchase of products manufactured by this sector.
- (B) Finance Strategy: Majority of the small scale businesses fail because of their inability to acquire credit facilities. Hence the following strategies may be suggested.
- (i) The government may increase loanable funds granted to small-scale industry.
  - (ii) Financial institutions should be encouraged by means of incentives and policy guidelines to lend to small scale entrepreneurs. Although, every annual budget will always indicate monetary guidelines for granting loans to industrial sectors with emphasis on small scale industries. However, this should be properly monitored to ensure strict compliance.
  - (iii) Orientation of financial institutions to modify their collateral requirements and their attitude toward loan application of small scale enterprises.
- (C) Development of Entrepreneurship Culture. The undeveloped entrepreneurship culture has contributed negatively to the failure of small scale enterprises in Nigeria. Specific recommendations in this regard will therefore include:
- (i) Development of entrepreneurship culture by means of awareness
  - (ii) Introducing entrepreneurship development education in Nigeria Institutions particularly higher institutions.
  - (iii) Establishing a small business centers where the practical aspect of entrepreneurship in small-scale business will be gained.

#### **4.0 CONCLUSION**

We noted from our discussions that most classifications of business units into large and small are based on qualitative and quantitative judgment.

We defined small scale business and noted the four characteristics possessed by this form of business. Also, we identified and discussed the roles of small scale business in entrepreneurship development, enumerated the symptoms of business failures and equally listed the various survival strategies available to small scale businesses in Nigeria.

#### **5.0 SUMMARY**

In this unit, we have,

- discussed small scale business;
- stated the role of small scale business in entrepreneurship development;

enumerated the problems of small scale business;  
identified the symptoms of business failures;  
listed the various survival strategies available to small scale businesses in Nigeria.

In the next unit, we shall examine another topic, 'entrepreneurship as the driving force in organisations'.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. List the main areas of focus in external survival strategies for small scale businesses in Nigeria and explain the various strategies under them.
2. What the internal survival strategies are available to small scale businesses in Nigeria? List and briefly discuss any four of them/
3. Identify the symptoms of business failures and discuss three of them.
4. What role does small scale business play in the development of entrepreneurship in Nigeria?

#### **7.0 REFERENCES/FURTHER READINGS**

Fadahunsi O. (1992) Entrepreneurship and Small Industry Development in Commonwealth, Nigeria management Review. Vol. 7 No 1and 2 pp 443-455.

## **UNIT 14 THE DRIVING FORCES OF ENTREPRENEURSHIP**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Entrepreneurship as a Driving Force behind Organisation
  - 3.2 Entrepreneurship and Self-Employment
  - 3.3 Entrepreneurship and Economic Development Process
  - 3.4 Psychological Prerequisites of Successful Entrepreneur
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

In the last unit, we discussed small scale business; stated the role of small scale business in entrepreneurship development; enumerated the problems of small scale business; identified the symptoms of business failures; and listed the various survival strategies available to small scale businesses in Nigeria.

In the next unit, we shall examine another topic, 'entrepreneurship as the driving force in organisations'.

### **2.0 OBJECTIVES**

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

- discuss some of the theories that support entrepreneurship as a driving force behind organisations;
- describe how entrepreneurship aids self employment;
- state the role of entrepreneurship in economic development process;
- list and discuss the psychological prerequisites of successful entrepreneurs.

### **3.0 MAIN CONTENT**

#### **3.1 Entrepreneurship as a Driving Force behind Organisation**

Since the time of Marshall, the concept of entrepreneurship has continued to undergo theoretical evolution. For example, whereas Marshall believed entrepreneurship was simply the driving force behind organization, many economists today, but certainly not all, believe that entrepreneurship is by itself the fourth factor of production that coordinates the other three (Arnold, 1996). Unfortunately, although many economists agree that entrepreneurship is necessary for economic growth, they continue to debate over the actual role that entrepreneurs play in generating economic growth. One school of thought on entrepreneurship suggests that the role of the entrepreneur is that of a risk-bearer in the face of uncertainty and imperfect information. Knight claims that an entrepreneur will be willing to

bear the risk of a new venture if he believes that there is a significant chance for profit (Swoboda, 1983). Although many current theories on entrepreneurship agree that there is an inherent component of risk, the risk-bearer theory alone cannot explain why some individuals become entrepreneurs while others do not. For example, following from Knight, Mises claims any person who bears the risk of losses or any type of uncertainty could be called an entrepreneur under this narrow-definition of the entrepreneur as the risk-bearer (Swoboda, 1983). Thus, in order to build a development model of entrepreneurship it is necessary to look at some of the other characteristics that help explain why some people are entrepreneurs; risk may be a factor, but it is not the only one.

Throughout the evolution of entrepreneurship theory, different scholars have posited different characteristics that they believe are common among most entrepreneurs. By combining the above disparate theories, a generalized set of entrepreneurship qualities can be developed. In general, entrepreneurs are risk-bearers, coordinators and organizers, gap-fillers, leaders, and innovators or creative imitators. Although this list of characteristics is by no means fully comprehensive, it can help explain why some people become entrepreneurs while others do not. Thus, by encouraging these qualities and abilities, governments can theoretically alter their country's supply of domestic entrepreneurship.

Although economists have posed many theoretical interpretations of entrepreneurship, there has been very little empirical research conducted on this phenomenon, especially compared to the amount of research conducted on the other three factors of production. In particular, growth and development economics has "suffered rather seriously from the neglect of the entrepreneurial role" (Kirzner, 1985, 69). This neglect has occurred for two main reasons. First, entrepreneurship is difficult to measure empirically. Since few economists can even agree about how to define entrepreneurship, developing the tools to measure it has been especially problematic. Second, as explained in the theories above, entrepreneurship is characterized by uncertainty and typically occurs in the presence of imperfect information, unknown production functions, and market failure. As Leibenstein claims, entrepreneurship arises "to make up for a market deficiency" (1995). However, the majority of mainstream economic models assume perfect information and clearly defined production functions. Thus, entrepreneurs typically fall outside of these models (Leibenstein, 1995).

Like Leibenstein, Kilby suggests that entrepreneurship has been largely overlooked in economics. Kilby claims that entrepreneurship exists "only in the lower realms, where imperfect knowledge and market failure are granted an untidy presence;" as a result, many economists disregard this phenomenon, particularly in economic models dealing with developed countries (Kilby, 1983). However, many models that focus on the underdeveloped economies of LDCs relax their assumptions about perfect information. This more realistic view of economic markets allows entrepreneurship to stand out as one of the leading sources of market transformation and economic growth and development.

### **3.2 Entrepreneurship and Economic Development Process**

Leibenstein maintains that there are two simultaneous steps in the process of economic development for LDCs: economic growth and market transformation. In order for a country to increase its per capita income, it must have a "shift from less productive to more productive techniques per worker" (Leibenstein, 1995). This shift is the process of market transformation, and it can be manifested in the creation of new goods, new skills, and new markets. Entrepreneurship is the driving force behind both growth and transformation.

Without entrepreneurs there would be no new innovation or creative imitation in the marketplace; hence, the transformation to new production methods and goods in the country would not take place. As entrepreneurs transform the market, not only do they provide new goods and services to the domestic market, they also provide a new source of employment to the economy (Praag, 1995).

As a result, entrepreneurship is a necessary ingredient in the process of economic development; it both serves as the catalyst for market transformation and provides new opportunities for economic growth, employment, and increased per capita income.

Although entrepreneurship can directly affect the rate of an economy's transformation and development, few countries have actively pursued entrepreneurship encouragement programs. Additionally, many LDCs have focused more on encouraging entrepreneurship in the form of multi-national corporations (MNCs) rather than domestic and indigenous entrepreneurship. MNCs can certainly increase a country's income, provide market innovations, and serve as the catalyst for market transformations; thus, MNCs can be used as a source of entrepreneurship-led development. However, Saeed suggests that it is preferred for governments to promote domestic and indigenous entrepreneurship because domestic entrepreneurs are more aware of the market gaps that need to be filled domestically (Saeed, 1998). Thus, instead of producing goods that might not be consumed within the country, domestic market forces encourage domestic entrepreneurs to create innovations and creative imitations that fulfill a real market deficiency domestically. Hence, MNCs can be used for entrepreneurship-led development, but domestic entrepreneurship is thought to be more effective.

### **3.3 Entrepreneurship and Self-Employment**

Theorists disagree, however, about whether or not informal sector self-employment is beneficial for entrepreneurship-led development. Saeed suggests that many of the small family enterprises and shop-houses that make up the informal sector are indeed entrepreneurial ventures. He asserts that the close-knit structure of the small-family enterprise is conducive for the incubation of ideas that are tested in the informal sector and later used to transform market products and processes. Additionally, Saeed claims that women and young people are traditionally excluded from the formal sector; thus, their entrepreneurial ideas are locked out of the formal market. However, since small-family enterprises in the informal sector typically involve women and youth participation, the informal sector can often serve as the outlet for their entrepreneurial ideas (Saeed, 1998).

Unlike Saeed, Carree et. al. suggest that self-employment in the informal sector can actually thwart entrepreneurship-led growth. They assert that an economy will suffer from lower growth rates both when it has too little and too much domestic business ownership. Since many enterprises in the informal sector sell goods or services that are already available in the formal sector market, informal sector enterprises are often redundant and fail to provide market transformations. According to Carree et. al., business ownership in the informal sector rarely transforms the structure of the economy or produces new market innovations or creative imitations. Thus the presence of business ownership in the informal sector of a country does not ensure entrepreneurship-led growth because simple business ownership is not necessarily market transforming. Hence, business ownership is not synonymous with entrepreneurship (Carree, 2000).

Since entrepreneurship can serve as a positive source of economic growth and development, governments should attempt to increase their supplies of market-transforming entrepreneurship. Although it is debatable as to whether the informal sector is truly a source of entrepreneurs, governments can insulate themselves from this debate by focusing on the encouragement of market-transforming entrepreneurship, and not simply business ownership in both the formal and informal sectors.

Before policy makers can increase the supply of entrepreneurship, it is necessary for them to understand what factors affect the supply of entrepreneurs. At its most basic level, the supply of entrepreneurship is determined by two factors: opportunity and willingness to become an entrepreneur. According to Praag (1995), opportunity is "the possibility to become self-employed if one wants to." The primary factors affecting opportunity include one's intrinsic entrepreneurial ability, starting capital, ease of entry into the market, and the general macroeconomic environment. Alternatively, willingness is the relative valuation of work in self-employment compared to one's other options for employment. In terms of opportunity cost, an individual's willingness is positive whenever self-employment is perceived as the best available career option. Thus, willingness is inherently affected by the anticipated market incentives that are available for would-be entrepreneurs, namely profit and economic benefits (Praag, 1995).

The supply of entrepreneurship is thus dependent on both individual level factors and general economic factors. Policymakers can improve the economic factors that face potential entrepreneurs by initiating market reforms that both increase the market incentives and the availability of capital that is available to entrepreneurs (Wilken, 1979). In terms of the non-economic factors that affect entrepreneurship, policymakers are more limited in what they can achieve. Many economists such as Marshall and Mill suggest that not just anyone can be an entrepreneur. Nonetheless Marshall implies that the skills of an entrepreneur can be taught (1994). Thus, policymakers can affect the level of entrepreneurship in their countries by crafting policies that reform the market in order to encourage entrepreneurship both economically and educationally.

Not surprisingly, regional variations have been found in the levels of entrepreneurship between countries. In their cross-national study of entrepreneurship, Davidsson and Wiklund (1995) suggest that regional variations in the levels of entrepreneurship are influenced by the cultural values of the people. They claim that "cultural and economic-structural determinants of the new firm formation rate were positively correlated," thus suggesting that cultural differences in both values and beliefs help explain regional variances in the supply of entrepreneurship. Despite this relationship, other studies on migrant and ethnic entrepreneurs have found that cultural beliefs and values rarely suppress aspiring entrepreneurs. Although cultural hostility towards entrepreneurship may stifle it in a particular region, migrant entrepreneurs frequently move to new areas in order to start their enterprises. Thus, cultural hostility may prevent entrepreneurship in a particular region, but some other region will, in part, benefit from the migration of the ethnic entrepreneurs (nDoen, 1998).

Basic economics teaches that supply is only a one-sided story of market phenomena. Thus, for countries to benefit from increasing their supplies of entrepreneurship, traditional economics suggests that those countries' would also need to promote the demand for entrepreneurship. However, little has been written about the demand side of entrepreneurship because it a calculation of demand is intrinsically built into entrepreneurship. As Leibenstein suggests, entrepreneurs are gap-fillers who perceive and

correct for market deficiencies. Thus, so long as there are market deficiencies, there will naturally be demand for entrepreneurs to correct them. As a result, when governments promote the supply of entrepreneurship, they are essentially encouraging entrepreneurs to seek out what parts of the market demand them.

### 3.4 Psychological Prerequisites of Successful Entrepreneur

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

#### 3.4.1 Think Positively

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

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

#### 3.4.2 Be Ambitious

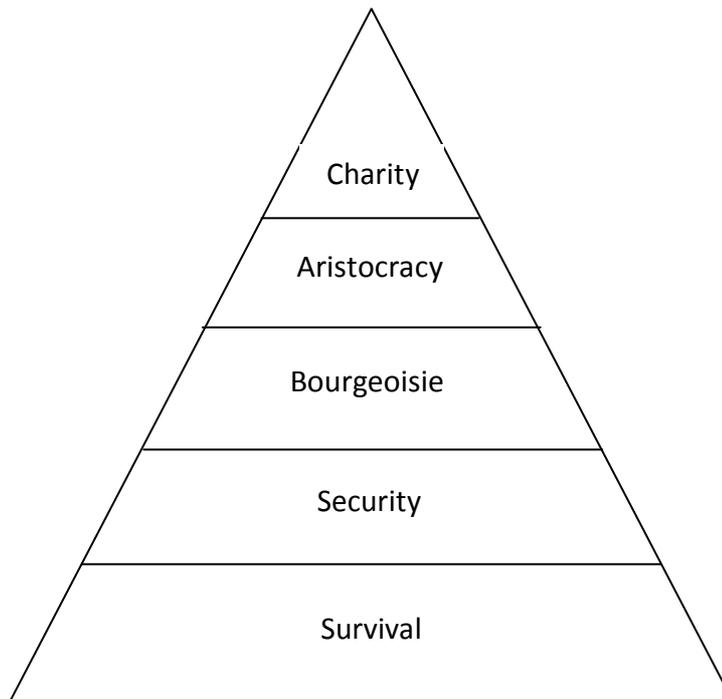
By ambition, we refer to a long-term plan. It is stratified, thus stretching through midway between ambitions or objectives. These midway objectives are like a stairway up to the top floor of a tall building ever stated. To that extent, for a deed or achievement to be worthwhile or significant, it must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

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

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

Another example of this ambition was that of a woman who ran a home-based restaurant selling a local, but coveted meal – “amala”. She prepared it so well that there were jams at her

home during lunchtime. Regularly customers would stand and wait outside her home for seats to be liberated in her sitting room that had a very small capacity. When customers counseled her to expand the business, she retorted that she would abandon the trade the moment she got a husband. She was clearly unenthusiastic and did the selling just to have enough to make ends meet. The truth was that it was not a trade for her but a pastime and not even a favourite one.

**Figure 2.1 Jimngang Hierarchy of Ambitions**

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

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

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

### **“Security” Ambition**

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

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

receive the sweat of their labour.

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

### **“Bourgeoisie” Ambition**

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

### **“Aristocracy” Ambition**

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

### **“Charity” Ambition**

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

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

### 3.4.3 Be of Strong Consistency

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

It is noteworthy that there are trials and temptations along the way. Some situations are difficult and complex that we are or may be tempted to give up. Oftentimes, there will be a way out provided we are patient and perseverant. We need effort to progress and usually the effort required is highly demanding and strenuous. We need to think, to work hard, to go out, and to meet people, to be ready to face humiliation, and somehow, like a miracle, find a solution. Time can itself be the solution, so waiting should be considered.

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

### 3.4.4 Fear

Mariz Arza (quoted in Giovagnoli, 1998) expressed that "courage is not about doing something without fear, but about taking any strength you have – even if it is just a grain of courage – and channeling to strike out ... when you know what you're doing is morally and ethically right".

Fear is horrific and, if allowed, can act like a cankerworm that gnaws at the fruits of human plan and endeavour. It is that anxious feeling that manifests in us because of our awareness of the risk of failure of an operation. This sign is normal and an indication that our mental faculty is functionally normally. As a human being, it is natural to have the sense of fear. This sense has to be understood, domesticated, controlled, and well channeled. Fear should not be so strong as to overcome our other senses. It should not be exaggerated to the point of making us cancel a well-planned project or cherished ambition.

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

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

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

#### **4.0 CONCLUSION**

We noted the various theories that support entrepreneurship as the driving force behind organisations. We discussed entrepreneurship as aid to self employment and also stated the roles of entrepreneurship in economic development process.

Finally, we listed and discussed the psychological prerequisites of successful entrepreneurs.

#### **5.0 SUMMARY**

In this unit, we have,

- discussed some of the theories that support entrepreneurship as a driving force behind organisations;
- described how entrepreneurship aids self employment;
- stated the role of entrepreneurship in economic development process;
- listed and discussed the psychological prerequisites of successful entrepreneurs.

In the next unit, we shall examine entrepreneurship and organic functions of business.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. What are the psychological prerequisites that could aid an entrepreneur to become successful? List and discuss them.
2. From the discussions in the unit, how would describe entrepreneurship as aid to self employment?
3. What are the roles of entrepreneurship in economic development process?

#### **7.0 REFERENCES/FURTHER READINGS**

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## UNIT 15      ENTREPRENEURSHIP AND ORGANIC FUNCTIONS OF BUSINESS

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Organic Functions of a Business
  - 3.2 Forms of Business Ownership
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- 5.0 Summary
- 6.0 Tutor Marked Assignment
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### 1.0 INTRODUCTION

In the last unit, we examined the topic, ‘entrepreneurship as the driving force in organisations’.

In this unit, we shall examine the organic functions of a business as well as the forms of business ownership, how they raise their capital, the advantages and disadvantages of these businesses.

### 2.0 OBJECTIVES

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

- discuss the system and subsystem operating in an enterprise;
- describe interlinkages among the subsystems in an enterprise;
- discuss forms of business ownership, capital formation, advantages and disadvantages.

### 3.0 MAIN CONTENT

#### 3.1 Organic Functions of a Business

Organizations, no matter their size and type, perform certain basic functions or activities to achieve their objective. These common activities or functions are called organic business functions.

##### 3.1.1 Production Function

The production function of a business consists of all activities involved in the transformation all of inputs, into outputs of goods and services. The production function consists of five activities or decision areas.

1. **Process:**  
This is design of the physical production system. It includes the choice of technology, facility layout process flow analysis, facility location line balancing, process control and transportation analysis.

2. **Capacity:**  
The determination of optional output levels for the organization. Specific decisions include facility planning, forecasting, scheduling, capacity planning.

3. **Inventory:**  
The decisions involve managing the level of raw materials work in process or progress and finished goods. The group of specific decisions includes what to order, when to order, how much to order and material handling.
4. **Work force job designs:**  
This involves work measurement, work standard and motivations.
5. **Quality:**  
Quality control, sampling, quality assurance and cost control.

### 3.1.2 Marketing Function

This is the business function, responsible for identifying, anticipating and satisfying consumer's requirements profitably. Marketing functions include customers' analysis, buying, selling, product and service planning, pricing, distribution, market research, opportunity analysis and social responsibility. Marketing activities can be reduced to four main components called the 4ps: production, place, promotion, and price.

#### **Product:**

This refers to the quality, features options, style, brand name, packaging, size, service warranty and returns that go with goods and services offered to the consuming public.

#### **Price:**

A set of institutions which perform all the activities or functions that are utilized to move a product and its title from production to consumption. It includes channels of distribution, coverage, location, inventory, transportation and insurance services.

#### **Place:**

A set of institutions which perform all the activities or functions that are utilized to move a product and its title from production to consumption. It includes channels of distribution, coverage, location, inventory, transportation and insurance services.

#### **Promotion:**

A process by which marketers stimulate demand for their product and services through marketing appeals and communication. The activities include: Advertisement, personal selling, sales promotion, publicity and public relations.

### 3.1.3 Finance Function

This is the business function concerned with the provision of adequate funds to enable an organization achieve its objectives. There are three basic decision areas in finance.

- i. **Investment decision (capital budgeting):**  
The allocation and reallocation of capital projects, project assets and decisions of an organization.
- ii. **Financing decision:**  
Determination of the best financial mix or capital structure of the firm. This decision includes examinations of various methods by which a firm can raise capital.

iii. **Dividend policy:**

The percentage of earnings paid to stockholders, retained earnings, stability of dividend payment on time.

### 3.1.4 Personnel Functions

This is the business function concerned with attracting and retaining, the right caliber of persons in an organization. This is to enable it achieve its objectives. These main activities include:

- i. Man power planning
- ii. Recruitment
- iii. Selection
- iv. Placement
- v. Training and development
- vi. Remuneration
- vii. Discipline

### 3.1.5 Communication Function

Communication can be defined as the process of transforming and understanding meaning. It is only through transmitting meaning from one person to another that information and ideas can be conveyed. Ogundele (2000) states that entrepreneurs of his study spent between 60% to 80% of the work time communication with their workers. Effective communication occurs, when the senders thought or ideas are transmitted as intended by the sender. However, effective/perfect communication is never achieved in reality.

#### ***Functions of Communication:***

1) **Control:**

Communication controls employee behaviour through the hierarchies' of authority and formal guideline of organizations require employees to first communicate any job-related grievance to their immediate boss, to follow their job description and to comply with company policies.

Equally informal communications controls behaviour e.g. when workgroup, harasses a member for producing above the required (level) rate.

2) **Motivation:**

Communication fosters motivation by clarifying to employees what is to be done, how well they are doing and what can be done to improve performance if below expectation.

3) **Emotional Expression:**

Communication serves as a means of expressing feelings of frustrations and feelings of satisfaction. Therefore, communication provides a release for the emotional expression of feelings and for the fulfillment of social needs.

4) **Information:**

Communication provides the information that individuals and groups need to make decisions. Data are transformed which are used to identify and evaluate alternatives.

**Efficiency:** This is the ability to get things done correctly or doing things right. It is the maximization of outputs to input ratios. An **efficient entrepreneur** is one who achieves outputs or results that measure up to the inputs (labour, material and time) used to achieve them.

**Effectiveness:** This is the ability to choose appropriate objectives or means for achieving a given objective. It is doing the right things. An effective entrepreneur selects right things to get work done or right method for getting a particular thing done.

Every entrepreneur needs to be both efficient and effective, because an efficient manager is not an effective manager. A manager may be doing things correctly but not focusing on the appropriate objective.

### 3.2 Forms of Business Ownership

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

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

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

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

#### 3.2.1 Forms of Business (1) - The Sole Trade

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

type of business in Nigeria. Up to 19th century, most production companies were owned by individuals. In Nigeria it is one of the commonest types of business you see around. You see them around the cities and villages.

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

### ***Features of a Sole Trader***

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

**Liability:** The liability of the one man business is unlimited. i.e., if the owner is indebted, both, the business asset and his personal asset can be sold to offset the debt.

**Sources of Capital or Finance:** The capital outlay is provided by the owner. This source of fund could be through: Personal saving, Intended capital, Credit, Borrowing from relatives and Banks etc.

**Legal Entity:** It is not a legal entity. By law the business and the owner are regarded as one person. They are not different, unlike corporate business; a company is a legal entity, different from the owners.

**Motive:** It is believe, that a sole trader is into business to make profit.

**Method of Withdrawing Capital:** The owner can withdraw his capital anytime from the business without consulting with anybody.

**No Board of Director:** Because he is the owner, no board of directors that is why he does what is in (vi).

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

### ***Sources of Funds of a Sole Trader***

#### **(i) *Personal Savings***

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

#### **(ii) *Borrowing particularly from Friends and Relatives***

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

#### **(iii) *Credit Purchase from Manufacturers or Wholesalers***

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

#### **(iv) *Donations from Friends and Relatives***

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

business.

### ***Advantages of a Sole Trader***

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

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

- (v) **Privacy:** The sole trader is not under any legal obligation to publish his accounts for public consumption as in joint stock companies.

### ***Disadvantages of a Sole Trader***

The disadvantages of this form of business ownership include:

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

### **3.2.2 Forms of Business (2) - Partnership**

Denedo (2004) says partnership is an association of two to twenty persons carrying on a business in common with the view of making profit. The partners contribute both funds and efforts to set up and manage the business sharing profit (or loss) on an agreed basis. Partnership can also be define as the relationship that exist when two or more persons who contribute small money or moneys worth in order to establish, own and manage business organization with the sole aim of making profit. Partnership is an association of 2-20 persons or 2-10 persons as in case of a bank to carry on as co-owners of business for profit. They also share the losses that arise from such businesses.

### ***Features of Partnership***

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

**Ownership:** It is formed by between 2-10 people and between 2-10 people in case of banks.

**Capital:** The initial capital is contributed by partners.

**Liability:** Their liability is unlimited except for limited partner.

**Formation motives:** They are formed for profit reasons.

**Sources of capital:** contribution from the partners ploughing back profit, loans from banks.

**Method of withdrawing capital** must be approved by other partners as laid down in their partnership deed.

It has **no separate legal entity**. It

has **no board of directors**.

### ***Types of Partnership***

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

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

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

### ***Kinds of Partners***

We have five types of partners and they include:

**Active Partner:** This is the partner(s) who take active part in the formation, financing and management of the business. They receive salary for the role they play as a manager or managing director or director of the business as spelt out in the partnership deed.

**Dormant/Sleeping Partner:** This partner contributes only the money needed for formation of the business or for running of the business. He is not involve in managing of the business and doesn't receive salary. He is only entitled to profit sharing and losses as it is agreed upon before formation.

**Normal/Passive Partner:** A normal partner is one who is not actually a partner but who allows his name to be used in the partnership or who gives the public the impression that he is a partner even though he may not share in the profit of the business. This is a partner appointed because of his experience, fame or wealthy position. These members may be men and women of substance whose name are greater than silver and gold like retired army generals, politicians, civil servants ,successful business men.

**Silent Partners:** A silent partner is an individual who is known to the public as a partner but who does not take active part in the management of the firm.

**Secret Partner:** A secret partner is that who is active in the affairs of the business but not known to the public as a partner.

### ***Sources of Funds for Partnership***

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

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

### ***Article of Partnership or Deed of Partnership***

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

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

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

### ***Advantages of Partnership***

The following, are the advantages of partnership:

- (i) **Greater Financial Resources:** Unlike a one-man, business between two and twenty persons forms the partnership. It translates into more capital for such business compare to the one-man business. By so doing ability to borrow i.e. from bank and be approved is higher and better compare to one-man. Benefits of expansion are higher because more funds are available.

- (ii) **Combined Abilities and Skills:** In partnership, there are various partners, with various ideas, i.e. accountants, marketers, bankers, historians, managers etc. may come to together to form a business. They will put into use various talent which may advance the company more compare to a one-man business, who is the only talent.
- (iii) **Greater Continuity:** Relative to the sole proprietorship, the partnership has a very great tendency of continuity even in death. The death of a partner may bring about a re-organization of the partnership, but the remaining members are likely to have some knowledge that will enable them to continue with the business.
- (iv) **Ease of Formation:** Like-one-man business, the partnership is fairly easy to organize as there are few governmental regulations, governing the formation of partnerships. The investments duties, privileges, liabilities and other relationships of the partners are mutually agreed upon, and as soon as the new members and materials have been brought together, the business is ready to function.
- (v) **Joint and Better Decision:** That two good heads are better than one and this is applicable to partnership business where joint and better decisions are taken.
- (vi) **Creation of Employment Opportunities:** The large size partnership is in a vantage position to employ more in their business because of its huge financial resources.
- (vii) **Employment of Valued Employees:** In order to secure the advice and experience of esteemed employees. They are made partners in the firm. This is a way of enhancing their personal work as well as that of the firm.
- (viii) **Tax Advantage:** Partnership enjoys tax advantage. Taxes are therefore, levied upon the individual owners rather than upon the firm as it are not recognized as a legal entity.
- (ix) **Application of Division of Labour:** This is applicable in its managerial and administrative hierarchy.
- (x) **Privacy:** Like the sole proprietorship, partnerships are not under any legal obligation to publish their books of accounts for public consumption.

### ***Disadvantages of Partnership***

The disadvantages of partnership form of business ownership are:

- (i) **Unlimited Liability:** If the business fails in the process, assets will be sold to offset their liabilities. In a situation where the assets can not pay for the debt, the owners' personal belongings could be sold to offset such debts.
- (ii) **The Business is not a Legal Entity:** Most of the partnership business has no legal backing.
- (iii) **Disagreement and Resignation:** Death of a partner can lead to the death of a business especially the active partner. Most of the partnership ends with disagreement. Disagreements because of action or Opinion lead to resignation which could lead to total death.
- (iv) **Decline in Pride of Ownership:** Since the partnership is owned by at least two people the

pride and joy associated with ownership is reduced. Unlike in sole proprietorship where the owner enjoys great pride in his business.

- (v) **Bureaucracy Leads to Slow Decision and Policy Making:** Meeting that require quorum, may not always be formed.
- (vi) **Risk of Mandatory Dissolution:** Where a member withdraw his membership or admission of a new partner becomes necessary, the partnership will be dissolve and another agreement reached to admit such member. The rigors involve in this is tedious, which may be a problem for such act.
- (vii) **Limited Capital:** This partnership can not get more capital through shares except through members.
- (viii) **Restriction on Sale of Interest:** There is a difficulty in affecting transfer of ownership. The interest of operation is not transferable without the consent of other partners.

### 3.2.3 Forms of Business (3) - Registered Business Name

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

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

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

### 3.2.4 Forms of Business (4) - Cooperative Society

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

Coady International Institute, however, defines cooperative as a "free association of persons legally constituted for the purpose of conducting an economic enterprise or business which they control and administer democratically according to established principles and technique". Each of the definitions stated above emphasises three main issues. The first is the voluntary nature of

the association, secondly, the collective efforts of the people, which imply that people's endeavours are geared towards the success and betterment of the cooperators. The third factor is the issue of collective control. This, by implication, means that if there is any benefit or problem accruing to the society, such benefit or problem belongs to all the members.

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

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

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

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

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

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

<b>CTCS</b>	<b>'AJO' or 'ESUSU'</b>
<ol style="list-style-type: none"> <li>1. The membership of CTCS is unlimited or unrestricted.</li> <li>2. Life of CTCS is perpetual as a corporate body.</li> <li>3. Credits are made available at all times.</li> <li>4. Loans are usually given out on merit.</li> <li>5. Inspection or periodic auditing is allowed.</li> <li>6. Capital is kept revolving.</li> <li>7. Many members enjoy social and economic benefits.</li> <li>8. Modern scientific method of operation is involved.</li> </ol>	<ol style="list-style-type: none"> <li>1. Membership is limited or restricted.</li> <li>2. Life terminates when the last member takes his turn.</li> <li>3. Credits are made available at certain times only.</li> <li>4. There is favouritism and bias in granting loans.</li> <li>5. No inspection or periodic auditing is allowed.</li> <li>6. Capital is tied down unnecessarily.</li> <li>7. Very few privileged members enjoy its social and economic benefits.</li> <li>8. Traditional or unscientific method of</li> </ol>

### ***Cooperative Principles***

Cooperative principles are usually associated with Rochdale Pioneers who are referred to as the founding fathers of the modern cooperative societies. These principles are coined from the stipulation of the cooperative laws but varied to suit the type of society being formed by a group.

The number of these principles is either increased or reduced depending on the taste of such group or body that owns the cooperative..... Regardless of the number, however, these principles still forms the basis of the universal principles of modern cooperative as recommended by the International Cooperative Alliance (ICA). Among the basic principles as observed by this body are:

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

### ***The Role of Cooperative Principles and its Universal Applicability***

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

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

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

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

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

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

### ***Golden Rules and Self Reliance of Cooperatives***

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

Among these rules are:

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

### ***Classification of Capital***

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

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

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

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

### 1. Owned Capital

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

#### (a) Members' Shares

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

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

#### Advantages

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

#### Disadvantages

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

#### (b) Reserves

The building up of reserves is a survival strategy for the operation of a cooperative

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

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

### **Advantages**

- (i) They contribute to the successful operation of the cooperative.
- (ii) Reserves allow for long term planning and capital investment, thus strengthening the society.
- (i) Reserve portrays the spirit of solidarity in a society because of their non-divisibility.
- (ii) They are the social capital of a society because of their neutrality and anonymity.
- (iii) Unlike share capital, reserves are not withdrawable and do not fluctuate with the membership.
- (iv) They increase the borrowing power of the society.
- (v) They act as a cushion for the protection of member's liability.

### **Demerits of Cooperative Reserves**

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

### **(c) Entrance Fees**

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

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

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

## **2. Loan Capital**

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

### **(a) Members' Deposit**

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

#### **Merits**

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

### **(b) Revolving Funds**

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

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

#### **Advantages**

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

#### **Its Shortcomings**

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

**(c) Loan from Cooperative Sources**

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

**Advantages**

- (i) It helps in boosting the financial base of the cooperatives.
- (ii) It promotes unity and relationship among cooperatives.
- (iii) It accelerates the capital investments of all cooperative societies.

**(d) Loan from Commercial Banks**

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

**Advantages**

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

**Disadvantages**

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

**(e) Loan from the Government**

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

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

**Merits**

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

### **Demerits**

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

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

Another problem identified with this source is the discrimination or partiality involved in granting the loan to cooperatives by abuses charged with the disbursement of the loans. In most cases, loans through this channel have been opened to various abuses like injudicious spending, mismanagement and fraud.

### **(f) Trading Credits**

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

#### **Advantages**

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

#### **Demerits**

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

### ***Cooperative Capitalisation***

According to Ejiolor (1989), capitalisation deals with the capital structure of a business in relation to the amount of equity, its composition and changes in it. The procedure for determining the value of a firm is known as the "capitalisation of income, method of valuation". It is a method of calculating the present value of a stream of earnings.

The following terms are commonly used in the valuation process.

#### **(i) Par Value**

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

**(ii) Market Value**

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

**(iii) Book Value**

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

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

**(iv) Real Value**

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

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

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

We have two kinds of companies:

- (i) **Unlimited Liability Companies:** Their liabilities do not end on the money contributed to the business, their personal belongings could be sold to recover money from them in case of a company's indebtedness.
- (ii) **Limited Liability Company by Guarantee:** This business is for promotion of science, religion, arts, education and not for profit making. They source their fund from members. Their liabilities are limited by promise or guarantee.
- (iii) **Limited Liability Companies by Shares:** Liability is limited to the amount they contributed for the formation and management of the company. If a company is liquidated, they lose only the shares they have in the company.

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

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

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

***Methods of Formation***

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

### **Memorandum of Association**

It states how the company will relate with the outside world. It will state the name, location and

objectives of the company. Memorandum of association include:

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

### **Article of Association**

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

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

### **The Prospectus**

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

### **Certificate of Incorporation**

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

### **Certificate of Trading**

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

### ***Features of a Private Company***

**Membership:** a minimum of 2 and a maximum of 50

**Issuance of Shares:** cannot sell shares to the public

**Transferability of Shares:** can only be transferred with the consent of other shareholders

**Quotation:** private companies are not quoted on the floor of the stock exchange

**Publication of Accounts:** not required to publish annual account. However they must send a copy of their audited account to the registrar of companies each year.

**Limited Liability:** each shareholder possesses limited liability.

### ***Features of a Public Company***

- (i) **Membership:** a minimum of seven and no maximum, but article of association could specify maximum.
- (ii) **Issuance of Shares:** can sell share to the public.
- (iii) **Transferability of Shares:** shares can be transferred without the consent of other share

holders.

- (iv) **Quotation as Public Companies:** are quoted on the floor of the stock exchange.
- (v) **Publication of Accounts:** required by law to publish account and to also send a copy of audited account to the registrar of companies each year.
- (vi) **Limited Liability:** each shareholder possesses limited liability.

### ***Advantages of a Private Company***

The advantages of a private company are:

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

### ***Disadvantages of a Private Company***

The disadvantages are listed below:

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

### ***Advantages of Public Limited Company***

The advantages of a public limited company are as follows:

- (i) **Legal Entity:** It is a corporate body; it can sue and be sued.
- (ii) **Limited Liability:** The liabilities of the owners is limited to the shares brought into the organization
- (iii) **Ease of Raising Additional Capital:** Because of the large numbers of the owners it makes it easy to raise fund from their contributors or selling of shares or bonds.
- (iv) **Expansion is Unlimited:** There is no limit to where the company can expand to provide the company has a large capital.
- (v) **Continuity:** This company life is long, even if hundred members die at a time the chances of its survival is still there. Even in a period of resignation, disability etc., the company is not threatened.
- (vi) **Adaptability:** It is adaptable to small medium and large scale companies according to the fund available to the firm.
- (vii) **Capital Transfer:** you can transfer your capital at will if you are not satisfy with the

company.

- (viii) **Flexibility:** for the fact that we have many members as shareholders, members of board, managers etc with diverse experience and knowledge, the running of the company will be perfect using the verse of experience personnel thereby giving room for flexibility.
- (ix) **Enjoyment of Large Scale Production unlike the One-Man Business:** Because of the number of owners, finances, flexibility etc. a company has a better advantage of producing goods in a large quantity.
- (x) **Share Holders Interest is Safeguarded:** Because there is no secrecy, the shareholders have nothing to fear.
- (xi) **No Managerial Responsibility:** You can be a share holder and yet you are not part of the management. It means that others are managing the business for you.
- (xii) **Employees May become Co-owners:** Employee will become owner either by deliberate action of the management of the companies or by buying shares.
- (xiii) **Democratic Management:** The Company is run democratically; election of board of directors is by vote. In meeting, if no quorum is formed there will not be a meeting.

#### ***Disadvantages of the Public Limited Company***

The disadvantages are:

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

#### **4.0 CONCLUSION**

We have examined discuss the system and subsystem operating in an enterprise, described interlinkages among the subsystems in an enterprise and discussed forms of business ownership, capital formation, advantages and disadvantages.

#### **5.0 SUMMARY**

In this unit, we have examined the organic functions of a business. We have also discussed the

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

In the next unit, we shall examine another interesting topic titled 'law and its relevance to business operations'. It is particularly useful to entrepreneurs who are bound to encounter challenges during interaction with other people, businesses and government.

## 6.0 TUTOR MARKED ASSIGNMENT

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

## 7.0 REFERENCES AND FURTHER READINGS

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