

COURSE GUIDE

ENT 702

THE NIGERIAN ENTREPRENEURIAL ENVIRONMENT

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INTRODUCTION

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

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

COURSE GUIDE

The course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through the study materials. It suggests some general guidelines

for the amount of time you are likely to spend on each unit of the course in order to complete it successfully.

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

WHAT YOU WILL LEARN IN THIS COURSE

The course ENT702 consists of 17 units. Specifically, the course discusses the following:

History of entrepreneurship in Nigeria

Concepts in entrepreneurship

Role of entrepreneurship in a national economy.

Environmental variables of the concept of entrepreneurship.

Micro and Macro Environment factors

Environmental analysis and scanning

Forms of Business Ownership

COURSE AIMS

The aim of the course can be summarized as follows:

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

COURSE OBJECTIVES

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

You should always look at the unit objectives after completing a unit to ensure that you have followed the instructions in the unit. Below are the overall objectives of the course. By meeting these

objectives, you should have achieved the aims of the course as a whole. On successful completion of the course, you should be able to:

Understand the history of entrepreneurship development in Nigeria, the scope, characteristics and various relevant concepts on entrepreneurial environment in Nigeria. Know the components of the environmental variables and identify the environmental factors that affect entrepreneurial development. Also, to be considered are types of environmental factors; and adaptive mechanisms to entrepreneurial environment.

WORKING THROUGH THIS COURSE

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). Each unit contains self-assessment exercises, and at a point in this course, you are required to submit assignments for assessment purposes. At the end of the course, there will be a final examination. The course should take you a total of 16-20 weeks to complete.

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

The list of all the components of the course is as presented.

Course Materials

Major components of the course are:

Course Guide

Study Units

Textbooks Assignment

Presentation Schedule.

STUDY UNITS

The study units in this course are as follows:

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

- Unit 1: Description of Entrepreneurship
- Unit 2: History of Entrepreneurship Development
- Unit 3: Environmental variables of Entrepreneurship
- Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

MODULE 2: BUSINESS ENVIRONMENT (1)

- Unit 1 The Internal Business Environment
- Unit 2 The Task Environment
- Unit 3 The Political Environment
- Unit 4 The Legal Environment

MODULE 3: BUSINESS ENVIRONMENT (2)

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

MODULE 4: FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

- Unit 1: Sole Proprietorship
- Unit 2: Partnership
- Unit 3: Co-operative Society
- Unit 4: The Corporate Organisation and Franchising

ASSIGNMENT FILES

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

PRESENTATION SCHEDULE

The presentation schedule included in your course materials also have important dates of the year for the completion of tutor-marked assignments (TMAs) and your attending to tutorials. Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

ASSESSMENTS

There are two aspects to the assessment of the course: first are self-assessment exercises, second are the tutor-marked assignments; and third, there is also a written examination.

In tackling the assignments, you are expected to apply information, knowledge and techniques gathered during the course.

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

TUTOR-MARKED ASSIGNMENT (TMAs)

Each of the units in the course material has a tutor-marked assignment (TMAs) in this course. You only need to submit five of the eight assignments. You are to answer all the TMAs and compare your answers with those of your course mates. However, you should ensure that you collect four (4) TMAs from the Study Centre. It is compulsory for you to answer 4 TMAs and submit them for marking at the Study Centre. Each TMA is allocated a total of 10 marks. However, the best three of the four marks shall be used as your continuous assessment score.

You will be able to complete your assignment from the information and materials contained in your reading, references and study units. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

FINAL EXAMINATION AND GRADING

The final examination for ENT702 will not be more than three hours' duration and has a value of 70% of the total course grade. The examination will consist of questions, which reflect the types of self-testing, practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed.

Unit	Title of work	Weeks activity	Assessment (end of unit)
	Module I		
1	Definitions of Entrepreneurship	1	Assignment 1
2	History of Entrepreneurship Development	1	Assignment 2
3	Environmental variables of Entrepreneurship	1	Assignment 3
4	Characteristic, Advantages and the Role of Entrepreneurship in Economic Dev. Development National Economy	1	
	Module II		
1	The Internal Business Environment	1	Assignment 4
2	The Task Environment	1	
3	The Political Environment	1	Assignment 5
4	The Legal Environment		
	Module III		
1	The Cultural Environment	1	
2	Demographic Environment	1	

3	The Technological Environment	1	Assignment 6	Use the time
4	The Economic Environment	1		
5	Environmental Analysis	1		
	Module IV			
1	Sole Proprietor	1		
2	Partnership	1	Assignment 7	
3	Cooperative Society	1		
4	The Corporate Organisation and Franchising	1		
	Revision	1		

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

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

Course Overview

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

HOW TO GET THE MOST FROM THIS COURSE

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

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

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

Self-tests are given at the end of each unit. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examinations. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

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

- (1) Read this course guide.
- (2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the unit. Important information e.g. details of your tutorials, and the date of the first day of the semester is available. You need to gather together all information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
- (3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your facilitator know before it is too late for help.
- (4) Turn to unit 1 and read the introduction and the objectives for the unit.
- (5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your text books, on your desk at the same time.
- (6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through this unit, you will be instructed to read sections from your text books or other articles. Use the unit to guide your reading.
- (7) Well before the relevant due dates (about 4 weeks before the dates) access the Assignment file on the Web CT OLE and download your next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the examination. Submit all assignments not later than the due dates.

- (8) Review the objectives for each study unit and confirm that you have achieved them at the end of your study. If you feel unsure about any of the objectives, review the study material or consult your tutor.
- (9) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
- (10) When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your facilitator's comments. Consult your tutor as soon as possible if you have any questions or problems.
- (11) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives and the course objectives.

Tutors and Tutorials

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

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

Contact your tutor if:

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

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

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

SUMMARY

As earlier stated, the course ENT702: Entrepreneurship Development is designed to introduce you to various techniques, guides, principles, practices etc. relating to development of entrepreneurship in Nigeria.

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



MAIN CONTENT

MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

- Unit 1: Definitions of Entrepreneurship
- Unit 2: History of Entrepreneurship Development
- Unit 3: Environmental variables in Entrepreneurship
- Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

MODULE: 2 BUSINESS ENVIRONMENT (1)

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

MODULE 3: BUSINESS ENVIRONMNET (2)

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

MODULE 4: FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

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

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MODULE 1: OVERVIEW OF ENTREPRENEURSHIP

- Unit 1: Concept of Entrepreneurship
- Unit 2: History of Entrepreneurship Development in Nigeria
- Unit 3: Functions of an Entrepreneur
- Unit 4: Characteristics, Advantages and the Role of Entrepreneurship in Economic Development

UNIT 1: DEFINITION OF ENTREPRENEURSHIP AS A BUSINESS ACTIVITY

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- 4.0 Summary
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1.0 INTRODUCTION

This module is an attempt to establish entrepreneurship in its distinctive for other disciplines for clarity and functionality.

2.0 OBJECTIVES

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

- Expose the some perspectives of entrepreneurship and the limitations
- Discover the wrong views about entrepreneurship
- Define the concepts: entrepreneurship, innovation and entrepreneur.
- Explain Entrepreneurship Motivations
- Clarify the intensity of entrepreneurship and the dimensions.

3.0 MAIN CONTENT

3.1 Certain perspectives of entrepreneurship and their limitations

The term ‘entrepreneurship’ is one of the most misconceived and misrepresented concept. Entrepreneurship, being a multidimensional course, means different things to different people and with varying conceptual perspectives (Garba, 2010). For instance, there is the economics, the Management, sociology, anthropology and psychological perspectives that describe it as it suits their discipline. In spite of these differences, there are some common trends that are distinctive of entrepreneurship. No discipline is a replica of another discipline. Before a discipline can stand alone, it must have its unique description of its concept, different from others. Entrepreneurship is a distinctive field of study, that is no more under other disciplines (Veciana, 1999). It has its perspective, different from other disciplines and will be discussed.

You would have learned in ENT102, Principles of Economics, that there are four factors of production, namely: land, labour, capital and entrepreneur. The entrepreneur is fourth factor of production in the economic perspective and the most important of all the factors. This is because the entrepreneur is perceived as an individual that harnesses all the human and material resources. The limitation in the economists’ entrepreneur who only coordinates the resources is that the contemporary entrepreneur does more than coordination of resources. The management perspective perceived an entrepreneur as someone that starts and maintains a business by carrying out the management functions of organizing, directing controlling etc. An entrepreneur is not another word for a manager because a manager is hired to maintain an organization and follow the template without any attached risk. The role of an entrepreneur is beyond maintenance of an organization. Hence, these definitions are unacceptable in entrepreneurship. Worse of, are different views people consider to be entrepreneurship that are not.

3.1.1 Wrong views about Entrepreneurship

There are different views ignorantly held as entrepreneurship that makes the understanding to be unclear. It is not possible to call pawpaw fruit as coconut fruit and get coconut oil extract benefit. If the perception is wrong, the result will be wrong. Suffice to say, that everybody is in business of buying and selling. Someone may sell product like medicine, clothes etc. while some persons like medical doctor, teacher, security etc. sell services. You will see that not everyone in business is an entrepreneur. Let us have more clarifications.

Entrepreneurship is not vocational education, business studies, skills acquisition, technical work or craftwork. It is neither all about self-employment, proprietorship, petty trading, nor zealous trading. It is more than mere starting a business or buying and selling. It is not about titans or merchants in oil and gas, cargo and others without any value-addition. It is not about motivational speaking, training or seminar organization. It is not synonymous to small business owners or any Small and Medium Enterprises (SMEs) among others. Entrepreneurship is not a life-long title like chieftaincy or Doctor. As soon as a firm or individual stops innovation, or stops being entrepreneurial, or its innovation has become common and taken over by others. Such business is no more entrepreneurship (Kuratko 2010) but has become a normal business.

In summary, these perceptions can only be called entrepreneurship if there is a substantial value addition, introduction of novelty and uniqueness that is different from the norm known, and done by everybody. Although, a skill acquisition may not be entrepreneurship but can be a stepping stone to entrepreneurial activities. Having understood the wrong, the next section will discuss the right views of entrepreneurship.

3.2 Concept of Entrepreneurship

The entrepreneurship was first used in the early 18th century by an Irish man, Richard Cantillon, who lived in France. It is used broadly in connection with the innovation of modern industrial business leader, which described an originator of a profitable business idea (Akanni, 2010). Joseph Schumpeter, an Australian Economist, asserted that the single function which constitute entrepreneurship concept is 'innovation'. Innovation is the core of

entrepreneurship while creativity is the core of innovation. Remove innovation from entrepreneurship, it becomes an ordinary business. UNDP (2010) described entrepreneurship as the process of using private initiatives to transform a business concept into a new venture or to grow and diversify an existing venture or enterprise with high growth potential. There are different definitions of entrepreneurship. Here are some in table 1.

Table 1: Selected descriptions of entrepreneurship (1973-2023)

Authors	Entrepreneurship.....
Kirzner (1973)	...consists of the competitive behaviors that drive the market process.
Gartner (1988)	..is the creation of new organizations.
Walter (1989)	...is the act or process of identifying business opportunities and organizing to initiate a successful business.
Stevenson & Jarillo (1990)	..is the process by which individuals- either on their own or inside organizations - pursue opportunities without regards to the resources they currently control.
Wennekers & Thurik (1999)	is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations: to perceive and create new economic opportunities and to introduce their ideas to market, in the face of uncertainty and other obstacles, by making decision so n location, form and the use of resources.
Venkataraman, 2000:120	‘seeks to understand how opportunities to bring into existence “future” goods and services are discovered, created, and exploited, by whom and with what consequences’
Hisrich and Peters (2002)	...is the process of creating something new of value, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction, and independence.
Davidsson (2003:47)	...is the behavior undertaken in the process of discovery and exploitation of ideas for new business ventures.”
Davidsson (2005)	..the introduction of new economic activity that leads to change in the market place.
Madueke (2007)	..is the willingness to think conceptually and the capacity to see change as an opportunity
Abubakar (2009)	‘..the discovery, creation and exploitations of new market opportunities by small firms, through an economic process that is context -dependent’
Adeyeye (2018)	the introduction of a ‘new’ economic activity that leads to change in the market place in order to improve the standard of living of the people and earn an entrepreneurial profit.
Elia et al. 2020	“Process of identifying potential business opportunities and exploiting them through the recombination of existing resources or the creation of new ones to develop and commercialize new products and services”
Ratten (2023)	..The identification of business-related opportunities through a process of using existing, new or recombination of resources in an innovative and creative ways.”

Source: Adeyeye (2024)

A student of entrepreneurship could adapt or adopt any suitable definition of interest.

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

opportunity. Innovation is a pre-requisite to categorizing any form of business or sector as entrepreneurship. Innovation is embedded in newness. Then one may ask, what is newness?

3.2.1 Newness in Entrepreneurship

Newness is very significant in entrepreneurship. It is different from the common usage outside entrepreneurship. When referring to “new” in Schumpeter terms of innovation. It refers to i) New to the world product/services; ii) New to the market or environment products/services; iii) New to the firm products/service lines; iv) product improvements/revisions; v) New application for existing products/services; vi) repositioning of existing products/services. Thus, newness is an important concept in entrepreneurship studies and practice. The most entrepreneurially impactful are numbers i and ii. We can sum up this section with Hisrich and Peters (1992) submission that entrepreneurship is a continuous process of creating something different that add value to the users.

3.2.2 Creative Destruction

Appropriate innovation leads to creative destruction. A concept introduced by Schumpeter where existing products/ services are rendered obsolete due to the introduction of a new one. People tend to go for the newest as against the old. A common example is the i-phones that when new ones are released, the old ones become obsolete. Innovation is a great force when accepted in the market place

3.3 Entrepreneurship and Innovation

Innovation literally means renovation or variation. It is the successful implementation of creativity within an organization. Innovation is deviating from the norm, and doing it in a new and different way to make life better for the populace. Hellriegel, Slocum and Jackson (2005) also described innovation as the process of creating and implementing a new idea, which can take different forms.

At the core of Schumpeter’s theory of entrepreneurship is the concept of ‘innovation’, through which he initiated a strong connection between entrepreneurship, technological development and economic progress (Schumpeter, 1996). He identified five dimensions of innovation as new ‘combinations of the factor of production’ by an entrepreneur in reforming or revolutionizing the pattern of production by any of the following:

1) Introduction of new or improved products/services (Product innovation);

- 2) *Introduction of new or improved methods of production (Process innovation such as mechanized or electrical equipment instead of a manual process);*
- 3) *Opening of new market (Market innovation);*
- 4) *Identification of new sources of supply of raw materials (Resource innovation e.g. biofuel); and*
- 5) *Creation of new ways of organizing businesses (Organizational innovation).*

Any form of entrepreneurship will automatically fall into any of these dimensions of innovation. Wealth is created when such innovation results in new demand. Entrepreneurship is, therefore, a process which involves the creation of an innovative economic organisation for the purpose of gain or growth under condition of risk and uncertainty (Dollinger, 2001 quoted in Akanni, 2010). These are some scholastic definitions of entrepreneurship that can be adopted or adapted.

3.3.1 Approaches to Innovation

A firm that does not innovate will die (Kuratko, 2012) due to other competitors in the industry. A firm can be innovative after being categorized into Schumpeter's dimensions of innovation in four specific ways as discussed.

- i. Invention or radical innovation / revolutionary innovation /discontinuous innovation / breakthrough innovation/ disruptive innovation: These terms are synonyms. It is the introduction of a new product that are usually a result of new technology. This product or service addresses a gap that has never been addressed before. An untried technology that is new to the world, and will change the customers' ways of dealing with the issue. Example is airplane.
- ii. Dynamically continuous innovation or synthesis: This is still part of Schumpeter's dimension on the introduction of an improved product/service. It is the improvement of the existing product/service by combining two or more features together as one. Example of such is a rechargeable fan.
- iii. Incremental innovation or continuous innovation / a step-at-a-time innovation/ extension: This is an improvement on an existing product by adding a feature to make it different

from others. Example Coca cola bottling company production of 50cl soft drinks aside the 35cl.

- iv. Duplication or imitation: This is replicating or copying/ adapting/ mimicking the innovation of other forms. Example is Sony technology imitating Philips to produce refrigerator. Sometimes, such product can be introduced to the same market where the original exist or taken to another new market entirely.

The first two (that is, number i and ii) are highly entrepreneurial because of the high degree of innovativeness, risk-taking and proactiveness which can significantly affect the national economy positively. Whilst number iii and iv are low entrepreneurially and the impact on the economy might not be significant. Note, until innovation is accepted in the marketplace it cannot be referred to as innovation.

3.3.2 Intensity of Entrepreneurship

This is the evaluation of the overall level of entrepreneurship in a firm. It is the combination of the frequency and degree of entrepreneurship. That is, **Degree X Frequency = Intensity**. For instance, moderate levels mean the degree and frequency are periodical. This is very important in evaluating an individual, firm or industry as being entrepreneurial. Before any innovation can be considered entrepreneurial, the intensity must be known. A change of the shape of bread is an extremely low innovation that cannot affect the Gross Domestic Income of a country. The impact is quite insignificant. For instance, Femtech companies with the various introduction of technological are entrepreneurial because of their breakthrough innovations and the frequency. It is only such entrepreneurial firms that can generate adequate wealth, create job, pay taxes and affect the individual's and national economy (Kuratko, Morris & Covin, (2020) & Adeyeye, (2018).

Degree of Entrepreneurship

Every organization, no matter how conventional, has an element of entrepreneurial behaviour. Every creation has its level, so it is with entrepreneurship. It is not enough to say, for a venture to be categorised as entrepreneurship, there must be innovation. For instance, a change in the shape of the soap mould is an innovation, and a change in the perfume added to a cream is innovation. How would

you rate the degree of this innovation? How significant are the contribution of these changes to the Gross Domestic Income of a nation? It is insignificant and very low.

Thus, to assess the extent or degree of entrepreneurship of a particular product or service, these three combinations must be considered. The **innovativeness**, **risk-taking** and **proactiveness** must be considered on the level of high, medium and low. Innovativeness is concerned with the type of innovation that is being engaged with. Is it a disruptive innovation or duplicate? **Risk-taking** is about the level of risk or uncertainty attached to the innovation. The calculated likelihood of loss or failure. Will it be easily accepted in the market? How long will it take people to accept the product or service? How about the payback period? These and others are the risks involved. Note that the higher the innovation, the higher the risk. Lastly, is the level of **proactiveness** which is action-oriented. This concerns the level of the activity or product in acting on the environment rather than reacting to the environment. The ability to get to the market before other competitors, one of the market pioneers or industry leaders. It is the desire that focuses on exploitation of the opportunity by taking responsibility on bringing innovation to reality. The combination of these three: **Innovativeness X Risk-taking X Proactiveness = the degree of entrepreneurship** of a firm. The degree can be low, moderate or high. Low level of entrepreneurship has no impact on the economy.

Frequency of Entrepreneurship

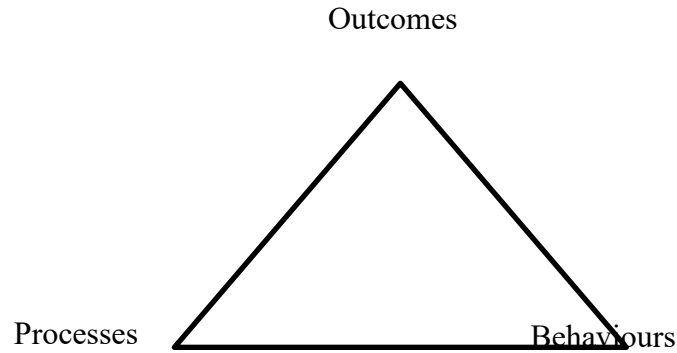
This expresses the regularity of entrepreneurship in a firm. The number of times entrepreneurial events takes place within a firm over a given period of time. A firm that does not innovate regularly is not an entrepreneurial firm. It is just a traditional business. Low frequency means less entrepreneurial initiatives.

3.4. The Three Dimensions of Entrepreneurship

Entrepreneurship is viewed as a critical factor in our contemporary socio-economic life worldwide. Entrepreneurship is cardinal with many roles to play. What makes it different from other disciplines, one may ask? Stokes. Wilson and Mador postulated the answer by categorizing every definition of entrepreneurship into three dimensions of manifestations. Namely:

- Entrepreneurship as Behaviours
 - Entrepreneurship as Process
 - Entrepreneurship as Outcomes

Figure 1



Source: Adapted from Wilson and Stokes (2006)

Entrepreneurial Behaviour: The definitions under this category highlights the entrepreneurial behaviour as a basis of differentiation. To such an individual, entrepreneurship becomes a way of life. Examples of such include Timmons and Spinelli (2004) assertion that “Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity based, holistic in approach and leadership balanced”. Another perception in this category is Kuratko (2002) submission that Entrepreneurship “is the characteristics of seeking opportunities, taking risks beyond security and having the tenacity to push through an idea into reality”. When an individual demonstrates a behavior or action that is entrepreneurial and eventually produce entrepreneurship.

Entrepreneurship as Process: Some of the definitions given fall under this category which is largely concerned with what is involved in entrepreneurship and why it is relevant to all segments including individuals, organizations and society in general. Entrepreneurship is classified as a strategy. The main thrust of the process dimension is in the method or procedures involved in the development of new ventures or innovation strategy and designing a framework that supports the entrepreneurship process. Some of the definitions that capture this perspective is that Hisrich, Peters and Shepherd, (2002). They define entrepreneurship as “the process of creating something new of value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks and the resulting rewards of monetary and personal satisfaction and independence”. Another definition is Mazuyka and Birley (2002), which is define entrepreneurship “as any novel activity which creates organizational change and economic value”.

Outcomes of Entrepreneurship – The definitions classified under this dimension are predicated as the ultimate or end results of any endeavour, a process or sets of behaviors must be entrepreneurial. Outcomes are generally viewed in the context of new products and services, innovation, new ventures and or creation of value for society. One of the definitions in this category is Timmons and Spinelli (2004) that define Entrepreneurship “as the act that results in the creation, enhancement realization and renewal of value not just for the owners but for the participants and stakeholder. Also, the definition of Hisrich, Peters and Shepherd (2010) is in this category. It sees entrepreneurship “as the dynamic force that facilitates the creation of incremental wealth”

3.5 Defining the Entrepreneur

The earliest usage of the term ‘entrepreneur’ is recorded in 17th century in the French military history. The term entrepreneur comes from the French verb “entreprendre” and the German word “unternehmen” which is interpreted to mean “to undertake”. It refers to persons who undertook to lead militant expeditions (Akanni, 2010). In business context, Entrepreneur is the label usually given to someone who creates a new business activity in the economy by introducing a new product or creating a new market or managing resources in order to bring about something novel. The uniqueness of an entrepreneur is the ability to create new business, bear most of the risk and enjoy the most of the rewards (Devi, 2020). Schumpeter, one of the twentieth century economists described an entrepreneur as a person who is willing and able to convert new ideas into a successful innovation (Adeyeye & Adepoju, 2015). Schumpeter (1934) referred to an entrepreneur as the central actor in the process of change and forces ‘creative destruction’ across market and industries by its innovation that shifts the market curve to disequilibrium.

An entrepreneur, as expressed by Drucker (1995, quoted in Jimngang, 2004) is someone who shifts economic resources out of an area of lower and into an area of higher productivity and greater yield. This definition has two aspects that deserve to be underlined. First, there are resources that undergo manipulation; second, the activity seeks to attain “higher productivity” and “greater yield”. This is similar to Schumpeter’s disequilibrium philosophy. Potential entrepreneurs display initiative and ambition, have business sense and foresight, and are decisive. They are agents of change who

accelerate the generation, application and spread of innovation (UNDP, 2010). The entrepreneur acts in a different way. The entrepreneur brings to light a differentiator, something unique, which represents **value** in the eyes of the buyer or consumer. The idea is that the person at the helm should consider the organisation as operating under a process designed to provide “value” to the consumer. When all aspects of the business are geared towards achieving this goal – that is, value to the customer or a perception of it – then, such an organisation is entrepreneurial or represents entrepreneurship (Adeyeye, 2018).

The American human psychologist, Abraham Maslow, sees the entrepreneur as someone who can “discern change, enjoy it and improvise without being forewarned”. According to him, the entrepreneur is a “here-now” creator, an improviser, who is not afraid of being viewed as operating in dissonance with general practice and belief (Stephens, 2000). To say it in another way, the entrepreneur is someone who perceives or senses opportunity where others fear rejection; he will not talk of obstacles but challenges. The entrepreneur is a specialist who uses judgement to deal with novel and complex problems (Casson, 1982). He seeks to generate value, through creation or expansion of economic activity, by identifying and exploiting new products/services, processes or markets (Stoke et al., 2010). Moreover, an entrepreneur is a person who identifies business opportunities and organizes required resources to initiate successful business activity. The national commission on entrepreneurship defined an entrepreneur as one who takes risks to start a business, works tirelessly to fulfil his visions, foresees a change, and develops new product to take advantage of the change, uses innovations in technology or processes of marketing to take them in new directions, and is committed to growth as far as the market place allows. An entrepreneur is a naturally born or environmentally made individual that makes a significant impact by adding values or effect complete change to what existed (Adeyeye, 2018). It is quite common for such individuals to be envied or unpopular initially but the end will justify the means.

Summarily, an entrepreneur is a creative person who is willing and able to convert valuable new ideas into a successful **innovation** but often outside organizational bureaucracy with some degree of freedom to pursue his unconventional ideas.

3.6 Entrepreneurship Motivations

The motivations for individual's involvement in entrepreneurship can be perceived in two ways: Opportunity-driven and Necessity-driven entrepreneurship. Opportunity-driven entrepreneurship is the opposite of necessity-driven entrepreneurship. It is the entrepreneurship that an individual chooses to dive into because of his traits, skills, interest, and knowledge or identified opportunity. It is positive in nature and sometimes referred to as "pull factor" (Adeyeye, Aliu, Oni, & Onimisi, 2019). Sometimes, such an individual may abandon the juicy and well-paid employment to be involved in entrepreneurial activities in order to exploit a perceived business opportunity or fulfil his life ambition.

Necessity-driven entrepreneurship is described as "man-must-live" or "last resort" entrepreneurship. The motivation is negative in nature and sometimes referred to as "push factor". It is the entrepreneurship that an individual undertakes out of need, poverty, unemployment, under-employment, pressure from families and friends, or other social disasters, when all other options are absent or unsatisfactory among others (Adeyeye, et al. (2019). In anyway, such individual has solved the unemployment problem by getting self-employed and perhaps few others with him. However, as the economy improves, the necessity-driven entrepreneurship gives way to opportunity-driven entrepreneurial activity known as 'U- curve' hypotheses. Global Entrepreneurship Monitor (2017) reported that Opportunity-driven entrepreneurs are more dominant in high-income countries while necessity-driven are more in low-income countries (See GEM annual report for statistics). One common ground is that both are improvement-driven and has created job in one way or the other.

4.0 CONCLUSION

The field of entrepreneurship has endured a lot of misperceptions. This section has clarified the limitations of other fields of study like economics, management and so on. Entrepreneurship is incomplete without innovation while innovation does not exist without creativity. Creativity is the unique valuable ideas that emanated out of the box. When the creative ideas are put into practice, it becomes innovation. Being immersed in creativity has not made a person to become an entrepreneur. Innovation is not complete until it is accepted in the market place. Entrepreneurs set up businesses

for reasons that mainly find its motivation either in the pull or push factor. Most Nigerians are in entrepreneurship for necessity while few are in because of opportunity to exploit. Moreover, since the entrepreneurship is of necessity, it mainly tended towards more of proprietorship than entrepreneurship. This mainly accounted for a non-complimentary result on the economic development of the nation.

5.0 SUMMARY

The origin of the word was entrepreneurship was presented. The various perspectives and limitations of them were highlighted. The Schumpeter's dimension of innovation was discussed and the different approaches to innovation. The motivations for entrepreneurship, the push and pull factors or necessity and opportunity driven came into lime light. The dimensions of Entrepreneurship that wrapped up entrepreneurship has been manifested in the behaviour of an individual, process of doing things or outcome of activities. This unit pointed out that not all shallow value addition can affect the economy of a nation, thus, the need to understand the intensity of entrepreneurship.

6.0 Self- Assessment

Exercise 1.1

1. Briefly describe the concept 'entrepreneurship', and 'entrepreneur'.
2. Explain vividly the Approaches to innovations.
3. Highlight at least five wrong views of people on entrepreneurship you know that are not identified in this unit.
4. What would you consider has the sociologist and anthropologist definitions of entrepreneurship and the limitations?
5. Clarify the term 'newness' in entrepreneurship.

7.0 Tutor Marked Assignments

1. Differentiate between necessity and opportunity- driven entrepreneurship
2. Write Explanatory notes on the following:

- a. Intensity of entrepreneurship
- b. The three dimensions of entrepreneurship
- c. Schumpeter's dimensions of innovations

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UNIT 2: HISTORY OF ENTREPRENEURSHIP DEVELOPMENT

Table of Contents

1.0 Introduction This unit is building on the Unit 1 to give a history of entrepreneurship in Nigeria and various governmental initiatives that promoted entrepreneurship in Nigeria.

2.0 Objectives: By the end of the unit, students should be able to

- To understand the evolution of entrepreneurship in Nigeria.
- To explain the role of entrepreneurship in the economy.
- To differentiate between poverty alleviation and entrepreneurial programs
- Explicate various support given by the government to promote entrepreneurship.
- To interpret the entrepreneurial environment and some defensive responses of business owners.

3.0 Main Content

3.1 History of entrepreneurship development in Nigeria

3.2 Role of entrepreneurship in an economy

3.3 Governmental interventions in promoting entrepreneurship

3.4 Typology of defensive responses to the business environment

4.0 Conclusion

5.0 Summary

6.0 Self–Assessment Questions

7.0 Tutor Marked Assignment

8.0 References and Further Readings

UNIT 2: HISTORY OF ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA

3.0 INTRODUCTION

Nigeria is Africa's most populous country with a population of over 200 million (Worldometer,2024) and usually referred to as the giant of West Africa as one in every two West Africans is a Nigerian. Nigeria is endowed with human resources as well as a lot of other natural resources, the major ones being crude oil, gas, bitumen and agricultural products like cocoa, cotton, palm produce and so on (World Economic Report, 2006). When the world recession kicked in the 1980s, oil prices plunged, pulling down Nigeria. This led to a cycle of massive debt, soaring inflation, large-scale unemployment and massive corruption. The country's real GDP per capita is still below its 1970 level. The military rule characterized by dictatorship placed the country in a permanent state of emergency for many years. There is little or no respect for the fundamental human rights, therefore, placing the economy in a closed market and making the environment hostile (Welter and Smallbone, 2007) for investors. For almost three decades of democracy in Nigeria, has the condition been better? These antecedents gave rise to a fundamental dilemma: to what extent are the entrepreneurial concepts appropriate for analyzing entrepreneurship in Nigeria context? Also, what is the extent of the pattern of entrepreneurial behaviour in Nigeria?

3.1 History of Entrepreneurship in Nigeria

The evolution of entrepreneurship can be categorised into the pre-colonial, colonial and post-independence days. The pre- colonial era was distinguished by early occupation of man and the activities of craftsmen and women. The Igbo community in Nigeria are considered one of the oldest entrepreneurs in history, their expertise stretched back to times before modern currency and trade models had developed elsewhere on the planet (Osalar ,2008). In the more recent past, Nigerians adapted 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. However, there was interdependence on each other. Thus, the exchange of goods for goods, services for services, goods for services and service for goods. This act is referred to as "trade by barter". This led to division of labour and consequently into innovation which eventually led to specialization. For instance, certain localities are known for certain products. Bida for bronze, Oyo for carving, Saki for pottery, Ekiti for

weaving aso-oke, Ipoti for mat making, Abeokuta for tie and dye cloth, fishing and sea foods in Badagry and Port Harcourt, hyde and skin in Zaria, cocoa in the West, palm produce in the East, cotton in the North and so on. Agriculture became the mainstay of the economy with massive production of food and cash crops leading to exportation (Adeyeye, 2018).

In order to have more cash crops for export and to encourage entrepreneurship development in the area of small scheme private enterprise, the colonial government established different development boards at local and regional level as well as Loan Schemes for farmers. By 1956, crude oil was discovered at Oloibiri in Rivers state. This brought a turning point in the history of agriculture, the activities of craftsmen and women and also entrepreneurial development. The extraction of crude oil brought much foreign exchange of man and materials to Nigeria. This necessitated the resultant influx of rural youths to urban centres in search of well paid jobs and finally everything about entrepreneurship development started fading away by the government, the craftsmen and the youths. Hence, there were new jobs in government newly created ministries, money was in circulation, tastes and demand changed which was complemented by importation of foreign goods and service (Fadahunsi, 2000) thereby, neglecting all the local products and technologies.

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, bound in widespread political corruption and catastrophic economic mismanagement. These and other factors led to the World Bank estimates that 80% of oil revenues benefited just 1% of the population.

Most of Nigeria's current woes could be traced to a historic overdependence on oil and negligence of 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 over 200 million people. It is a measure of Nigeria's inherent entrepreneurial capacity that this informal, un-organized sector presently accounts for 65% of Gross National Product and accounts for 90% of all new jobs.

All these factors have tremendous relevance for Nigeria's future prospects, even more so considering the extent of official neglect and lack of assistance and infrastructure that the country's indigenous entrepreneurs have had to overcome. Harnessing the informal economy and

leveraging its full potential is a prerequisite for Nigeria to emerge from the shackles of its Third World legacy.

3.2 The Role of entrepreneurship in an Economy

The role of entrepreneurship in any economy cannot be over-estimated as a catalyst, an agent of economic growth and employment creation (Audretsch and Thurik, 2001) so it is in Nigeria. Entrepreneurship has a great potential in her 'declining economy' (World Development Report, 2007; Yussuf et al 2000). Nigerians are generally innovative and the economic condition makes them more innovative as they take the 109/137 place in the global competitive report raising its rankings on innovation and spending on Research and Development (World Economic Report 2023). Entrepreneurship has a potential for creativity and innovation. Innovation is the creation, development and introduction of new product/services or product/service components, or a new procedure or process for doing things (Birchall, Chanaron and Soderquist, 1996). New venture creation and development have been recognized in literature as critical elements in the social and economical development of a nation (e.g Schumpeter, 1934; Young, 1971; Drucker, 1985). It is an agent of social change as Kirzner (1979) asserts that entrepreneurship is connected to the alertness that an individual displays towards opportunities. This in turn affects the individual's perception, influences his lifestyle and the society where he lives. Owualah (1999) submits that the small firms make both social and economic contributions to our development process. The social benefits are in terms of transforming traditional or local industry; stimulating indigenous entrepreneurship and technology; creating jobs, and redistributing wealth and income. The economic benefits involve the utilization of local resources, the dispersal and diversification of economic activities and investment, the mobilization of savings and such likes.

Entrepreneurs constitute a veritable force in the promotion of an entrepreneurial culture (Iyang and Eunoh, 2009). Entrepreneurship has a role in reinforcing and strengthening democracy by giving every citizen the privilege to recognize opportunity and exploit it without fear. An entrepreneurial discovery occurs when someone makes a conjecture that a set of resources are not put to their "best use" (Casson, 1982) and he is now able to freely exploit it. Entrepreneurship affords opportunity for self

expression and creativity that hinges on the fundamental human rights which is unique to democratic rule without any interference by the most important barriers which seem to be the formal barrier. Entrepreneurship is a crucial source of job creation possibilities (Johnson and Loveman, 1995). It could provide further employment opportunities and contribute to economic growth as well as the development of a competitive market system (Aidis, 2005). This presents entrepreneurship as a panacea to the ‘epidemic’ of unemployment and absorption of surplus labour from all the different economic reforms like down-sizing, privatization and Public- Private Partnership. Entrepreneurship has the potential role of developing service and knowledge based industries, recognizing unexploited opportunities which is a subjective process (Shane and Venkataraman,1999) and it makes diversification in business career easy and organizational structure flexible.

The present state of the country at the macro level is the influx of different micro-credit schemes and micro finance programs to assist the poor and the upsurge of micro firms as pro-entrepreneurship programme. However, politically is the democratic rule without proper democracy which has a negative impact on the micro level. This ushered in a deficiency in the formal institution of the country consequentially, a high level of poverty and unemployment become dominant. The inadequacies of legal framework and financial institutions, corruption and so on are bane to the economic growth of the nation. Also, the increase in illegal businesses such as armed robbery; banditry, terrorism; kidnapping; child, women and drug trafficking that constituted to insecurity of lives and properties thereby hampering growth. All these characterize the situation of the country, Nigeria, environment.

3.3 Governmental Interventions in Promoting Entrepreneurship

In recent years, government policies have strongly supported and fostered the development and growth of entrepreneurship and small business operations. Definite measures of government assistance in form of interest free, low interest rate, soft loans, provision of infrastructure, extension services, and various forms of grants and incentives to potential entrepreneurs. Various forms of schemes like Small Scale Industry Credit Scheme, National Economic Reconstruction Fund (NERFUND), National Directorates of Employment Scheme (NDE) where the unemployed graduates participate in the necessary training to establish and operate their own small scale business and later given start-up loan capital. Another is the National Open Apprenticeship Scheme designed to provide youths with basic skills by attaching them to training centres to acquire particular trade and skill of

choice. Also is the Waste to Wealth program, a recycling project transforming waste products to valuable items like shoes and so on with mobile workshops available at rural centres so there will be not much rural- urban migration. Others are the Graduates' Loan Scheme, National Poverty Eradication Program (NAPEP),

Another scheme aimed at encouraging entrepreneurship in the small-scale business is the National Poverty Eradication Program (NAPEP). It consisted of all relevant program and projects that are aimed to eradicate poverty among the people in the country. NAPEP is not an employment agency but a consultancy agency that tries to provide strategies for absolute eradication of poverty in our society. It is also to streamline, rationalize and co-ordinate all the existing poverty alleviation institutions. Moreover, it monitored all the implementations of the entire relevant program with the institutions.

NAPEP activities have been classified into certain schemes.

- (1) Youth Empowerment Scheme (YES)
- (2) Rural Infrastructure Development Scheme (RIDS)
- (3) Social Welfare Service Scheme (SOWESS)
- (4) National Development and Conservative Scheme (NDCS)
- (5) Community Enlightenment and Sensitization Scheme (COMESS)
- (6) Capacity Enhancement Scheme (CES).

These programs were designed to have positive impact on the lives of Nigerians at the grass root level, in order to reduce wasteful overlap of various government agencies and to ensure proper project monitoring and evaluation. The National Poverty Eradication Council decided to establish the State National Eradication Program Council (SNEPC) as coordination committee while the Local Government Monitoring Committee coordinated and monitored the comprehensive policy and program on poverty eradication at both the State and Local Government level.

In the recent time, the most renowned initiative is the Subsidy Reinvestment and Empowerment Programme (Sure-P) of February, 2012 with activities such as Graduate Internship Scheme (GIS) where graduates undergo a one-year internship in firms, banks, etc. The N-Power, Community Services Scheme (CSS), Vocational Training Scheme (VTS), Community Services, Women and Youth Empowerment (CSWYE) among others. Also, is the Youth Enterprise with Innovation in

Nigeria (YOU-WIN). The latest in 2024 is the Open Minds-Young Voices Program and the Nigerian Youths with Investment Fund (NYIF).

As much entrepreneurship is panacea to poverty alleviation, it must be noted that not all poverty alleviation programs are entrepreneurial. Thus, most poverty alleviation programs could lead to temporal relief but are not usually sustainable while the entrepreneurial initiatives did not last because of the limited understanding and mix-up of the two concepts. Poverty alleviation is a gift of fish while entrepreneurial initiatives is teaching to fish. All these initiatives are worthwhile to achieve the Sustainable Development Goals (SDGs).

3.3.1 Sustainable Development Goals (SDGS)

The Sustainable Development Goals (SDGs) also called the "Transforming our World: the 2030 Agenda for Sustainable Development" or 2030 Agenda was developed as an expanded alternative to the Millennium Development Goals (MDGs) which ended in 2015. The SDGs are a group of 17 global goals with 169 targets and indicators set by the United Nations. The SDGs cover a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment and social justice. The SDGs, unlike the MDGs framework, discriminate between "developed" and "developing" nations as the goals do not apply to all countries equally. The SDGs received broad support from many NGOs because it focuses on the sources of the problems unlike the MDGs, which were strongly criticized by many NGOs as only dealing with the symptom of the problems. The MDGs were about development while the SDGs are about sustainable development. The SDGs started worldwide in 2016 when every country was mandated to translate the goals into national legislation, develop an action plan, provide budgets and seek for network of partners. Poor countries generally need the support of rich countries and coordination at the international level to make these goals realizable. Entrepreneurial activities is one of the major means of achieving the SDGs in Nigeria. The environment must be friendly to make this achievable. The struggle still continues on the SDGs in Nigeria. As part of the Federal government quest in promoting entrepreneurship, the Small and Medium Development Agency of Nigeria was established.

3.3.2 Small and Medium Development Agency of Nigeria (SMEDAN)

Small and Medium Development Agency of Nigeria was established in 2003. It is not to provide direct finance to Micro, Small and Medium Enterprises (MSMEs) but to facilitate their access to finance and other resources that will ensure that they contribute significantly to the economic development of Nigeria. It has branches in all the states of Nigeria and it is making impact in Nigeria. Here are four of the agency's major roles: -

- i. Provision of information and awareness creation through business sensitization activities and by provision of basis for attitudinal changes and effective business decisions.
- ii. Business Development Service (BDS) with its tripartite role of training, counselling and mentoring. This is achieved by providing the platform for MSMEs to see themselves as key players in a globalize business environment.
- iii. Promotion of Enterprise Networking or Cluster Formation to stimulate international competitiveness (i.e. working with existing and prospective entrepreneurs). In this regard, the agency is promoting various agro-clusters in cassava, rice, fishery and tropic fruits access in the country.
- iv. Advocacy and improvement in operating environment usually in partnership with others (public – private).

SMEDAN has a great role in nurturing SMEs and making the environment conducive for operation. Also, they should offer every support to make entrepreneurs prosper with their various innovations thereby having an entrepreneurial environment that will create ventures and sustain them to grow.

One of the highly commendable achievements of Small and SMEDAN was the ability to develop a National policy on MSMEs (2015) and National Survey of Micro, Small and Medium Enterprises (2017) on classification of MSMEs that gave a unified outlook in Nigeria. It is subject to review every five years to facilitate an exciting NMSMEs subsector as main players in national economic growth and employment drive. The new classification of the MSMEs in Nigeria as laid out in the revised National Micro, Small and Medium Scale Enterprise Policy (2021-2025) is as follows:

Table 2: MSMEs Description

S/N	Enterprise/ category	Employment size	Turnover (Nm)
1	Nano/Homestead	1-2	Less than 3

2	Micro	3-9	3-25
3	Small	10-49	25+ but less than 100
4	Medium	50-199	100+ but less than 1000

Source: Review of National Policy on MSMEs in Nigeria (2021)

Gone are the days when each industry has its desired measure of SMEs, through the effort of SMEDAN, Nigeria has moved from the variant to standard and acceptable definitions as in table 2.

There has been argument that business people may not be accurate with the asset's declaration and valuation. SMEDAN (2017) asserted that where there is a conflict of criteria in classification, employment based/ number of employees will take pre-eminence. It is easier to know the number of staff at the finger tips than total assets. Second, the matter of insecurity in the nation makes everyone a suspect. The fear of robbery and abduction may make it difficult for a business owner to divulge the actual value of his total assets. Third, many MSMEs owners try to evade tax, thus, they avoid releasing the true assets figure. Lastly, the economic depression and high inflationary trend in the country inflates the asset worth, making the owner to appear to be what he is not. Against this backdrop, focusing on number of employees to classify the MSMEs seems a better idea.

3.4. Introducing the Nigerian Entrepreneurial Environment

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

Basically, business environment refers to the internal and external factors that influence or affect a business. Specifically, the success of any business is largely dependent on its adaptation to the dynamics in its external environment. For example, changes in government policy requires an entrepreneur to adapt to the new reality if its future cannot be compromised.

The business environment refers to all the internal, micro and macro environmental factors that provide , strength, weaknesses, opportunities and threats to the business community. It is, therefore,

necessary for entrepreneurs and business owners to design appropriate strategy that will enable them to thrive successfully.

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

Political Factors

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

Economic Factors

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

Socio-cultural

- Age distribution
- Education levels
- Income levels

- Diet and nutrition
- Local custom
- Religion

Technological Factors

- Technological changes
- New or improved distribution channels
- Improved communication and infrastructure
- Knowledge transfer and;
- Technology absorption

Environmental/Ecological Factors

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

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

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

It is the responsibility of government to ensure an enabling environment for businesses to thrive by providing necessary infrastructure, institutional systems and regulatory services. These will help to reduce cost of doing business and support business growth. The following will be discussed in details subsequently in this module.

4.0 Conclusion

Entrepreneurship is as old as mankind. It is not new but has just been conceptualized. Recognizing the indispensability of the small-scale, private sector enterprise as the dynamic impetus for general economic development, many countries have instituted enterprise support networks and structures to fuel the development of these enterprises. Nigeria is not an exception in this regard. At various times since the 1970s, the Government has designed and introduced a variety of measures to promote small and medium enterprise development. This study has been able to examine entrepreneurship in Nigeria context. New venture creation and development have been recognized in the literature as critical elements in the social and economic development of a nation. The concepts developed in a market context were considered in the light of Nigeria context. The behaviours at an individual level using an institutional approach to explore the links between environment and entrepreneurship in the light of the manifested behavioural patterns.

5.0 Summary

The history of entrepreneurship traced from the pre-independence era to the independence and post- independence era were discussed. The phases of entrepreneurial activities are very salient to the business environment. It is an indicator of where a nation is entrepreneurially. The specific roles of entrepreneurship in an economy were considered. Special attention was given to the several initiatives of the government to promote entrepreneurship even to achieve the SDGs. The different compromise, aversion, avoidance, defiance and manipulation are usual ways of siphoning their responsibilities and taking advantages of the loop-holes in the formal institutional set up in the environment were stated. Finally, an introduction the entrepreneurial environment was listed.

6.0 Self –Assessment Questions

- i. How long has entrepreneurship been in Nigeria?
- ii. List 10 different governmental initiatives' and classify them into Poverty alleviation and Entrepreneurship initiatives.
- iii. What is the relationship between SDGs and entrepreneurship programs?

7.0 Tutor Marked Assignment

- i. Highlight five distinctive differences between a poverty alleviation program and entrepreneurship program.
- ii. Explain the phases of entrepreneurial activities and indicate where Nigeria could be.

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UNIT 3 ENVIRONMENTAL VARIABLES OF ENTREPRENEURSHIP

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1.0 INTRODUCTION

Entrepreneurship in recent times has been typically associated with new business creation, new product development, self-employment, owner-manager of small business and offerings by individuals. This is a narrow perspective, entrepreneurship can be found in firms of any sizes and types, inside or outside an organization, profit or non-profit, and business or non-business activities, economic or social in nature. However, Corporate entrepreneurship is often used to depict entrepreneurial behaviour inside established medium and large organizations. Sometimes they are referred to as ‘organizational entrepreneurship,” or “intrapreneurship,” (Morris et al, 2012). An entrepreneur can feature in the environment as self-employed, employer of labour or an employee. This unit focuses more on environmental variables as it affects the business environment/

2.0 OBJECTIVES

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

1. Discuss the concept of Corporate Entrepreneurship and the pathways;
2. Introduce an entrepreneurial culture into an organization.
3. Distinguish between traditional firms and entrepreneurial firms.
4. Identify the potentials in social entrepreneurship.

5. Discover that there is manager and also entrepreneurial manager.

3.0 MAIN CONTENT

3.1 Corporate Entrepreneurship/ Intrapreneurship

Corporate entrepreneurship or intrapreneurship is the introduction of entrepreneurship into an existing corporate organization. This entrepreneur is referred to as ‘intrapreneur’ or ‘champion’. He is a person who focuses on creativity and innovation, and transforms a dream, vision or an idea into a profitable venture within the structure. Corporate entrepreneurship, by Zahra (1991) is the process of creating new business within established firms to improve organizational profitability and enhance a firm’s competitive position. In other words, it is the strategic repositioning of an existing business to facilitate performance and revenue streams. Corporate entrepreneurship, therefore, may be formal or informal activities targeted towards the creation of new businesses in established firms by undertaking any form of innovation. It could take place in the main office, branch office or any place of choice with the ultimate aim of repositioning the company’s competitiveness, sustained growth and financial uplift. The term “new resource combinations” is interpreted to be synonymous with innovation in the Schumpeterian sense. Whilst, Sharma and Chrisman (1999), perceived corporate entrepreneurship as the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization. Thus, it can be argued that corporate entrepreneurship can also be start-up firms like 3M, Microsoft, Dell, Intel, AIT and so on. This study is not about abandoning the existing corporate organization to start a small firm or a new company but to inculcate entrepreneurship into existing organization as a paradigm for successful competition and growth like Proctor and Gamble, Dangote and so on did in Nigeria.

3.1.1. Importance of Corporate Entrepreneurship

The motive for entrepreneurship at all levels is for innovation (Schumpeter, 1934; Drucker, 1985). It commences with the urge to identify sources of existing and emerging customer’s dissatisfaction and developing solutions to eliminate them (Ramachandran, 2003).

1. With the onset of intensifying global competition, there is an increasing need for business organizations to become more entrepreneurial. If not done, such companies will get stagnated, become obsolete, decline, lose personnel, and eventually die (Kuratko, 2009). That is, to

liquidate, stop trading or be out of business. Thus, innovation is necessary as the life blood of an organization.

2. There are fast growing numbers of sophisticated competitors that are ready to push complacent and lethargic traditional firms out of market. Therefore, to ensure continuity in business, firms must innovate.
3. The campaign for entrepreneurship is on the increase in publicity, status and economic development, in order to flow with the trend, there is a great need for corporate entrepreneurship.
4. People with innovative skills that are located in unentrepreneurial organizations may be uncomfortable. Young innovative employees may not be conducive remaining in traditional organizations. On one hand, they may seek to transfer their skills to a corporate entrepreneurship while on the other hand; they may strike out on their own to become small-business entrepreneurs (Hamel and Prahalad, 1996). Corporate entrepreneurship will enable a firm to retain and sustain innovative staff and their contributions.
5. It is crucial for corporate firms to be entrepreneurial so as to exploit the underutilized resources by outsourcing the internal capabilities that have been lying dormant.
6. Corporate entrepreneurship places pressures on firms to extract more values on existing resources that have value in product market not currently served. It is a means of spreading the risk and cost of product development since other products are arising outside the firm core products. It makes a company to be alive and alert as a pacesetter.
7. Corporate entrepreneurship is necessary to acquire knowledge to develop future revenue streams (Stokes et al., 2010), for international success (Covin and Miles, 2006), and the effective configuration of resources to develop competitive advantages (Kuratko and Morris, 2008).
8. Finally, the power of information communication technology (ICT) influences the spread of rapidly changing consumers' tastes, fashions, ideas and products. Corporate entrepreneurship enhances vigilance in responding to current market trend to avoid being stale and resistance to change. Thus, innovativeness by firms will lead to sustained growth (Lumpkin and Dess 1996), consequently job creation, wealth generation (Acs, 2007; GEM, 2016), improved standard of living and economic development (Venkataraman, 1997; GEM, 2016).

Corporate entrepreneurship makes an entrepreneur to function as an employee rather than an employer in order to salvage the firm from death by introducing entrepreneurial activities into the venture. He could explore either corporate venturing or strategic entrepreneurship as the means of bringing innovation so as to convert the firm into an entrepreneurial organization. Entrepreneurship is developmental while intrapreneurship is restorative. Entrepreneurs start businesses but intrapreneur revitalize to counter stagnation.

3.1.2 The Pathways to Corporate Entrepreneurship

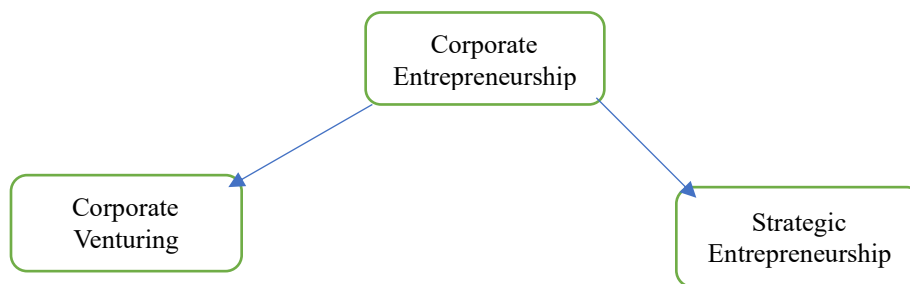


Figure1: Pathways to Corporate Entrepreneurship
Source: Adeyeye (2014)

The corporate entrepreneurship has two distinct pathways but with related dimensions: corporate venturing and strategic entrepreneurship

3.1.2.1 The Corporate Venturing

The first pathway to achieve this is by the corporate venturing. Corporate Venturing simply means capital venture investment activity. It is the different ways of ‘introducing, creating, adding to, or investing in new business within an existing company’. It could be implemented through internal, cooperative or external corporate venturing (Morris et al.2012 p.81). It is mainly for sustainability, firms that are struggling and about to collapse. A firm must stand before considering competitiveness.

i) Internal corporate venturing is about new ventures being created within the corporate structure of the organization and owned by that company. The new venture may be established in the vicinity other than where the organization is situated or domiciled within the existing firm but with a certain level of autonomy.

ii) The cooperative corporate venturing or collaborative venturing. As the name implies, is the creation and joint ownership of an entirely new venture by the company, together with one or two other companies or individuals as stakeholders.

iii) The external corporate venturing, that is, the acquisition of or an investment in a young firm in its early growth stage by a company in order to exercise its entrepreneurial behavior. Thus, a firm's total entrepreneurial activity is equal to the total of the ventures enacted through the internal, cooperative and external modes (Kuratko, 2013).

3.1.2.2 The Strategic entrepreneurship

Corporate entrepreneurship is the spark and catalyst that is intended to place firms on the path to competitive superiority, or keep them in competitively advantageous positions. Hence, the second main pathway to attain Corporate Entrepreneurship is through strategic entrepreneurship.

Strategic entrepreneurship is an array of entrepreneurial behaviours, activities and initiatives that are adopted and capitalized upon, in pursuit of competitive advantage. It is the innovation that differentiates a company from others in the industry. Strategic entrepreneurship can be expressed in five ways: Strategic renewal, sustained regeneration, domain redefinition, organizational rejuvenation and business model reconstruction (Covin and Miles, 2006).

i. **The Strategic renewal,** according to Guth and Ginsberg (1990) is the transformation of organizations through renewal of the key ideas on which they are built. Examples of such are redefinition of the business concept, reorganization, and the introduction of system-wide changes. It implies the implementation of a new business strategy that differs significantly from previous practices in ways that better leverage the firm's resource. It is to fully exploit the available product-market opportunities or reposition itself within its competitive space.

ii. **Sustained regeneration,** which is the act of regularly and continuously introducing new products and services or entering new markets. Such firms tend to be learning organizations that embrace change and willingly challenge competitors in battles for market share. Simultaneously, they cull older products and services from their lines in an effort to improve overall competitiveness through product life cycle management techniques.

iii. **The domain redefinition.** It is the label used for the CE phenomenon that the organization proactively creates or actively seeks to exploit a new product-market arena that is unrecognized by

others. The firm in effect imprints the early structure of an industry and assumes a pioneering or early mover status that is hoped to produce some bases for sustainable competitive advantage. Under such a scenario, the entrepreneurial firm may be able to create the industry standard or define the benchmark against which later entrants are judged. Thus, firms that engage in domain redefinition are entrepreneurially strategic by the fact that they exploit market opportunities in a preemptive fashion, redefining where and how the competitive game is played in the process (Morris et al., 2012).

iv. **Organizational rejuvenation.** It enables organization to sustain or improve its competitive stand by altering its internal processes, structures, and/or capabilities. It is sometimes perceived as organizational renewal (Hurst, Rush, & White, 1989) often adopted by firms that need not change their strategies in order to be entrepreneurial. It involves efforts to sustain or increase competitiveness through the improved execution of particular, pre-existing business strategies. Improved strategy execution via organizational rejuvenation frequently entails actions that reconfigure a firm's value chain (Porter, 1980) or otherwise affect the pattern of internal resource allocation. For example, Procter and Gamble has been able to greatly improve its inventory and distribution systems in recent years through the extensive adoption of bar-coding technology. This technology has not only revolutionized the entire outbound logistics function within P&G, but also enabled the firm to sustain its position as a leading consumer products company by setting the customer service standard as a measure against which other competitors are judged.

v. **The application of business model reconstruction.** A business model is a concise representation of how an interrelated set of decision on venture strategies are addressed to create sustainable competitive advantage in a specified market. Business model symbolizes the “stories that explain how enterprises work”. Example of such model is Dell computer with its direct sales model within the established Hi-tech industry. Similarly, is the eBay creation of a new industry with its online auction model. Business reconstruction model, therefore, is about a firm redesigning its core business model(s) to improve its operational efficiencies or distinguish itself from competitors in ways valued by the market. Such reconstruction could be done by outsourcing (use of external suppliers to perform previous activities carried out within the firm) or vertical integration. A prominent example is Apple Computer that adopted business model reconstruction by the introduction of iPod and iTunes online music service was propelled to a leading position within its industry from its proprietary software design niche player. The journey through these pathways is not simply a matter of managerial choice

since the outcomes of entrepreneurial processes are uncertain. However, most paramount and compelling is the entrepreneurial philosophy that must permeate the entire organization's climate in outlook and operations to serve as a platform for corporate.

3.2 Entrepreneurship culture

It is an organizational culture that includes entrepreneurship in his vision and mission thereby encouraging continuous innovation as the lifestyle of the firm. It is the culture that encourages innovation as a way of life among all cadre of employees and every facet of the organization. It is a culture that promotes and rewards creativity and innovation. It breaks every bureaucracy and conventions to have a favourable environment. It inculcates entrepreneurship concept in its work, moment and life in the firm.

For instance, management experts encourage large organizations to exert strategies like downsizing, right sizing, and budget-cuts to overcome their saggy economies. However, the entrepreneurial perspective encourages firms to become entrepreneurial in order to flounder through the economic challenges in the business environment. Therefore, firms' orientation and culture must become entrepreneurial to guarantee the ideal atmosphere for entrepreneurship. The culture of an organization is its way of life, basic beliefs, and assumptions in an organization. In one of the earliest studies, Peterson and Berger (1971) show that entrepreneurial culture help companies to develop new businesses that create revenue streams. Such culture enhances a company's success in promoting innovations. It is the ground on which the seed of entrepreneurship germinates. Nevertheless, certain fabrics must exist to support or promote entrepreneurial behavior (Sharma et al., 2007). Foremost, is the employment of enthusiastic staff that can champion entrepreneurial initiatives and climate. The inception and maintenance of an entrepreneurial culture must be preceded by the following behavioural patterns:

- ❖ Encourage and support new ideas (creativity) even if it appears odd with short term profit because the more ideas the more innovations.
- ❖ Encourage trial and error by allocating time for employees to brainstorm and experiment, especially by allowing the technical people to spend about 15 percent of their time working on whatever they want.

- ❖ Encourage multi-skilled teams through networking and collaborations but keep divisions small.
- ❖ Allow and tolerate failure, no failure means no innovation. Failure is a learning curve.
- ❖ Allocate adequate resources for research and development (R&D) and also cutting-edge operations in particular corporate venturing or strategic entrepreneurship of choice.
- ❖ Allow approval with/out management authorization or supervision for employees to keep rolling out new ideas. This will also serve as inspiration for others to do the same.
- ❖ Persist in getting an idea to market, do not kill a project.
- ❖ Encourage personnel to circumvent rigid procedures and bureaucratic red tape.
- ❖ Structure the organogram of the firm to encourage informal communication and informal meetings whenever possible.
- ❖ Create a system of feedback and positive reinforcement by rewarding any innovation for innovation's sake and moreover, reward and promote innovative personnel.
- ❖ Emphasize personal commitment and responsibility because confidence, trust and accountability are main features of successful innovative programs.
- ❖ Stay close to customers.
- ❖ Use the language, acronyms, jargon, slangs, signs, slogans, metaphors, gossip, gesture, and songs that portray innovation. [Adapted from Kuratko and Hodgetts (2008) and Stokes et al. (2010)]. When the following behavioural patterns are met to a large extent, the climate turns entrepreneurial and becomes a platform for entrepreneurial initiatives to thrive in an organization.

3.3. Small Businesses or Entrepreneurial firms

Firms can be divided into traditional and entrepreneurial (Megginson et al, 2003). Both create firms for the general public, have the drive for profit and effective business model. However, on one hand, a traditional or conventional firms are usually independently owned and operated, but not prominent in its field and not involved in any intense innovative practice. On the other hand, entrepreneurial firms are involved in high level of innovation, desire for profit and growth (SBA, 2009). Any business that emphasized on continuous high-level innovation is entrepreneurial. Establishing an entrepreneurial culture can go a long way in piloting a firm into entrepreneurship.

Consequently, Megginson et al. (2003) proposed that traditional small firms are creating business with existing characteristics, contented with their size, ordinarily managing and maintaining the businesses, expecting normal sales, profit and growth with a degree of freedom and financial independence while entrepreneurial firms create new and innovative firms, characterized by innovative strategic practices and/or products with the principal objective of profitability and grow company to new heights (Henrekson and Sanandaji, 2017) thereby creating job opportunities.

Certainly, micro and small firms are outstanding vehicles to channel individuals' business initiatives and entrepreneurial behaviour and aspirations. Majority of the so-called entrepreneurial activities in Nigeria are mainly proprietorial activities, a way out of poverty, self-sustenance and personal consumption. This solves a partial economic problem of the proprietor being employed and a fractional part of the unemployment problem by offering employment to a few others (**Adeyeye et al., 2019**). Scase and Goffee (1982) drew attention to the fact that only a minority of small business owners can be considered 'entrepreneurs' in the classical sense. The small firms are an expression of the individuals in charge, thus, firms that accommodate and convey the individual's high-level entrepreneurial activities to the marketplace are entrepreneurship as distinguished from traditional small firms (Carland et al., 1984, Adeyeye et al., 2018) that are proprietorship.

3.3.1 Blue Ocean and Red Ocean

These are two methods of exploiting opportunities in a business environment. The ocean is the business environment or market space. A "blue ocean" is a new or unexploited market space that is unsaturated, with little or no competitors or contestants that an innovator may dabble into. Such entrepreneurs are usually one of the market pioneers and would dominate the market for a while. This is an entrepreneurial strategy.

The Red Ocean strategy is a market space saturated with competitors that are striving to kick others out in order to take the leadership or possess the monopoly. The contest is so high and makes the market red (bloody apparently) for survival by new firms. The product/service is not new but the business owner may be new. This is a strategy for business owners who are not entrepreneurial.

3.3.2 Sinking the Boat and Missing the Boat Risk

This explains the environmental concept of entrepreneurial two sides' risk. Sinking the boat describes an innovative concept that does not work or receive acceptance in the market place. Many reasons might be responsible, for instance, a well saturated market, bad timing, poor thought-out concept, poor feasibility study, inappropriate pricing level, poor marketing and distribution and lots more.

The other side of the coin is the missing the boat. The entrepreneur becomes over- careful; thus, delays action and fails to exploit the golden opportunity at a good time until other competitors take over the market. One needs to make hay while the sun shines; in as much as one need not to be impulsive in action. It is swift and steady that wins the race, not slow and steady.

3.3.3 Bootstrapping

The entrepreneurial environment in Nigeria is a bit sour due to the hyper-inflation, insecurity, grievous unemployment. Many could not create a venture because of lack of resources. Bootstrapping is the method of starting a venture with whatever is available from the scratch with little or no external resources from the business environment. For instance, instead of obtaining a loan, personal savings is employed. Instead of renting a shop, he starts from a space at home; instead of purchasing a set of office equipment and furniture, he uses what exists at home and personal computer. Bootstrapping involves the use of family members instead of employing staff or possibly ad hoc staff instead of permanent staff. This enables an entrepreneur to start being self-sufficient, self-reliant, resourceful and thrifty without getting unnecessarily indebted.

3.4 Social Entrepreneurship

It is another form of entrepreneurship. It is a way of reducing poverty through the power of an enterprise. It is entrepreneurship that emanated out of passion for the disadvantaged and suffering masses. Entrepreneurship for social and not commercial ventures, emphasizes that life is not all about money but on impacting lives. It involves bringing innovation into social ventures. It is solving common social problems in unconventional ways. Such enterprise can be undertaken by private, public, individuals, or group. Often, Non-Governmental Organizations (NGOs) are supposed to be drivers of the initiatives but not all NGOs are social entrepreneurship. Such enterprises fill the gap that both the economic and political institutions have not been able to satisfy. They deal with the provision of social amenities such as infrastructure, humanitarian services, health, gender, and education and so on. It is the use of commercial initiatives to solve societal social problems. It is the

employment of creativity and innovation to solve unmet social needs of the people. It is a business with primarily social objectives whose surpluses are mainly invested for the social purpose. It could be completely not-for-profit or for-profit or hybrid (both) for sustainability and growth but not to maximize profit for stakeholders sharing. Social enterprise in Nigeria are more of profit making while some are hybrid. This is because the economic entrepreneurship is saturated, there is a need to shift to the social side to meet the unemployment need by creating social enterprises.

3.4.1 Enterprise: is the heart of successful innovation. It is the activity of creating business and managing it. An enterprise can also be described as a form of business organization for economic activity, social, technological, political but must be a legal entity.

3.4.2. Enterprising: is the willingness to try or think of new or different ideas or methods. An enterprising business will be engaged in entrepreneurial activity and will be striving to increase its competitiveness.

3.4.3. Enterprise zone: is an area furnished in the environment, where the government encourages new businesses to start by providing lower taxes and other financial advantages.

3.5 Management

Management involves the application of management functions such as organizing, planning, budgeting, communicating, staffing, human resource management, leading, controlling, directing and co-ordination of a successfully initiated or on-going business. It is 'the process and maintaining of an environment in which individuals working together in groups, efficiently accomplish selected aims' (Weilrich & Koontz 2005:4). It is the act of getting things done through others because they want to do it.

3.5.1 The Entrepreneurial Manager

Management is not entrepreneurship. Management is the process of setting objectives and coordinating resources to achieve them while entrepreneurship is the process of introducing a new economic activity into the market place to improve the standard of living of the people. Management is task-oriented while entrepreneurship is innovation-oriented. Whilst management rewards individualism, entrepreneurship rewards team work. Management responds to current competitors while entrepreneurship anticipates future competitors. Management invests in advancing current

technology while entrepreneurship explores new and emerging technologies. Management attempts to refine current employee capabilities and skills while entrepreneurship attempts to develop new skill sets. Management has zero tolerance to failure (hire and fire) but entrepreneurship tolerates failure has learning curve. The manager undertakes the duty of management while the entrepreneur is the driver of entrepreneurship.

The manager is a planner, organizer, leader, controller, coordinator and motivator while the entrepreneur is a visioner, opportunity-seeker, creator, innovator, calculated risk-taker etc. Managers are charged with the responsibility to effectively (i.e. doing the right things) and efficiently (doing things right) utilize the resources under their control whilst the entrepreneur is concerned not with what is, but with what can be. The manager finds solution by systematically observing, classifying and studying facts in relation to the problem at hand while the entrepreneur envisions the future, recognize emerging patterns. identify untapped opportunities and comes up with innovation to exploit it. A manager is confined to his world while an entrepreneur creates his world whether as an employee or employer.

Great organisation in the contemporary seek to employ a manager and an entrepreneur. Entrepreneurs in large organisation are champions; they are employed to introduce entrepreneurship in to the existing organisation. However, often, organisation seem to neither require a manager nor and entrepreneur but rather and an individual that will combine the roles, features and duties of a manager with that of an entrepreneur for survival and competitive advantage. They are called the entrepreneurial manager.

The entrepreneurial manager is an individual that combines the entrepreneurial behaviour with the management functions. Managers are charged with the responsibility to optimize the resources under their control efficiently and effectively. Efficiency is about doing things right while effectiveness is doing the right things (make appropriate choice of your goal and means of achieving it). Gone were the days that organization seek for a manager but this day separately and an entrepreneur separately. They seek for entrepreneurial manager. A visionary, opportunity-seeker, innovator, calculated risk-taker, proactive person, resource leverage, change agent, a planner, strategist, organizer, coordinator, motivator, supervisor etc.

3.5.2 Re-engineering

It is the fundamental re-thinking and radical redesigning of business processes to achieve dramatic improvements in critical contemporary measure of performance such as cost, quality, service and speed. Kerry (1999) stated that re-engineering emphasizes quality better than the previous ones. In a dynamic and competitive environment, there is need for update in business to cope with modern challenges. Re-engineering is futuristic, giving the future needs of a venture as its focal point rather than reacting to the already existing phenomenon.

3.5.3 Corporate Social Responsibilities: This is must not be mistaken to be social entrepreneurship, likewise, a philanthropist is not a social entrepreneur. They are poles apart. The philosophy behind cooperate social responsibility is that an organization should not be established solely to own all its profit but ploughs back a portion of the profit to the community or society of operation. It assumes the responsibility for and to assist the community in solving some pressing issues. It is a reaction to social issues by accepting responsibility or interventions for programs such as environmental pollutions like air, water, land and sound; truth in advertisement, donations to orphanages centers; scholarships; sports and games; adult literacy centers etc. Organizations involved in corporate Social Responsibilities are usually excluded from tax payment while the project undertaken advertises them for more patronage.

4.0 CONCLUSION

This unit has been able to extend beyond undergraduate understanding and has been able to explain some environmental variables that are entrepreneurial in nature. A clear understanding will assist in operating successfully to a large extent in the business environment.

5.0 SUMMARY

Entrepreneurship is multidimensional and can be found as economic and social entrepreneurship. An entrepreneur may not always be self-employed or job creator but can be an employee in a corporate organization to introduce entrepreneurship in to an existing organization for sustainability or competitive advantage. The driver of any entrepreneurship venture is the SMEs, But traditional business are distinguished from entrepreneurial venture. The blue ocean and red ocean concept was explained in exploiting opportunities.

6.0 SELF-ASSESSMENT QUESTIONS

- 1 Distinguish between Sinking boat and missing boat.
- 2 What is unique about entrepreneurial culture?
- 3 What would you consider to opt for corporate venturing or strategic entrepreneurship in your new organization as a champion?

7.0 TUTOR MARKED ASSIGNMENT

1. Compare and contrast between Corporate Social Responsibility and Social Entrepreneurship.
2. Distinguish between a traditional firm and an entrepreneurial firm.
3. What makes an entrepreneurial manager?
4. What does Red ocean depict?

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UNIT 4 THE ENTREPRENEUR: MYTHS, PERSONALITY AND PROSPECTS

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1.0	Introduction
	Several researches conducted over the years indicated that those who succeeded have several characteristics and traits in common. Collins and Moore (1970) studied 150 entrepreneurs and concluded that they are tough, pragmatic people driven by needs for independence and achievement. They are willing to submit to authority, a visionary with enthusiastic passion, persistent determination and high initiatives. They are agent of change and help businesses to grow and be profitable. Busnitz and Barney (1997) claimed that entrepreneurs are prone to overconfidence and over generalization, hence people have different views about them.
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3.1	Myths of Entrepreneurs
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1.0 Introduction

Experts have preoccupied their time with search for universal traits of successful entrepreneurs. The questions often asked are; is the entrepreneur a different kind of person with distinct character

traits? Are entrepreneurs born or made? Whether entrepreneurial tendencies exist at birth or are developed as a person matures, certain traits are usually evident in those who enjoy success. These and others are questions usually asked and answers will be postulated to some in this unit.

2.0 Objectives for unit 2

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

- Restate the myths of entrepreneurs
- Illustrate the personality traits of entrepreneurs
- Establish the characteristics of entrepreneurs
- Shed light on the advantages and disadvantages of entrepreneurship
- Review the prospects of entrepreneurship and SMEs in Nigeria

3.0 MAIN CONTENT

3.1 The Myths of Entrepreneurs

Here are some unrealistic views about entrepreneurs.

1. Entrepreneurs are born, but not made. No, becoming one is not always hereditary but can be learnt through apprenticeship, observation, interest, studying and can be developed by necessity and even as it is now a course in our tertiary institutions.
2. Entrepreneurs are always inventors, no, not always but must be innovators.
3. Entrepreneurs are academic dropouts and social misfits. Gone are those days but today there are entrepreneurs as Presidents. Entrepreneurs control the national wealth and destiny in the present.
4. Entrepreneurs are doers and not thinkers. No, they are not impulsive people; they are thinkers and doers. What is the essence of feasibility studies and business plans if they don't think?
5. All that entrepreneurs need is money. Though money is needed to start a business, there is more to entrepreneurship than money, such creativity and innovativeness, managerial acumen, financial management skill etc.
6. Most entrepreneurial initiatives end up a failure. No, not only entrepreneurs, the pathway to success is always rough, hence the need for persistency. Failure of an initiative does not make a man a failure, failure is a learning curve for an entrepreneur.
7. All that entrepreneur's need is luck. Entrepreneurs are prepared people. When they jammed opportunity and seized it, they are termed lucky, even though they are in obscurity at the preparation stage.

8. Entrepreneurs must fit the profile. Many identified an entrepreneur by what they do and characters displayed. This theory has been challenged by the human interaction effects with the diversity of environment because missing traits can be developed through maturity.
9. Entrepreneurs are extreme risk takers. No, they are calculated risk-takers among uncertainties. Entrepreneurs are risk-bearers and risk-sharers unknown to laymen.
10. All business owners are entrepreneurs. No, only owners of innovative, growing and profitable businesses are entrepreneurs. Immediately, a business owner stops innovating, he ceases to be an entrepreneur.

Entrepreneurs are extremely painstaking and task-oriented persons but not lone wolves. They set challenging and achievable goals for themselves. They are daring and willing to take risks. They possess good judgment, communicative ability, leadership qualities, patience and perseverance, and in need of some degree of freedom to pursue their ideas without interference.

3.1.1 Personality traits of an entrepreneur.

Personality traits are natural or intrinsic in human, that is, it is in the blood. They are the attitude a person demonstrates without being taught. The personality traits of entrepreneurs that are discovered from survey and observations of people are the descriptors. They are the habitual patterns of thoughts, behaviour or feelings which is measurable and can be a parameter for comparison. These key traits identified from various research are stated:

- i) The internal drive for achievement: This is a strong desire to excel against all odds. It describes the extent to which a positive feedback and results are needed because of the high standards set and refusal of mediocrity.
- ii) The locus of control: This makes a person to be in control of his circumstances, take responsibility for his actions without shifting blames, and seek to shape his circumstances.
- iii) Risk-taking: This is the extent to which an individual is courageous enough to step into a new venture and the wisdom to take calculated risk and make sense out of it.
- iv) A strong creative and innovative tendencies: These are linked with the process of entrepreneurship to create, modify or improve a product or service for change. These traits must be above the average level as an entrepreneur.

v) The need for autonomy: This described the reluctance to be caged under a territory call employment. It is the desire to work outside a formal or bureaucratic structure. This leads to self-employment and consequently an employer of labour.

3.1.2 Characteristics of an entrepreneurs

Characteristics are features developed alongside the life's journey. The many studies of entrepreneurs that have been conducted over the years indicated that those who succeeded have several characteristics in common with entrepreneurs. These characteristics can be classified into - Personal attributes, Good technical skills and Strong managerial competencies.

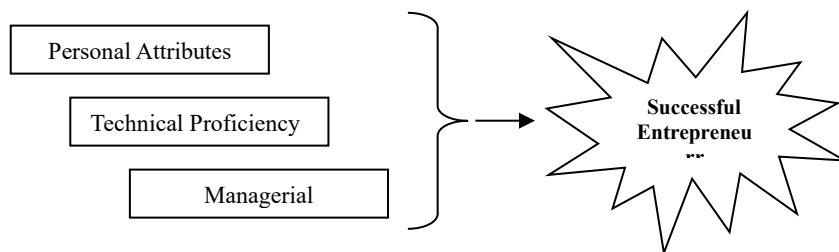


Figure 3. 1: Adeyeye (2018).

There are key personal attributes according to Hellriegel et al. (1999) as identified: (i) that entrepreneurs are not only born but can be made. This fact focuses on the upbringing that encouraged self-esteem, independence and responsibility from childhood. (ii) A career that motivates entrepreneurship and assists in developing the acumen. This can be by learning from classrooms, books, internet, workshops, apprenticeship/ mentorship, gaining experience etc.

A. Personal Attributes:

These are examples of personal attributes

- i) Commitment, determination and perseverance.
- ii) Entrepreneurial behaviour-creativity and innovativeness.
- iii) Entrepreneurial mindset- ability to take initiative, inquire, evaluate business opportunities, set goals and be driven by the inner pursuit.

- iv) Opportunity orientation-constant awareness of daily existing opportunities.
- v) Tolerance of failure and ambiguity-job security and retirement does not bother them.
- vi) Team work builder.
- vii) Personal vision and objectives with a dream list.
- viii) Self-mastery or self-management which involves diligence, discipline and sacrifice.
- ix) Self-confidence with high level enthusiasm and optimism.
- x) Good health which embraces physical, emotional and mental alertness to carry out the enormous task.
- xii) Time management which is ability to maximize the use of time. Proactive rather than procrastinating,
- xiii) independent value judgement and positive thinking.
- xiv) Perseverance, adaptability, and flexibility in approach.
- xv) Experienced in and passionate about the area of choice, not a novice.
- xvi) Firmness, friendliness and tactfulness in relationship.

B. Technical Proficiencies:

These are examples of technical proficiencies

- i) Effective communication competency in turning vision to reality
- ii) Knowledgeable in the area of focus and willingness to learn.
- iii) Problem solving result- oriented not necessarily perfect but acceptable.
- iv) Ability to conduct reality test i.e. environmental survey.
- v) Able to be a generalist vs. Specialist in approach.
- vii) Opportunities awareness (sensitivity to the need for product or market)
- viii) Soft and hard skills demonstration.

C. Managerial Competencies:

These are examples of managerial competencies:

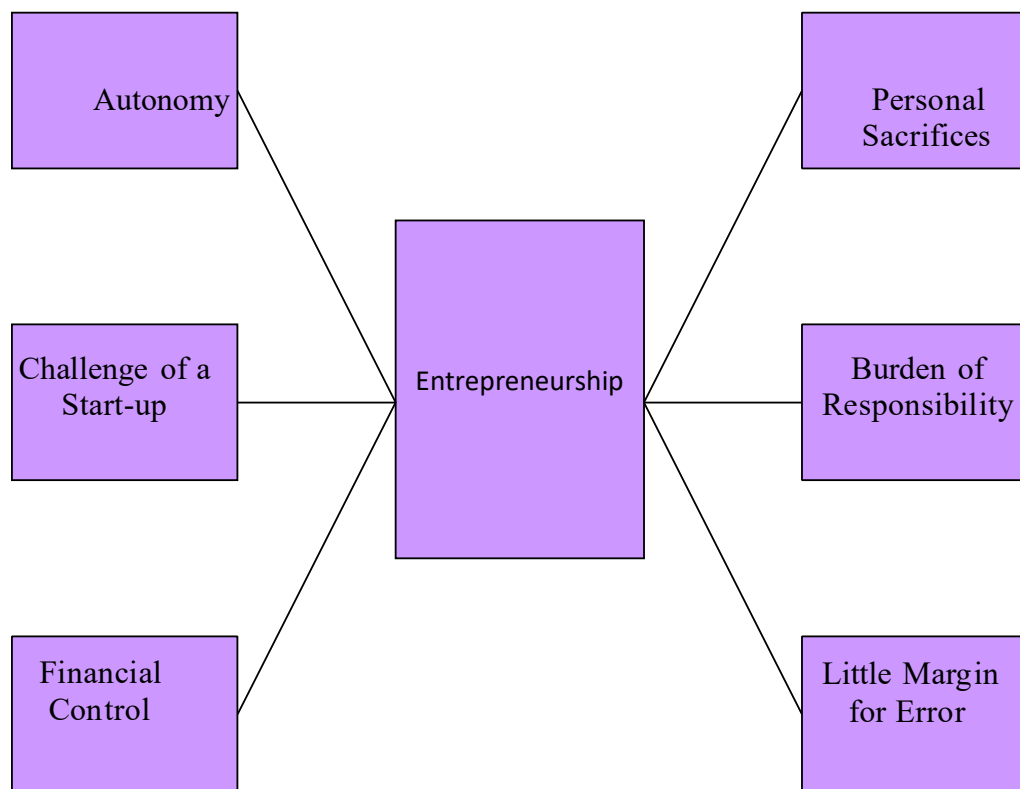
- i) Leadership, organizing and directing ability.
- ii. Wisdom in decision- making and sound judgement.
- iii) Stress tolerance and management.

- iv) Sagacious in selecting, motivating and developing people.
- v) Strategic action competency i.e. being in the right place at the right time; putting the right thing in the right place.
- vi) Planning and Administrative competencies.
- vii) Human relationship and networking
- viii) Negotiating aptitude and skills.

Advantages and Disadvantages of Entrepreneurship

There are many advantages and disadvantages to self-employment as could be shown on figure 3.2 below.

Figure 3.1 Advantages and Disadvantages of Entrepreneurship



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

3.1.2 Advantages of being an Entrepreneur

Autonomy – The freedom to make decisions is a 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 – It is often stated that entrepreneurs have financial independence to invest, diversify and exploit opportunity without any logistics.

Flexibility in decision making- They are free to take decisions the feel it is right for the business without any consultation or bureaucracy.

3.1.4 Disadvantages

A few of the disadvantages are described below:

Personal sacrifices – 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– The entrepreneur bears the burden of responsibility unlike that of corporate workers. 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.

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

Little margin for error – Large corporations often make decisions that prove to be unprofitable. They introduce products that are not well accepted and they open stores in unprofitable locations.

Many large corporations will usually survive because they have adequate financial resources to pay for the losses.

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

4.1 The Prospects of Entrepreneurship and Small and Medium Enterprises Development to Nigeria Economy

Entrepreneurship is very cardinal to the economic growth and development of a nation. It is sometimes referred to as the engine growth of most economic world. There are great prospects for entrepreneurship in Nigeria with the look of things. The sky is the limit for an optimistic and persevering entrepreneur. There are many benefits accrued to such development as a nation as well as individuals, if holistically considered according to Adeyeye, (2018) There will be

- i) Exploitation of untapped industrial opportunities.
- (ii) Promotion of indigenous technology.
- (iii) Reduction of crimes in urban areas.
- (iv) Job opportunities for self and others, thence, reducing unemployment.
- (v) Enhanced regional economic balances.
- (vi) Promotion of modern technology in small-scale industries and healthy competition for higher quality product.
- (vii) Reduction in human resources wastage.
- (viii) Discoveries of genius and making of entrepreneurs.
- (ix) Planning to facilitate specialization in terms of particular areas for particular industry.
- (x) Poverty reduction and better standard of living. The national income per capita will shoot up positively.
- (xi) Promotes creativity, exploration and innovation among citizens.
- (xii) Stimulates economic competition and prevents monopolistic economic imbalance in the country.
- (xiii) Means of revenue generation for the government, consequently, leading to economic growth.
- (xiv) Enables some individuals who are already employed to earn extra income.

- (xv) Encourages self-reliance and effective domestic production for consumption and exportation.
- (xiv) Reduces rural-urban migration by young graduates.
- (xvi) Complements services rendered or products offered by large scale industries, for instance, big businesses can manufacture automobiles while small ones does the repair
- (xvii). It has the power of penetration and transformation in the local areas.
- (xviii). Enhances the development of indigenous entrepreneurial qualities, attitude and skills in others.
- (xix) Rejuvenates adaptation to change by its flexibility.
- (xx) It grants development of new markets.

The economic atmosphere promotes private enterprises in Nigeria. For instance, many large markets are springing up in villages, towns and cities with the teaming population, which is the constitution of the army of consumers with demands according their age groups, liberal foreign exchange and trade policies made readily available.

4.0 Conclusion

The entrepreneur is no doubt not a duplicate of a manager but a unique individual. However, there are different myths about this individual for clarifications. The entrepreneur can be born with the personality traits while some can develop the characteristics through various platforms of learning. There are always two sides to a coin, thus, the entrepreneurship Pros and cons were highlighted.

5.0 SUMMARY

Entrepreneurs possess some personality traits which include desire for independence, locus of achievement, willingness to take risk and innovativeness among others. The advantages of entrepreneurship include; autonomy, feelings of accomplishments and full financial control. The dark side of entrepreneurship are; little margin of errors, personal sacrifices and full responsibility. The prospects of entrepreneurship and SMEs towards economic development are manifested in employment or job creation, poverty alleviation, income generation for government and social responsibility.

6.0 SELF-ASSESSMENT QUESTIONS

1. Write short notes on three myths of entrepreneurs:

- 2 List and discuss the advantages of entrepreneurship
3. What are the prospects of Entrepreneurship in Nigeria?

7.0 TUTOR MARKED ASSIGNMENT

1. ‘ Entrepreneurs are born and not made’ Discuss.
2. Discuss three factors that may discourage you from becoming an entrepreneur
3. Differentiate between the traits and characteristics of entrepreneur

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MODULE 3: BUSINESS ENVIRONMENT (1)

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

UNIT 1 THE INTERNAL BUSINESS ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

- i. Explain the nature of the business environment
- ii. Explain the difference between the internal and external business environment.
- iii. Discuss the internal environment of business

a. MAIN CONTENT

b. The Nature of the Business Environment

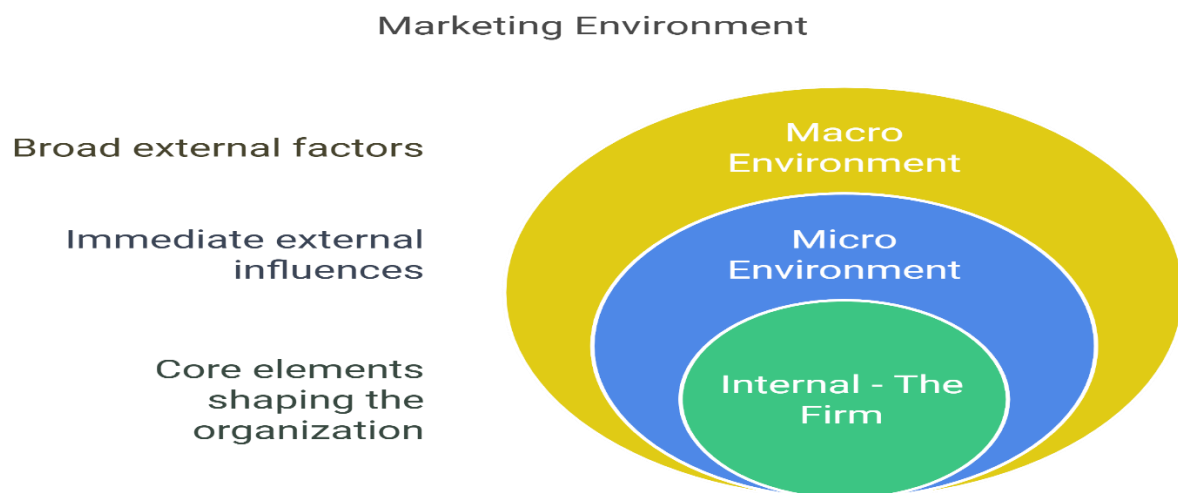
The business environment is a set of forces, factors, conditions and institutions within and outside the organization's boundaries that have the potential to affect the way the organization operates. They are beyond the control of individual business and organisation. forces and conditions change from time to time.

It is the sum total of all things external to business firms. Also, it includes specific forces affecting the day- to- day affairs of the organisation. Business environment is dynamic in nature due to several changes that takes place at any time and makes it unpredictable or largely uncertain in nature. The business environment presents opportunities which organizations can take advantage of and threats that the organization should avoid. For example, changes in the environment such as the introduction of new technology or the opening of global markets, create opportunities for

managers to obtain resources or enter new markets and, thereby, strengthen the organizations. In contrast, the rise of new competitors, a global economic recession, or an oil shortage poses threat that can devastate an organization if managers are unable to obtain resources or sell the organization's goods and services. The quality of managers' understanding of organizational environmental forces and their ability to respond appropriately to those forces are critical factors affecting organizational performance.

Structure of the Business Environment

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



INTERNAL ENVIRONMENT

This consists of a set of forces and conditions within the organization's boundaries that have the potential to affect the way the organization operates and can be controlled by the organisation. These are elements *inside* the organization that management can directly control: mission, objectives, management structure, financial and human resources, organizational culture, physical assets, brand equity, and capabilities Let us discuss some of them:

The value system of the Owners

The owners of business are those who have legal property rights to the business. Owners can be a single individual who establishes and runs a small business, partners who jointly own the business, Individual investors who buy stock in a corporation, or other organizations. The value system includes the vision, mission and objectives of the organisation.

The management structure such as the Board of directors

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

The organisation style such as the Employees/manager's structure

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

There are many types of managers depending on the levels in the organization. The top managers, the middle managers and first-line managers. The top managers are relatively small group of executives who manage the overall organization. Some top managers are addressed as the chief executive officer (CEO). Others are called presidents or vice presidents. The next sets of managers are the middle managers. They are usually very large at least more than the top managers in most organizations. They are primarily responsible for implementing the policies

and plans developed by the top managers and for supervising and coordinating the activities of lower-level managers. Examples of middle managers are the operations managers, plant managers, the last sets of managers we are going to consider are the first-line managers who are sometimes also called the supervisors. They supervise and coordinate the activities of the operating employees.

Physical work environment

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

Organizational structure

Business organizations are characterized by a division of labour which allows employees to specialize in particular roles and to occupy designated positions in pursuit of the organizational objectives. The resulting pattern of relationships between individuals and roles constitutes what is known as organizational structure and represents the means by which the purpose and work of the organization is carried out. They represent the organizational strengths and internal decision-making power. These factors can be adjusted to shape strategy (e.g., enhance R&D, foster strong culture)

3.2 The external business environment

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

The micro environment sometimes called the *operating* or *task* environment; this layer includes actors just outside the firm but which directly influence its operations. The task environment which is an aspect of the external environment and the immediate or operational environment

encompasses the set of forces and conditions that originate with suppliers, distributors, customers, competitors, marketing intermediaries, financiers, regulators, and publics. and competitors. These forces and conditions affect an organization's ability to obtain inputs and dispose of its output. The task environment contains the forces that have the most immediate and direct effect because they pressure and influence managers on a daily basis. When managers turn on the radio or Television, arrive at their offices in the morning, open the mail, or look at the computer screens, they are likely to learn about problems facing them because of changing conditions in their organization's task environment.

Micro Environment (Task) on one hand, reflects immediate stakeholders that must be carefully managed to maintain operational success. In unit 2, we shall discuss more about these factors. On the other hand, the general environment consists of factors such as legal, economic, political, socio- cultural, technological and ethical factors which affect business organizations operations and which emanate from local, national and international sources. We shall explore more about this later in module 2.

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

1. Explain the term ‘ Business Environment’
2. What is the difference between the Internal and external environment of Business?
3. Discuss how consumers influence Business Organizations.

7.0 TUTOR-MARKED ASSIGNMENT

1. List and discuss the elements of the internal environment
2. Discuss the internal and external factors of business environment.

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UNIT 2 THE TASK ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

1. Understand how the activities of suppliers affect Business
2. The role of Distributors in enhancing Business Performance
- 3

How the activities of Consumer affect Business

- 4 Explain the impact of competitive rivalry on Business

3.0 MAIN CONTENT

3.1 Suppliers

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

3.2 Distributors and marketing intermediaries

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

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

Financiers

Financiers are vital stakeholders in the task environment as they enable operations, drive growth, and influence decision-making. Their involvement ensures financial stability but also imposes obligations on the business to meet performance expectations and manage risk effectively. Lenders and investors regularly monitor business performance through financial statements, progress reports, and KPIs. Poor performance can result in withdrawal of funding or stricter terms.

The public

The public influences the business environment through opinions, expectations, and advocacy. While they may not have direct control over business operations, their collective voice can strongly shape a company's reputation, customer base, employee morale, and even its strategic direction. Local communities influence how businesses operate in a specific area—especially if the business's activities affect the environment, traffic, or noise levels. Public perception affects brand loyalty, customer trust, and market competitiveness.

3.3 Customers

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

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

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

3.4 Competitors

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

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

Barriers to entry result from three main sources: economies of scale, brand loyalty, and government regulations that impede entry. Economies of scale are cost advantages associated with large operations. Economies of scale result from factors such as manufacturing products in very large quantities, buying inputs in bulk, or making more effective use of organizational resources than do competitors by fully utilizing employees' skills and knowledge. Large organizations that are already in the industry and operating with economies of scale will enjoy lower costs than the costs of potential entrants; this will discourage potential entrants from entering the industry. Brand loyalty is customers' preference for the products of organizations currently existing in the industry. If established organizations enjoy significant brand loyalty, then a new entrant will find it extremely difficult and costly to build customer awareness of the

goods or services they intend to provide. Some government regulations may be a barrier to entry. Many industries that were deregulated experienced a high level of new entry after deregulation. This will force existing companies in those industries to operate more efficiently or risk being put out of business.

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

1. How do the activities of suppliers affect Business?
2. What role does Distributors play in enhancing Business Performance?
- 3How does the activities of Consumer affect Business?

4 What is the impact of competitive rivalry on Business?

7.0 TUTOR MARKED ASSIGNMENT

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

UNIT 3 THE POLITICAL ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

Having read this unit, you should be able to:

- 1 Discuss the political systems and how it affects business organizations.
- 2 Explain the functions of government and its impact on business activities.
- 3 Demonstrate how political environment influences business environment
- 4 Understand Political Systems

3.0 MAIN CONTENT

The macro environment refers to the broad, external forces that affect all businesses and industries, regardless of size or sector. These factors are uncontrollable and operating on a national or global scale but shaping the overall business climate.

Unlike the task environment, which includes immediate stakeholders like customers or suppliers, the macro environment influences the long-term strategies and survival of a business. It is essential for organizations to monitor these trends to identify opportunities and threats in the market.

Key Components (analysed using the PESTLE, PEST, etc):

Political – Government stability, regulations, taxation, trade policies.

Economic – Inflation, interest rates, exchange rates, economic cycles.

Social – Cultural trends, demographics, lifestyle changes.

Technological – Innovation, automation, research & development.

Legal – Employment laws, health and safety regulations, consumer protection.

Environmental – Climate change, sustainability, environmental regulations.

Understanding the macro environment helps organizations make informed strategic decisions and remain competitive in a constantly changing world. This discussion will commence with Political and Legal environment.

3.1 The Nature of the Political System

The political system forms the pillar of the business environment. A system that is transparent, stable, and supportive of private enterprise encourages business growth and innovation, while a volatile or restrictive system can hinder it. The political environment is mainly concerned with the type of leadership a nation adopts. Political processes shape a society's laws, which constrain the activities of organizations and thus create both opportunities and threats. Politics is concerned with those processes which help to determine how conflicts are contained, modified, postponed or settled, and as such can be seen as a universal social activity. Politics tends to be associated with activities at state level where the resolution of conflict often involves large numbers of people.

3.2 3.2 Government Structure and Types

The type of political system in a country plays a significant role in shaping business performance. In democratic systems, Businesses usually operate in a relatively free-market environment and regulatory consistency, stable legal environment, protection of property rights, and transparent governance. These conditions encourage investment, innovation, and entrepreneurship, as companies can operate with a sense of security and predictability. Open markets and freedom of speech also allow for the exchange of ideas and competition, which further boosts business growth.

In contrast, authoritarian regimes may provide a degree of stability and swift decision-making, which can be attractive for certain industries. The government may have heavy control over businesses, limited transparency, and policy changes can be abrupt or politically driven. However, the lack of transparency, risk of sudden policy changes, and limited political freedom can create uncertainty and hinder long-term investment. In communist systems, where the government controls production and economic planning, private businesses face restrictions, and competition is often limited. While this may reduce market volatility, it can also limit efficiency, innovation, and profitability.

Socialist systems tend to balance government involvement with private enterprise. Businesses may face higher taxes and more regulations, but they also benefit from a strong social safety net and steady consumer demand supported by welfare programs. In constitutional monarchies, the political environment is typically stable and business-friendly, with strong legal protections in place. Military regimes, although sometimes offering rapid infrastructure development, often operate under unpredictable and authoritarian conditions that can disrupt business operations.

In federal systems (like the U.S.), businesses must navigate both national and state-level laws; in unitary systems (like France), there's usually a single centralized framework. Overall, political stability, the rule of law, transparency, and the level of government intervention are key factors that determine how political systems influence business performance.

3.3 Functions of the three arms of democratic government

In Nigeria, the functions of the three arms of government—the Legislature, the Executive, and the Judiciary—each have distinct functions that ensure a balance of power, accountability, and the protection of citizens' rights

1. The Legislature

The Legislature in Nigeria is bicameral, consisting of the National Assembly at the federal level, which is made up of two chambers:

The Senate (upper chamber)

The House of Representatives (lower chamber)

At the state level, each state has a State House of Assembly, which is unicameral.

Functions of the Legislature in Nigeria: These include

Law-making: The primary function of the Legislature is to make laws for the peace, order, and good governance of the country (or states). The National Assembly makes federal laws, while State Houses of Assembly make laws for their respective states.

Oversight: The Legislature monitors the activities of the Executive to ensure accountability. This includes approving budgets, scrutinizing government spending, and conducting investigations into government actions.

Approval of appointments: The Senate is tasked with confirming appointments made by the President, including judges, ministers, and ambassadors.

Budget approval: The National Assembly must approve the federal budget, ensuring that government spending aligns with priorities.

Impeachment: The National Assembly can initiate the impeachment process for the President, Vice President, Governors, and other officials if they are found guilty of misconduct or abuse of power.

2.The Executive

The Executive arm of government in Nigeria is responsible for implementing and enforcing the laws made by the Legislature. It is headed by the President (in the case of the Federal Government) and Governors (in the case of State Governments). The Executive also includes ministers, civil servants, and agencies.

Functions of the Executive in Nigeria: These include

Law enforcement: Implement and enforce laws passed by the National Assembly (Federal Legislature) or State Assemblies.

Policy formulation: Formulate and execute policies that address national and state issues (e.g., economic policy, health policy, security).

National defence and security: Oversee the country's defence and security through the armed forces, police, and other agencies. The President, as Commander-in-Chief, plays a central role in national security.

Diplomatic relations: Represent Nigeria internationally, engage in foreign diplomacy, sign treaties, and ensure the country's foreign relations are handled according to national interests.

Appointments: Appoint judges, ministers, ambassadors, and other key government officials (subject to legislative approval where necessary).

Executive orders: Issue executive orders that guide the operation of the government.

3. The Judiciary

The Judiciary in Nigeria is responsible for interpreting the laws passed by the Legislature and ensuring that they comply with the Constitution. It also acts as a check on the powers of the Executive and Legislature, ensuring the protection of individual rights and liberties.

Functions of the Judiciary in Nigeria: The functions include

Interpretation of laws: The Judiciary interprets the Constitution, statutes, and other laws. It ensures that laws passed by the Legislature are applied correctly.

Judicial review: The courts can review laws and actions by the Executive and Legislature to determine whether they are constitutional. If a law or action violates the Constitution, it can be declared unconstitutional.

Dispute resolution: The Judiciary resolves disputes between individuals, between the government and citizens, or between government entities. This can involve civil, criminal, or constitutional cases.

Protection of rights: The Judiciary upholds the rights and freedoms guaranteed by the Constitution, ensuring that laws or government actions do not violate individual rights.

Check on government power: The Judiciary ensures that the Executive and Legislature do not exceed their constitutional powers, maintaining a system of checks and balances.

Conclusion

In Nigeria, the Executive, Legislature, and Judiciary each have distinct but interconnected functions that serve to maintain a system of checks and balances, ensuring no single branch becomes too powerful. This separation of powers is a cornerstone of Nigeria's democracy, designed to safeguard citizens' rights, uphold the rule of law, and ensure accountable governance.

3.4 Function of Government and impact on Business Activities

Regulation and Lawmaking	Establishes laws and regulations to govern behaviour and ensure order.	Businesses must comply with laws (e.g., labour laws, health & safety), affecting operations and costs.
Provision of Public Goods	Supplies essential services like roads, education, and security.	Improves infrastructure and workforce quality, boosting business efficiency and productivity.
Economic Stabilization	Controls inflation, unemployment, and promotes economic growth.	Creates a stable economic environment for businesses to plan and invest with confidence.
Redistribution of Income	Uses taxation and welfare to reduce economic inequality.	Affects consumer purchasing power and business taxation levels.
Protection of Property Rights	Ensures legal ownership and protection of intellectual and physical property.	Encourages innovation and investment by securing business assets.
Support for Businesses	Offers incentives, subsidies, and training to promote business growth.	Reduces operational costs and encourages entrepreneurship and expansion.
Trade Regulation and Policy	Controls imports, exports, and international trade agreements.	Influences access to global markets and competitive positioning.

Environmental Protection	Implements policies to preserve the environment.	Requires businesses to adopt eco-friendly practices, possibly increasing compliance costs.
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Self assessment questions

1. How does the type of political system in a country influence business operation, investment decisions, and long-term planning?
2. What are the potential risks and benefits for businesses operating under a government with strong control over the economy (e.g., socialist or communist systems)?

TMA

Why is political stability important for a thriving business environment, and how can political instability affect both local and international businesses?

UNIT 4 THE LEGAL ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

After reading this unit, you should be able to;

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

3.0 MAIN COTENT

3.1 Types of laws

Laws relating to both individuals and organisations can be classified in a number of ways: international and national, public and private, criminal and civil. In practice there are no hard and fast rules to classification and some categories may overlap (e.g. where a person's behaviour is deemed to infringe different areas of law). Nevertheless, distinguishing laws in these terms

serves as an aid to explanation and commentary, as well as helping to explain differences in liabilities and in legal remedies in Nigeria (e.g. a child under the age of 10 cannot be held criminally liable).

3.1.1 Public and private law

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

3.1.2 Criminal law

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

3.1.3 Tort

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

3.1.4 Trusts

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

3.2 Sources of law

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

3.2.1 Custom

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

3.2.2 Judicial precedent

Much of Nigerian law is derived from judicial precedent (previous decisions of the courts). In essence, judicial precedent is based on the rule that the previous decisions of a higher court must be followed by the lower courts – hence, the significance of the court structure. In other words, in a similar case in the past, what was the verdict for us to follow suit.

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

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

3.2.3 Legislation

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

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

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

3.3 The legal system:

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

3.4 Business organizations and the law

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

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

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

Below are examples of business activities and the legal influences.

Business activity**Examples of legal influences**

Establishing the organisation

Company laws, partnerships, business names

Acquiring resources

Planning laws, property laws, contract, agency

Business operations

Employment laws, health and safety laws,
contract agency Consumer laws contract

3.5 Contract Law:

The Essentials

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

3.5.1 Offer

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

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

Termination of an offer can happen in several ways. Clearly an offer is ended when it is accepted but, that apart, an offer may be revoked at any time up to acceptance. It is of no consequence, legally, that an offer may be kept open for a certain time. It is only when some consideration is paid for 'buying the option' that the time factor is important and this 'buying the option' would generally be a separate contract in any case. If an offer is for a certain length of time, then later acceptance is ineffective, and even where there is no specified time limit,

the courts will imply a reasonable time. Thus, in *Ramsgate Victoria Hotel v Monte fibre* (1866), shares in the hotel were offered for sale. After several months the offer was 'accepted' but the court held that too much time had passed, bearing in mind that the purpose of the shares offer was to raise money.

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

3.5.2 Acceptance

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

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

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

3.5.3 Consideration

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

the full market value, but it must be something tangible. In contracts involving barter, however, which are sometimes used in international trade, goods are often exchanged for other goods or for some other form of non-pecuniary consideration (e.g. information or advice).

Intention to create legal relations

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

3.5.4 Capacity

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

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

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

3.5.5 Other factors

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

3.6

Agency

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

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

With regard to an agent's specific obligations under an agency agreement, these are normally expressly stated under the terms of the agreement, although some may also be implied.

Traditionally the common law of agency prescribes, however, that agents:

- *Obey the lawful instruction of the principal*, otherwise they may be in breach of contract.
- *Exercise due care and skill*, in order to produce a deal which is to the principal's best advantage.
- *Act personally*, rather than delegate, unless expressly or implicitly authorised to do so.
- *Act in good faith*, thus avoiding conflicts of interest or undisclosed profits and bribes.
- *Keep proper accounts*, which separate the principal's funds from those which belong personally to the agent.

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

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

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

3.7 Law and the consumer

Neo-classical economic theory tends to suggest that laws to protect the consumer are unnecessary. However, modern economists (in particular behavioural economists) have shown

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

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

Existing laws to protect consumers are both civil and criminal and the relevant rights, duties and liabilities have been created or imposed by common law (especially contract and tort) or by statute. Significantly, as the examples below illustrate, a large element of current consumer law has resulted from statutory intervention, much of it in the last 30 years. Indeed, a sizeable quality of consumer protection law comes from the continental organizations e.g. ECOWAS, EU by way of directives. These laws — covering areas as diverse as trade descriptions, the sale of goods and services, and consumer credit and product liability — indicate a growing willingness on the part of governments to respond to the complaints of consumers and their representative organisations and to use legislation to regulate the relationship between

business organisations and their customers. Europe is keen to encouraging consumers to take advantage of cross-border EU markets by harmonising consumer protection. To this end Europe has been adopting consumer protection directives, the most significant recent one being the Unfair Commercial Practices Directive, which has caused a lot of the pre-existing domestic law to be replaced.

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

1. Identify and explain the types of law
- 2 list the sources of law
3. Describe the legal system
- 4 Discuss the influence of law on Business

7.0 TUTOR MARKED ASSIGNMENT

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

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MODULE 3 BUSINESS ENVIRONMENT (2)

Unit 1 The Cultural Environment

Unit 2 The Demographical forces

Unit 3 The Technological Environment

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UNIT 1 THE CULTURAL ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

3.0 THE MAIN CONTENT

3.1 The meaning of culture

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

- it comprises both material (e.g. human artefacts such as buildings, literature, art, music) and abstract elements (e.g. rituals, symbols, values);

- it is socially learned and transmitted over time; and
- it influences human behaviour.

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

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

Examples include:

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

In effect, culture not only influences an individual's response to products and the nature of the buying and selling process, but it also exercises a significant influence on the structure of

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

3.2 Sub-culture

A society is rarely, if ever, culturally homogeneous. Within every culture subcultures usually exist, comprising groups of individuals with shared value systems based on common experiences, origins and/or situations. These identifiable sub-groups may be distinguished by nationality, race, ethnicity, religion, age, class, geographical location or some other factor and their attitudes, behaviour, customs, language and artefacts often reflect sub-cultural differences. At times, such differences can be relatively easily accommodated and ultimately become institutionalized through the legal and/or political process. At other times subcultural differences can be the source of a considerable degree of conflict between various sub-groups, resulting in serious divisions within a society and even in war and genocide. For instance, in Nigeria, most places have 'Sabo ngari'. A designated place for strangers, often concentrated in particular parts of the country and having their own language, traditions and lifestyles. At times, it may be a business community, part of which has developed to cater specifically for the local ethnic population as well as attracting custom from the wider community e.g. Amala joints. Aspects such as the organisation and financing of the business, its network of relationships and the working conditions for staff are also frequently influenced by cultural values, traditions and norms, although changes in these areas are becoming more apparent, especially among second and third generation Asian-owned enterprises.

3.3 Understanding Cultural Difference

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

Individualism versus Collectivism; Individualism refers to a loosely knit social framework in which people are supposed to look after their own interests and those of their immediate family. It is the extent to which individuals in society see themselves as independent and autonomous human beings. Here, the interests of the individual take precedence. They can do so because of the large amount of freedom that an individualistic society allows its citizens. The opposite is collectivism, which is characterized by a tight social framework in which people expect others in groups of which they are a part (such as family or an organization) to

look after them and to protect them when they are in trouble. In exchange, they feel they owe absolute loyalty to the group. Hofstede found that the degree of individualism in a country was closely related to that country's wealth. Wealthier countries such as the United States, Great Britain, and the Netherlands are very individualistic. Poorer countries such as Colombia and Pakistan are very collectivistic.

Power Distance: The second dimension of cultural differences identified by Hofstede examines the acceptance of unequal distribution of power. In countries with a high power distance, bosses are afforded more power simply because they are the bosses. Titles are used, formality is the rule, and authority is seldom bypassed. Power holders are entitled to their privileges, and managers and employees see one another as fundamentally different kinds of people. India is a country with high power distance, as well as Venezuela, Mexico and Nigeria. In countries with low power distance, people believe that inequality in society should be minimized. People at various power levels are less threatened by, and more willing to trust, one another. Managers and employees see one another as similar. Managers are given power only if they have expertise. Employees frequently bypass the boss in order to get work done in countries with a low power distance, such as Denmark and Australia.

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

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

Long term orientation/Short term orientation; In long term orientation, people embrace a longterm view of life. Here savings is emphasized. On the other hand, in societies with short-term orientation, people tend to stress the 'here and now'.

3.3 Application: Culture and Market Segmentation

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

Markets can be segmented in a variety of ways and tends to differ between consumer markets and those which involve business to business transactions. Variables such as demographic, social and cultural factors provide a basis for identifying distinct market segments within the markets for consumer goods and services. In practice, of course, marketers may use either one e.g. demography or a combination of different variables e.g. age, location and social class, to segment a target market.

A good example of combining the different variables is provided by the notion of geo-demographic segmentation which focuses on the relationship between an individual's geographical location and her/his demographic characteristics, given that close links frequently exist between a person's place and type of residence and factors such as income, family size and attitudes. One well-known scheme of this type is ACORN (A Classification of Residential Neighbourhoods) which used 40 variables from population census data to differentiate residential areas. Another is MOSAIC, developed by Experian, which drew on a variety of data sources (e.g. census data, financial data, property characteristics, demographic information) and used a range of sophisticated analytical techniques to produce household profiles at full postcode level.

With regard to factors such as social class and lifestyles, these tend to be grouped under the notion of psychographic segmentation, an approach which has attracted considerable attention in recent years, given the reciprocal link between lifestyles and consumption indicated above. Lifestyle segments can be developed either as 'off-the- shelf' products by marketing agencies/management consultancies or can be customised for/by individual companies. Although, the latter often tend to be both complex and expensive to design.

One established and popular example of the former is VALS (Values And Lifestyles) developed by SRI International. Under this model, individuals are allocated to different categories on the basis of a combination of demographic and lifestyle factors such as age, education, income and levels of self- confidence and then these categories are grouped into a number of broader segments which reflect a category's predominant orientations. Thus, under VALS 2, the three broad groups identified were (1) people who were principle-orientated (i.e. guided by their views of how the world should be); (2) people who were status-orientated (i.e. guided by the opinions and actions of others); (3) people who were action-orientated (i.e. guided by the desire for social and physical activity, variety in life and risk taking).

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

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

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

7.0 TUTOR-MARKED ASSIGNMENT

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

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UNIT 2 DEMOGRAPHICAL

ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 The Population

A country's population normally increases over time and will vary according to such factors as changes in the birth and death rates and in the rate of net migration. For example, the Nigerian population as at 2015 is estimated to be 170 million people. In comparison, Russia's current population of around 145 million is projected to fall to about 100 million by 2050 as a result of a declining birth rate and a rising death rate in the wake of the country's economic collapse. If this occurs the world's biggest country will have fewer people than countries such as Uganda and Egypt. Note, however, that future population changes are only projections and that these can vary considerably over time as new data become available. These estimates show considerable variation and indicate how future population changes are relatively unpredictable, which can make forward planning difficult.

3.1.1 The age and sex distribution of the population

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

3.1.2 Other structural characteristics

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

3.1.3 Population change

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

a. The birth rate

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

- A trend towards smaller families as people become better off;
- Improvement in health and fall in death rates
- The increased availability of contraceptives.
- The trend towards late marriage and late childbearing for social and/or economic reasons.
- Declining fertility rates.
- Changing attitudes towards women and work.

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

b. The death rate

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

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

c. Net migration

Apart from the movement of population within a country (internal migration), people may move from one country to another for a variety of reasons. The balance between those leaving (emigrants) and those entering (immigrants) a country over a given period of time represents

the rate of net migration. Along with changes in the birth and/or death rate, this can be a significant factor in population change and can have important consequences for the economy. Influences on the rate of net migration include:

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

3.2 Demographic change and business

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

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

You should try to think of other examples.

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

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

3.3 The Social context

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

3.3.1 Social class

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

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

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

effective and appealing products, marketing programmes and/or communications that can be aimed at specific lifestyle groups.

3.4 Other social influences

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

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

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

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

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

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

7.0 TUTOR MARKED ASSIGNMENT

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

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UNIT 4 THE TECHNOLOGICAL FACTORS

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

1. Understand enough to explain the meaning of technology
2. Explain Technology investment
3. Analyse the roles of information technology in Business
4. Discuss Research and Development.

3.0 MAIN CONTENT

3.1 The meaning of Technology

Technology is 'the sum of knowledge of the means and methods of producing goods and services' (Penguin Dictionary of Economics). It is increasingly science based, encompassing things like chemistry, physics and electronics, and refers to the organisation of production as well as the actual techniques of production itself. Technological change leads to the introduction of new products, changes in the methods and organisation of production, changes in the quality of resources and products, new ways of distributing the product and new ways

of storing and disseminating information. Technology has a very big impact upon the world of business in all of these areas. Also, has an important effect on the level and type of investment that takes place in an economy and consequently on the rate of economic growth.

Technological change

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

Information technology

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

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

- Administration. The administration of businesses has been revolutionised by the introduction of information technology. Most businesses have computer systems where records are computerised and filing becomes unnecessary.
- Communication. This has been eased by the introduction of fax machines and email, mobile phones using various social media platforms etc. Video conferencing has contributed to the change in working practices making it possible for people to work anywhere.
- Production. The use of CAD will shorten the design and planning phase of the product and shorten the life cycle of the product. Japan applied this very early in the field of consumer electronics and many of the products are withdrawn from sale and redesigned within a very short period of time.
- Storage and distribution. The computerisation of stock control has implications for the storage requirements of firms. It has made implementation of the just-in-time method of stock control possible. This is easily seen in the case of supermarkets where the use of bar-codes on products makes it possible to carry out a stock check of a whole supermarket in a matter of hours. The shelves can then be loaded up as the stock check continues. Similarly, the use of bar-codes with Electronic Point of Sale (EPOS) makes stock control simpler.

- Electronic Funds Transfer at Point of Sale (EFTPOS). This system also has a revolutionary effect in the area of retailing. Most shops now accept credit cards or Switch cards where funds are immediately transferred from bank accounts to the supermarkets.
- The Internet. The potential for the Internet is enormous, although it is still growing. At present, the U.S seems to be the highest user, the market is growing. One aspect of business where information technology has become particularly important is in providing opportunities for firms to interact immediately with their customers and suppliers, whoever and wherever they might be. Teleworking, e-commerce, e-business and e-markets are now part of the business lexicon and an important area of study for undergraduate and postgraduate students alike.

Other technological developments

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

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

3.2 Technology and investment

The second input of technology into the production process is capital. In economics, capital refers to all man-made resources which are used in production of goods and services, that could be physical or financial. Capital includes a wide diversity of items, including factory premises, machinery, raw materials in stock, transport vehicles and partly finished goods. For instance, working capital consists of the stocks of raw materials and components used in producing things while fixed capital consists of buildings, plant and machinery. The main difference between the two is that fixed capital gives a flow of services over a long period of time, while working capital needs to be replaced on a regular basis. Because of its nature,

working capital is much more mobile than fixed capital (i.e. it can be used for other purposes much more easily).

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

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

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

Innovation and technology

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

Not all innovation is technological in nature; for example, changes in fashion in clothing are not technological. Innovative activity is important for all industry whether manufacturing or non-manufacturing. In some industries (e.g. pharmaceuticals, computers), innovation is essential if firms wish to remain competitive.

3.2 Research and Development

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

Limits to technological change

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

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

4.0 CONCLUSION

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

5..0 SUMMARY

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

6.0 Self-ASSESSMENT QUESTIONS

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

7.0 TUTOR-MARKED ASSIGNMENT

Discuss the role of technology in modern business management.

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UNIT 4 THE ECONOMIC ENVIRONMENT

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

Having read this unit, you should be able to:

1. Understand the phases of entrepreneurial activities
2. Explain the economic system
3. Differentiate between macro and micro economies tools and policies
4. Describe economic scarcity
5. Understand how macroeconomic policies and the objectives affect Business

3.1

Phases of Entrepreneurial Activities

The level of entrepreneurship in an economy depends to a large extent on the phase of a nation's economic development in other words, the national environment. The phase of the entrepreneurial activities can be prominently explained by Todaro and Smith (2006) that at the early stage of an economic development, the primary sector (subsistence agriculture and mining) dominates employment and output. As the primary sector grows, it automatically shifts to the secondary sector

(industrialization). Finally, moves to the tertiary sector (services and technology) which becomes the largest in the economy and source of employment (Adeyeye, 2018).

GEM (2018) highlighted the three phases of the economies as factor-driven; efficiency-driven and innovation-driven. The factor-driven economies are countries with low levels economic development that relies on the factors of production: land, labour and capital for existence. They are the primary sector whose foundation is based on agriculture, and later extractive industries (like mining, oil and gas) emerge and growth commences but the cravings for jobs in this the extractive industries would lead to over-supply of labour. Therefore, opportunities surfaced as people engaged in self-employment. The government responds by setting up various institutions and infrastructural facilities leading to macro-economic stability etc. The economy will metamorphose into the secondary sector or second phase, which is the industrialization and the growth of manufacturing and commerce. This is the efficiency-driven economy which is opened up in supply chains, and available opportunities for entrepreneurial new venture and small businesses. There will be market efficiency where information is available to everyone and reflected in prices, technological trajectory and trainings. At the brim of the second phase, the third stage emerges. The tertiary sector, that is, services (general, professional, ICT, technological advancement etc.) that accommodates the knowledge economy. This is the 'innovation-driven' economies, an environment for genuine innovation enhances entrepreneurs search for opportunities to compete with the key-players in the economy and global market. At this instance, there will be entrepreneurial finance, education, government support, infrastructural policies and regulations that will boost the technological base (Adeyeye, 2018, Adeyeye et al. 2019). Most of the advanced economies are in the third stage.

The question is, which stage can Nigeria be categorized to be as at today? By 1999, Nigeria was at the verge of the tertiary sector, innovation-driven. The mobile phones became available at affordable price even at the villages, internet services and various technology propped up leading to great advancement. Along the way, things changed into a downward trend that by 2015, the nation went back to the primary stage where everyone was asked to go back to subsistence farming. The nation cannot move to the second stage due to the electricity power challenge. Most industries shut down while some moved out to other countries. The challenge still remains while the primary stage is not advancing. The tertiary stage is not dead but not being the ideal one required. Theorists need to look into the peculiarity of Nigeria to develop different economic development phase to

accommodate her peculiarity. The environmental status of a nation affects the entrepreneurial activities.

3.2 The concept of an economic system

The concept of economic system refers to the structure and methods a society uses to produce, distribute, and consume goods and services. It encompasses the institutions, rules, and mechanisms that guide economic activity and decision-making.

Elements of an Economic System includes the following:

1. Production – What goods and services should be produced?
2. Distribution – How should these goods and services be distributed?
3. Consumption – Who gets to consume what is produced?
4. Ownership – Who owns the resources and means of production?
5. Decision-making – Who makes the economic decisions: the government, individuals, or both?

Major Types of Economic Systems:

1. Traditional Economy:
 - Based on customs, traditions, and beliefs.
 - Common in rural or tribal societies.
 - Economic roles often inherited and stable over time.
2. Command Economy (Planned Economy):
 - The government makes all economic decisions.
 - Examples: North Korea, former Soviet Union.
 - Emphasizes equality and central planning, but often lacks efficiency.
3. Market Economy (Capitalism):
 - Decisions are driven by supply and demand.
 - Private individuals own resources and businesses.
 - Minimal government intervention.
 - Examples: United States, Singapore.
4. Mixed Economy:
 - Combines elements of market and command economies.

- Government regulates some sectors, while others operate freely.
- Most modern economies (e.g., France, India, UK) are mixed.

Purpose of an Economic System:

- To solve the basic economic problems of scarcity and resource allocation.
- To ensure economic stability, growth, and efficiency.
- To promote fairness or equality (depending on the system's priorities).

3.3 Macroeconomic level of analysis

The macroeconomic level of analysis refers to the study of the economy as a whole, rather than individual markets or businesses. It looks at aggregate indicators and broad economic factors that affect entire countries. Macroeconomic analysis examines the overall functioning and performance of an economy, focusing on large-scale economic issues and policies.

Focus of Macroeconomics

Macro economics is concerned with certain aspects of the economy as stated below.

1. **Gross Domestic Product (GDP):** Measures the total value of goods and services produced in an economy over a period of time.
2. **Unemployment:** Analyses labour market trends and the percentage of people actively seeking jobs but unable to find work.
3. **Inflation:** Tracks changes in the overall price level of goods and services over time.
4. **Economic Growth:** Studies the increase in GDP and productivity over time.
5. **Fiscal Policy:** Government spending and taxation decisions aimed at influencing economic conditions.
6. **Monetary Policy:** Central bank actions (like changing interest rates) that affect money supply and credit conditions.
7. **Balance of Payments / Trade:** Examines imports, exports, and a country's financial transactions with the rest of the world.

The purpose of Macro-economics analysis

Macro-economic analysis is useful for some purposes. For instance, it

- Helps governments and central banks to formulate policies to manage economic stability and growth.

- Guides businesses in strategic planning based on overall economic conditions.
- Informs citizens and investors about the health of the economy.

3.3.1 Macroeconomics vs Microeconomics

Aspect	Macroeconomics	Microeconomics
Scope	Entire economy	Individual markets and agents
Focus	GDP, inflation, unemployment, etc.	Prices, supply & demand, consumer behavior
Policy	Fiscal/monetary policy	Market regulation, pricing policies
Use		

3.4 Monetary Policy:

Monetary policy refers to the actions taken by a country's central bank or monetary authority (like the Central Bank of Nigeria) to control the money supply, interest rates, and credit in order to achieve specific economic goals. The main goals of monetary policy is to control inflation, stabilize the currency, promote economic growth, reduce unemployment and ensure financial system stability.

3.4.1 Monetary Policy tools:

1. **Monetary Policy Rate (MPR):** The benchmark interest rate used to influence lending rates in the economy.
2. **Open Market Operations (OMO):** Buying or selling government securities to increase or reduce money in circulation.
3. **Cash Reserve Ratio (CRR):** The percentage of a bank's total deposits that must be kept with the central bank.
4. **Liquidity Ratio:** The amount of liquid assets banks must hold, affecting how much they can lend.
5. **Foreign Exchange Operations:** Used to stabilize the value of the national currency.

3.4.2 Types of Monetary Policy:

Type	Purpose	Central Bank Action
Expansionary	Stimulate economic growth	Lower interest rates, increase money supply
Contractionary	Reduce inflation and overheating	Raise interest rates, reduce money supply

3.5 The concept of economic scarcity

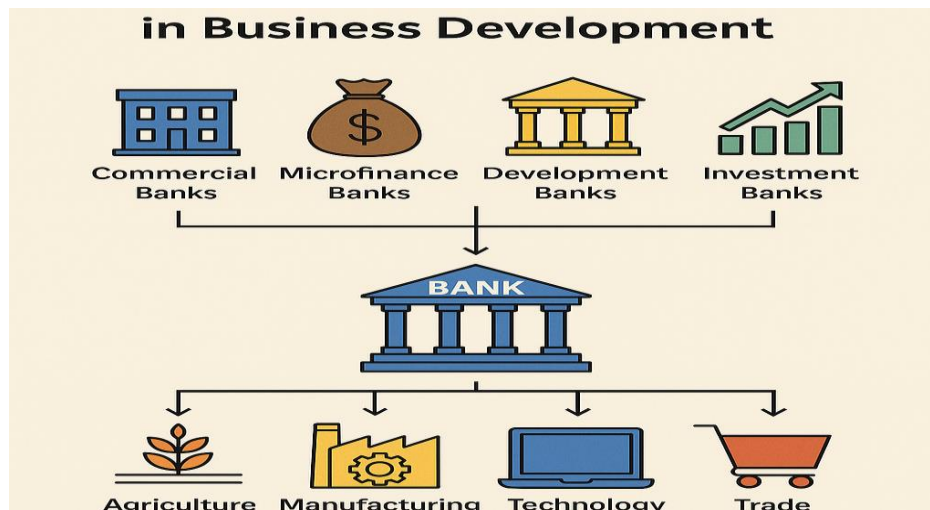
Like politics, the term economic tends to be used in a variety of ways and contexts to describe certain aspects of human behaviour, ranging from activities such as producing, distributing and consuming, to the idea of frugality in the use of a resource (e.g. being 'economical' with the truth). Modern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

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

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

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

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



Conclusion

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

Summary

This unit has explained the phases of entrepreneurial economic activities of a nation. Identified the various economic system and differentiating between macro and micro economic.

Self- assessment question:

Which phase of the economic activities would you think Nigeria is?

Tutor -marked assignment

- i. Distinguish between the Fiscal and monetary policies.
- ii. What is the effect of the economic system of a country on the entrepreneurial growth?

References

UNIT 5 THE ENVIRONMENTAL ANALYSIS

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

3.0 MAIN CONTENT

3.1 The meaning of Environmental Analysis/scanning

Managers need to understand how the environment affects their organizations and should be able to identify opportunities and threats that are likely to influence their organisational

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

Environmental scanning can be performed informally or formally. Informal scanning of the business environment is the process of gathering information about, and from, the organization’s customers, suppliers, distributors and competitors casually through grapevine information, interview, observations, or feedback from the organization’s sales and customer service staff to the advantage of the firm. Whilst an organization may prefer a more systematic and formal means for scanning and analyzing the environment. Generally speaking, this is a more deliberate approach to environmental analysis and tends to focus on the firm’s external environment. Falley and King 1977 in Oyedejo(2004), identified three types of environmental scanning as follows:

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

In an attempt to scan the environmental managers usually ask the following questions:

- Who are our current competitors?
- Are there few or many entry barriers to our industry?
- What substitutes exist for our product or service?
- Is the company too dependent on powerful suppliers?

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

3.2 Techniques for analyzing the business environment

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

3.2.1 Scenario planning

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

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

3.2.2 Forecasting

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

environment are more dynamic. The best advice for using forecasting as offered by Bateman and Snell, (2009), include the following:

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

3.2.3 SWOT or TOWS Analysis

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

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

3.2.4 Benchmarking

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

3.3 LIMITATIONS OF ENVIRONMENTAL ANALYSIS

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

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

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

4.0 CONCLUSION

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

5.0 SUMMARY

Environmental analysis entails scanning the business environment to obtain information that might be useful to an organization in its operations. To do this, an organization can use scenario planning which is a narrative that describes a particular set of future conditions. Forecasting is another method a firm can employ to analysis the environment. It is used to predict the future outcomes by engaging certain variables. SWOT analysis is a popular method used by organizations to determine its strengths and weaknesses and to detect opportunities and threats that are inherent in the environment. Organizations can as well use benchmarking when trying

to predict changes in the organization. This method enables a firm to undertake intensive study of the best practices of various firms to understand the sources of competitive advantage and take advantage of it. Environmental analysis has its limitations as well. Managers, therefore, should be very careful while undertaking environmental scanning.

6.0 SELF-ASSESSMENT QUESTIONS

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

7.0 TUTOR MARKED ASSIGNMENT

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

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MODULE 4 FORMS OF BUSINESS OWNERSHIP AND SOURCES OF FINANCE

- Unit 1: Sole Proprietorship
- Unit 2: Partnership

- Unit 3: Co-operative Society
Unit 4: The Company

UNIT 1 SOLE PROPRIETORSHIP

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INTRODUCTION

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

2.0 OBJECTIVES

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

- 2.1 Define Sole Proprietorship.
- 2.2 Identify the special features of Sole Proprietorship
- 3.3 Describe the various sources of finance for the Sole Proprietorship
- 4.4 List and discuss the advantages of Sole Proprietorship
- 4.5 List and discuss the disadvantages of Sole Proprietorship

3.0 MAIN CONTENT

3.1 Definition of Sole proprietorship/Sole Trader

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

retailing business and it is the oldest form of business ownership worldwide. Note that not all sole traders are entrepreneurs.

The sole trader represents many things at the same time in the venture. 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 also the manager because he takes decisions and controls the operation of the business.

3.2 Features of a Sole proprietorship

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

Liability: The liability of the one man business 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.

Legal Entity: It is not a legal entity, by law, the business and the owner are regarded as one person.

Motive: is 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: There is no board of directors, so he has the liberty of managing the business in accordance to his vision.

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

3.3 Sources of Funds of a Sole proprietor

(i) *Personal Savings*

Many individuals or group of individuals raise money from their personal savings to set up business. It could be through contributions (rotating savings), inheritance, ploughing back of profit etc.

(ii) *Borrowing particularly from Friends and family members*

It is common, among the Igbo business traders that once their brothers are willing to do business, they give a helping hand by borrowing some amount of money. When he starts making profit, he will repay. This borrowing is not limited to brothers only, friends and relatives equally assist.

(iii) *Credit Purchase from Manufacturers or Wholesalers*

Sole traders get financed through credit buying from the manufacturers or wholesalers and paying back later perhaps to collect another stock. It is a mode of financing a sole trader.

(iv) *Donations/gifts from Friends and family members*

Friends and relatives can support the sole trader with donations or gifts in cash and kind such as equipment, land, premises etc.

(v) Windfall gains

Money received as remittances from abroad, lotteries, grants are other sources of income.

(vi) Bootstrapping

An entrepreneur can boot strap to finance the venture by using internal resources without recourse to any external resources. For instance, use of personal house instead of renting a shop, home used furniture instead of getting a new one etc.

(vii) Loans

These can be from microfinance banks, cooperative society, commercial banks, NGOs etc. to support the firm and pay back later. However, it is not usually advisable to start with loan due to the pressure that may arise at the point of refunds.

3.4 Advantages of a Sole proprietorship

The advantages of this form of business ownership are as stated below:

- (i) An entrepreneur has the opportunity to demonstrate his entrepreneurial behaviour without interferences.
- (ii) It is simple and cheap to set up. There are no elaborate documentation or legal requirements.
- (iii) 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.
- (iv) Ownership of all profit: The sole trader does not share profit of the business with any one.
- (v) Quick decision-making: The sole trader can take quick decisions without any bureaucracy. 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.
- (vi) Easy to withdraw his assets: Proprietorship can be liquidated as easily as it is begun. All he needs to do is to stop the business.
- (vii) 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.
- (viii) Boss: He is literally his own boss but continues to satisfy his customers as kings.
- (ix) Failure becomes a learning curve rather than failure to fall.

- (x) It is flexible: The owner can combine two or more types of occupation as a result of the flexibility of his business.
- (xi) Cordial Relationship, with workers and customers: He 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.
- (xii) Tax saving: The profits of the sole trader are not taxed but only pays his income tax.
- (xiii) Privacy: The sole trader is not under any legal obligation to publish his accounts for public consumption.

3.5 Disadvantages of a Sole proprietorship

The disadvantages of this form of business ownership include:

- (i) Bear All Losses and Risks Alone - Business is full of risks and uncertainties and unlike other forms of business organizations where risks and losses are shared among partners, the owner of one-man business does not share these risks and losses with anybody as it does not share the profits of the business with anybody.
- (ii) Limited Financial Resources - The greatest single cause for the abandonment of one-man business is the desire for expansion and the resultant need for additional capital which is not forthcoming. His inability to raise more capital limits its plan for expansion.
- (iii) Unlimited Liability - In the event of failure of the business, the personal assets can be claimed to pay debts of the business. For a sole trader, it means that everything he owns is subject to liquidation to offset the liability.
- (iv) Limited life span- When the sole proprietors retires or dies, the business may also come to an end. Though his family members may attempt to continue with the business, most often they lack the zeal, and or, the ability to operate efficiently. The imprisonment or bankruptcy of the sole proprietor spells similar doom to 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 be able to handle some aspects of the venture efficiently. This negatively affects the prospects of the business.

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

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

7.0 TUTOR MARKED ASSIGNMENT

- 1 ‘Sole Proprietorship is not the best form of Business organization’ Discuss.
2. What is ‘bootstrapping’
3. Highlight five points that an entrepreneur is set to benefit by starting as a sole proprietor?

8.0 REFERENCES AND FURTHER READINGS

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UNIT 2 PARTNERSHIP

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1.0 INTRODUCTION

In the last unit, the features, advantages and disadvantages of sole proprietorship were discussed. This unit will focus on Partnership form of business organization, hence, the definition, features, advantages and disadvantages as well as the sources of finance will be covered.

2.0 OBJECTIVES

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

- 2.1 Define Partnership.
- 2.2 Identify the special features of Partnership
- 2.3 Describe the various sources of finance for Partnership
- 2.4 List and discuss the advantages of Partnership
- 2.5 List and discuss the disadvantages of Partnership

3.0 MAIN CONTENT

3.1 Definition of Partnership

Partnership is an association of two to twenty persons carrying on a business in common with the view of making profit (Denedo, 2004). The partners contribute both funds and efforts to set up and manage the business and share profit (or loss) on an agreed basis. Partnership can also be perceived as the relationship that exist when two or more persons contribute small

money or moneys worth in order to establish, own and manage business organization with the aim of making profit. They also share the losses that arise from such businesses.

3.2 Features of Partnership

The following are the features of a partnership form of business ownership:

Ownership: It is formed by between 2-10 people and between 2-20 people in case of banks.

Capital: The initial capital is contributed by partners.

Liability: The 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 and loans from banks.

Method of withdrawing capital must be approved by other partners as laid down in their partnership deed. It has no separate legal entity. It has no board of directors.

3.3 Types of Partnership

There are principally two types of partnerships, namely: ordinary and limited partnership.

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

Limited Partnership : Members debts are restricted to the amount of money contributed in running the business. Not all partners take equal part in the management of the business. However, a member must bear the risk and also take active part in the business activities. In other words, in limited partnership, there must be at least one ordinary partner who has unlimited liability.

3.4 Kinds of Partners

There are five types of partners:

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 involved in managing of the business and doesn't receive salary. He is only entitled to profit sharing and losses as it is agreed upon before formation.

Nominal/Passive Partner: A nominal partner is one who is not actually a partner but allows his name to be used in the partnership, or 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. This member may be a man or a woman of substance whose name is greater than silver and gold, e.g. a retired army general, politician, permanent secretary, professor, or a successful business man.

Silent Partners: A silent partner is an individual who is known to the public as a partner but does not take active part in the management of the firm.

Secret Partner: A secret partner is that who is active in the affairs of the business but not known to the public as a partner.

3.5 Essential Conditions for a Partnership

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

- i. There must be a business which may be a trade, occupation or profession
- ii. It must be carried on in common i.e. it must be carried on by some members or all of them for the benefit of all of them
- iii. It must be with a view to profit. The sharing in the profits of the partnership business is very strong evidence of the existence of a partnership. However, the true test of partnership is not merely participation in profits but participation in profits in such a way as to create a relationship of agency between the participators. Not all partnership firms are entrepreneurial. If an entrepreneur decides to go into partnership with his entrepreneurial vision, he must make it clear to the partners and indicate it in the deed of partnership.

3.6 Article 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 but 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 partner is to contribute
- The role of each partner in the business
- The method of profits and losses sharing
- The compensation, if any, the partners are to receive for services rendered to the business
- The right of partners in the business
- How long the business shall last

- Partner's rights in the business
- How matters shall be determined either by majority vote or not
- Provision for the admission of new members
- The arrangements concerning withdrawals or additional investment
- Arrangement for the dissolution of the firm in the event of death, incompetence or other causes of withdrawal of one or more of its members.

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

3.7 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 partners/ taking of loans
- (iv) Enjoying credit facilities

3.8 Advantages and disadvantages of Partnership

The following, are the advantages of partnership:

- (i) **Ease of Formation:** 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. As soon as the new members and materials have been brought together, the business is ready to function.
- (ii) **Greater Financial Resources:** The power of number plays a role, between two and twenty persons form the partnership. It translates into more capital for such business compare to the one-man business. By so doing ability to borrow i.e. from bank get approval is higher and better compared to one-man. Benefits of expansion are higher because more funds are available.
- (iii) **Combined Abilities and Skills:** In partnership, there are various partners with various skills and competencies. For instance, 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.
- (iv) **Application of Division of Labour:** This is applicable in its managerial and administrative hierarchy.
- (v) **Greater Continuity:** 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.

- (vi) **Joint and Better Decision-Making:** That two good heads are better than one and this is applicable to partnership business as joint and better decisions are taken.
- (vii) **Creation of Employment Opportunities:** The large size partnership is in a position to employ more people to serve in various capacity.
- (viii) **Privilege of Employment to Partnership:** 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.
- (ix) **Tax Advantage:** Partnership enjoys tax advantage. Taxes are levied upon the individual owners rather than the firm since it is not recognized as a legal entity.
- (x) **Privacy:** Partnerships are not under any legal obligation to publish their books of accounts for public consumption.

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 cannot pay for the debt, the owners' personal belongings could be sold to offset such debts, since they are legal not legal entity.
- (ii) **Disagreement and Resignation:** Death of a partner can lead to the death of the business especially the active partner. Most partnership ends with disagreement. Disagreements because of divergence action or opinion leading to resignation or death.
- (iii) **Decline in Pride of Ownership:** Since the partnership is owned by two or more people, the pride and joy associated with ownership is reduced.
- (iv) **Risk of Mandatory Dissolution:** Where a member withdraws his membership, or admission of a new partner becomes necessary, the partnership may be dissolved and another agreement reached to admit such member. The rigors involved is tedious, which may constitute a problem for such act.
- (v) **Limited Capital:** This means that partnership can not get more capital through shares except through members.
- (vi) **Restriction on Sale of Interest:** There is a difficulty in effecting transfer of ownership. The interest of operation is not transferable without the consent of other partners.

3.9 Dissolution of Partnership

A partnership automatically dissolves if any of the following event occurs

- a) If it is entered into for a fixed term and if the term expires.
- b) If it is entered into for a single adventure or undertaking i.e voluntary termination.
- c) If it is entered into for an undefined time or by any partner giving notice to others of his intention to dissolve the partnership i.e withdrawal of a partner.
- d) By the death or bankruptcy of a partner.
- e) The court may give judgement for the dissolution by the application of a partner.
- f) By the insanity of a partner.
- g) By subsequent illegality of the object of the venture.

4.0 CONCLUSION

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

5.0 SUMMARY

Partnership is a business form jointly formed by 2-20 individuals. It could be the forms of ordinary or limited partnership. There are different kinds of partners depending on the extent of involvement in running of the business and public knowledge of partners. The partners can be Active, Passive, Dormant, Silent among others. To guide, the conduct of member, deed or article of partnership is often prepared to specify partners rights, responsibilities and so on. The advantages of Partnership include, greater financial resources, more continuity, specialization and better decision-making. The demerits include, unlimited liability, possibility of conflict among members among others

6.0 SELF-ASSESSMENT QUESTIONS

1. Define in the term 'Partnership'.
- 2 Discuss any four types of partners known to you.
- 3 List and discuss sources of finance Partnership
- 4 What is Partnership Deed? List any five elements of it.
- 5 List five and discuss any five advantages of partnership.

7.0 TUTOR MARKED ASSIGNMENT

- 1 Why would anyone prefer a partnership to a sole proprietorship business organization?
- 2 Managing a 'Partnership could prove more difficult than managing a sole proprietor' Discuss.

8.0 REFERENCES AND FURTHER READINGS

Babalola, D.Y. (1999). *The Principles and Economics of Cooperatives*, Ibadan: Ejon Publishers. ISBN: 978-35060-6-4.

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UNIT 3 COOPERATIVE SOCIETY

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

- 2.1 Define Cooperative Society.
- 2.2 Identify the special features and types of Cooperative Societies
- 3.3 Describe the various sources of finance for Cooperative Societies
- 4.4 List and discuss the advantages of Cooperative Societies
- 4.5 List and discuss the disadvantages of Cooperative Societies

3.0 MAIN CONTENT

3.1 Definition of Cooperative

Cooperative is a word derived from two Latin words meaning – “Working together”. The dictionary meaning of cooperative on one hand implies, “working or acting together for a common purpose”. While cooperation, on the other hand, literally means “the will to cooperate.” According to Ejiofor (1989, quoted in Ige, 2011), some writers defined cooperative as “an association of persons, faced by the same problems, having resources on the basis of equality, through joint efforts and mutual participation to remedy their

plights”. Others perceived 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, described cooperative as a “free association of persons, legally constituted for the purpose of conducting an economic enterprise or business, which they control and administer democratically, according to established principles and techniques”. Each of the views stated above emphasises three main issues. The first is the voluntary nature of the association. Secondly, the collective efforts of the people, which imply that people’s endeavors’ are geared towards the success and betterment of the cooperators. And the third factor is the issue of collective control. This, by implication, means that if there is any benefit or problem accruing to the society, such benefit or problem belongs to all the members.

Calvert define cooperative as a form of organisation wherein persons voluntarily associate together as human being on a basis of equality for the promotion of the economic interest of themselves”. In Calvert’s emphasised cooperative as a means to an end and not an end in itself. It is never a goal but an excellent way to reach the goal. The word “Voluntarily” implies that association that springs from compulsion as against the freewill, hence, cannot be genuinely referred to as cooperative in the orthodox sense of the term.

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

Although, the greatest services rendered by the cooperative have been most entirely in the purely economic sphere, the cooperative society is not a philanthropic institution as it exists to help its own members and not other people. If a cooperative is to succeed, it must meet a definite felt-need of the members and be capable of meeting such need more effectively than the individual effort of members could do. Therefore, the phrase “self-help through mutual help” therefore, correctly summarises the general meaning and purpose of cooperative societies.

3.2 Historical Development of Cooperative Society in Nigeria

Cooperative or cooperation is as old as humanity. Before the advent of the colonial masters, our parents practiced cooperation in their own primitive style. They had “Owe” (Communal assistance given to a member of a group during the time of farming) or “Aaro” (Rotational assistance made by a group of people for the benefits of its members).

“Owe” and “Aaro” were introduced to reduce labour and cost used in development of farms and building projects while “Esusu” or “Ajo/adache” was introduced to create lively economic machinery to improve their trades. Although, there is a slight difference between the two, the marketing of cocoa the only economic crop of Nigeria as at that time, was

exclusively dominated and controlled by the middlemen. This consequently gave rise to the formation of some brand of cooperative society in Nigeria for cocoa farmers in the then Western Nigeria. They were mainly the thrift and loan societies designed to protect farmers from exploitation by money-lenders during the difficult period of the world trade depression.

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

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

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

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

There are some distinguishing features between the modern Cooperative Thrift and Credit Society (CTCS) and the traditional "Ajo" or "Esusu" or adache as a means of savings or obtaining financial assistance by respective members.

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

3.4 Principles of the Cooperative Society

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 society. Regardless of the number, however, these principles still form the basis of the universal principles of modern cooperative society as recommended by the International Cooperative Alliance (ICA). Among the basic principles as observed by this body are:

- (i) Open and voluntary membership.
- (ii) Democratic control and equality of members.

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

(i) Open and voluntary membership

Open membership means that the society is not exclusive. It must be open to everyone to whom it can be of service irrespective of race, creed, religion or status considerations. Without this principle, societies would lose their cooperative and degenerate into profit-making enterprises. A corollary to open membership is the issue of voluntary membership which makes it possible to enjoy the benefits of associated efforts. Individual freedom is necessary to the improvement of character, which has always been regarded as the ultimate goal of cooperation. Thus, a cooperative society is “an organisation for men to join freely or quit freely and independent of and free from state or political control”.

(ii) Democratic control and equality of members

Cooperative societies are democratic organisations whose affairs are administered by persons elected or appointed in a manner agreed upon by the members. Members enjoy equal rights of voting, that is, one member one vote. The one-man-one-vote principle prevents a few powerful members to dominate the rest of the members. They all enjoy equal participation in decision affecting their societies. To attain meaningful democracy, however, members must be educated on guiding principles, adequate provision of information, regular meeting attendance and meaningful discussion of the society affairs with its management. Without all the above, the tyranny of democracy will definitely surface.

(iii) Limited returns on capital.

The principle of limited interest on capital would be better stated as rate of interest on capital as fixed by the rule of the society. There is the recognition of the value of the service performed by the provision of capital and this is paid for, by a fixed rate of interest that is sufficiently high enough to attract an adequate amount of capital has no further claims on any surplus. If, however, the amount of capital is to be increased or decreased, the rule of fixing the rate of interest may be altered although, with the constant agreement of the members. This principle exists in order to provide services to members at the least cost without generating large returns from the capital.

(iv) Patronage rebate or dividend sharing to members.

This is an important principle of the cooperative, which involves the division of surplus in proportion to members' contribution to the society in terms of

patronage, or transactions made to the society within a given period. The principle enables the society to operate in a way within which no members make profit out of the rest members. The early cooperative societies were opposed to profit making and thus, regarded it as a possible source of economic, social and moral evils. Rebate or dividend arise from the price charged by the societies to its members where in excess of cost price.

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

(v) Political and religious neutrality.

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

(vi) Strictly, cash trading.

Cooperatives are disciplined organisations. It is, therefore, mandatory that members should adhere to the principle of strict cash trading. There is a common belief that the principle of cash trading was practiced partly to ensure the adequacy of financial resources and partly to avoid bankruptcy of the business. The failure of many societies was due to lavish and indiscriminate granting of credit facilities. Similarly, indebtedness is against the spirit of cooperation. Furthermore, modern cooperatives society do not regard credit as a social evil. For instance, if granted prudently, it would make the debtor member economically viable. Thus, as long as credit is dynamic and not static, the purpose of cooperation is fulfilled.

Regardless of the merit of credit sales trading strictly on cash basis will definitely eliminate some problems attached to credit transactions. It is therefore, advisable for members of cooperative society to adhere strictly to this principle.

(vii) Sale at market prices.

Sale at current market prices was held as a wise and prudent principle because every organisation must sell at current prices. While agreeing that cooperative societies have a duty to try and keep the price down, sale at current market prices is perhaps of more significance than what modern writers have assumed. To sell below market prices would be to invite the determined opposition of private traders, which could lead to cut-throat competition that may ruin the society. Some schools of thought, however, strongly assume that unless cooperative societies dominate the whole economy, it is doubtful if they could influence the general level of prices as many of

the factors and circumstances affecting prices of goods are outside the societies' control.

Cooperative societies do sometimes sell below the prevailing market prices when they assume that prices are artificially too high. In such cases, cooperatives sell at what they know to be a reasonable price in order to break the monopolistic control or exploitation. When prices are dropped to a reasonable level, cooperative societies will then resume their normal policy of selling at current market prices.

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

Cooperatives should follow a continuous program of education in the principles, practices and objectives of cooperation. In order to be able to compete ideologically, operate correctly, genuinely, purposefully and effectively, the existing members, prospective members, officers, staff and employees of cooperative should be given sound knowledge, skills, necessary information on the workings of the principles, ideals and philosophy of cooperatives are crucial to the smooth operation of the cooperative. It would also afford the members the opportunity to make intelligent decisions on matters of policy that may affect the destiny of the venture. The Rochdale Pioneers experiment would not have been successful without members education and training. Hence, the promotion of education among the members, staff of cooperative societies and indeed, the general public in the principles, practices and techniques of cooperation becomes imperative.

(ix) Cooperation among national and international cooperatives

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

3.5 The Role of Cooperative Principles and its Universal Applicability

The cooperative principles have always been impactful 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 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 given here in case of poultry project can also be adopted in respect of any other small-scale business set up anywhere in the world.

3.6 Golden Rules and Self Reliance of Cooperatives

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

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

- (7) Cooperative should operate according to the cooperative principles recognised by the International Cooperative Alliance (ICA).

3.7 Cooperative as a Self Reliant Venture

The self reliance of a cooperative implies that a cooperative venture should be self supporting, relying solely on its efforts for promotion, development, supervision, capital formation, training, research, expansion, management, control, auditing etc. without any governmental assistance or outside sources. It is when a cooperative reaches this level that such a cooperative can truly be said to be self-reliant. To ensure self-reliance and secure an independent posture, however, the following steps must be followed:

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

3.8 Classification of Capital

Cooperative financing, like any other business organisation, can be regarded as the means through which the cooperatives 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 cooperatives concern. These classifications are:

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

1. Owned Capital

Owned capital is made up of the shares and contributions 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.

(b) Members savings Contributions

This is the contribution by each member as savings which could be monthly or weekly contribution depending on the policy of the society. The savings is dependent on the individual's capability for savings. Generally, members savings share the same attributes of the 'Reserves' especially in its neutrality and anonymity posture.

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 byelaws.

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) 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.

(c) 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. Other sources under this category (owned capital), are: fines, special grants, special levies, just to mention but a few.

Advantages

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

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

Demerits of Cooperative Reserves

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

2. Loan Capital

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

(a) Members' Deposit

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

Merits

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

(b) Revolving Funds

This is a very good device of securing loan capital from members. It is the most popular device with the cooperatives in the United States of America. Revolving

funds are generated partly from the bonus on patronage part of which is retained and partly from the deduction made on every unit of produce marketed through the society.

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

Advantages

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

Its Shortcomings

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

(c) Loan from Cooperative Sources

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

Advantages

- (i) It helps in boosting the financial base of the cooperatives.
- (ii) It promotes unity and relationship among cooperatives.
- (iii) It accelerates the capital investments of all cooperative societies.

(d) Loan from Commercial Banks

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

Advantages

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

Disadvantages

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

(e) Loan from the Government

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

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

Merits

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

Demerits

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

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

Another problem identified with this source is the discrimination or partiality involved in granting the loan to cooperatives by abuses charged with the disbursement of the loans. In most cases, loans through this channel have been opened to various abuses like injudicious spending, mismanagement and fraud.

(f) Trade Credits

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

Advantages

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

Demerits

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

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

3.9 Advantages of Cooperative Societies

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

Disadvantages

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 SELF- ASSESSMENT QUESTIONS

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

7.0 TUTOR MARKED ASSIGNMENTS.

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

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UNIT 4 CORPORATE ORGANISATIONS

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1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

- 2.1 Define a Company.
- 2.2 Identify the types and mode of formation of a company
- 3.3 Describe the specific features of a company
- 4.4 Discuss Public limited Company and private limited company
- 4.5 Explain Franchise as another form of ownership

3.0 MAIN CONTENT

3.1 Definition of Company

A company is a legal person or entity created by the association of individuals who agreed to and jointly pool their capital together in order to establish and own a business venture distinct from others. It is 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 company is legally separated from its owners hence it is defined as an artificial being (invisible or intangible) existing in accordance with the law. In the eyes of the law, it is a separate entity responsible for its acts and obligations. With its artificial human life, it can sue

and be sued like a human being under the law. It can hold and sell properties and engage in any business operations specified in the corporate charter.

3.2 TYPES OF COMPANIES

Companies are broadly categorized into two:

i. Unlimited Liability Companies

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

ii. Limited Liability Companies

a. 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.

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

There are 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 to infinitesimal. The owners are shares holders, who are free to come in and free to sell-off their shares.

3.3 Methods and documents of formation

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

3.6 Memorandum of Association

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

- The name of the company with "limited" as the last word.
- Location of the company
- Objectives of the company

- Amount of the registered capital proposed
- Liability of the company's shareholders (statement).

3.7 Article of Association

It states the internal rules for the regulations of the government organization, and management of the company. The may include:

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

3.8 The Prospectus

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

3.9 Certificate of Incorporation

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

3.10 Certificate of Trading

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

3.4. Features of a Public Company

- Membership: a minimum of seven and no maximum, but article of association could specify maximum.
- Issuance of Shares: can sell share to the public.
- Transferability of Shares: shares can be transferred without the consent of other share holders.
- Quotation as Public Companies: are quoted on the floor of the stock exchange.
- 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.
- Limited Liability: each shareholder possess limited liability.

3.4.1 Advantages and disadvantages of Public Limited Company

The advantages of a public limited company are as follows:

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

The disadvantages includes:

- (i) **Double Taxation:** Most corporations are faced with double taxation. In Nigeria, federal, state and local government charge companies different taxes.
- (ii) **Hard to Establish:** Methods of establishment and finance needed for such kind of business is high and it require a large capital outlay which may scare out a lot of investors.
- (iii) **No Privacy:** Company and allied matter decree expect this type of company to publish its account annually, making it public affairs.
- (iv) **Non-Flexibility:** It is hard to switch business because the papers for registration state what they are to do. If you change condition, it means you are to form another company entirely.
- (v) **Special performance must be sought from government to transact business outside the location in which you were registered.**

- (vi) Cooperation is Non Existence: Most companies have problems of misunderstanding between both managers and non-managers or with workers; it may be because of the large nature.
- (vii) Owners are Separate from Managers: Therefore there is the tendency of the managers not running it well since they are not the owners.
- (viii) Huge capital is required for its formation, it therefore becomes more complex to manage compared to one-man business.
- (ix) Delay in policy and decision making.
- (x) Suppression of individual initiatives.

3.5 Features of a Private Company

Membership: a minimum of 2 and a maximum of 50

Issuance of Shares: cannot sell shares to the public

Transferability of Shares: can only be transferred with the consent of other shareholders

Quotation: private companies are not quoted on the floor of the stock exchange

Publication of Accounts: not required to publish annual account. However they must send a copy of their audited account to the registrar of companies each year. Limited Liability: each shareholder possesses limited liability.

3.5.1 Advantages and disadvantages of a Private Company

Some of 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.

Some of the disadvantages are listed below:

- i. Taxes: Most companies pay corporate tax compare to a sole trader or partnership that pays personal income tax. Sometimes, the tax may be so heavy that it may be a burden on the company.
- ii. Share: Private companies share are not publicly subscribed, even in the exchange of shares, all member must be notify. A new member may be rejected.

- iii. The shares of private limited companies are not quoted on the floor of the stock exchange; hence they cannot be transferred without the consent of other shareholders.

3.6 Franchising

Franchise “is the agreement granting the right to do business and specifying the terms and conditions under which the business will be conducted (Meggison et al. 2004:77).” Franchising is one of the recognized ways an entrepreneur or a business owner can own a business. It is the marketing system based on legal arrangements that allows one party- the franchisee-to conduct business with another party- franchiser. It may be costly but saves the stress of a starting one. This form is often used in a corporate organisation. It is a license to operate an individually owned business as though it was part of a chain of outlets or stores. It is also a situation where an existing organization becomes a parent venture (franchisor) granting other company or individual (franchisee) the right to use its trademarks name to produce and sell its goods or services. The franchisor provides the franchisee with a complete assortment of materials and services for a fee and percentage of sales; trains, monitors and controls the franchisee to ensure conformity to agreed standard. Examples of such are McDonalds, Mr. Biggs, and tantalizers’ etc. Financial assistance, technical assistance in site selection, accounting and operations management, guaranteed supplies and protected markets are consequent benefits. There are three basic types of franchise:

- i. Distributorships, which grant the right to sell their parent company’s product such as auto dealerships (Ford, Toyota, GM, Mercedes etc.)
- ii. Trademark or brand name licensing, which gives the licensee the right to use the parent company’s trademark or brand in conjunction with the operation of their own business.e.g. beverage (coca cola) and sport franchises.
- iii. Business format franchise is the type most people are familiar with. Business format franchisers offer to their franchisees the license or right to sell its goods or services and/ or use its business technique. The franchisees usually pay an initial fee to acquire this right and thereafter pay a percentage of their gross sales to the franchisor throughout the term of their franchise contract. In return for these payments, franchisees gain privileges, including the right to sell a proven and recognized product or service to use franchisor’s business practices and to receive initial training and ongoing support.

Additional responsibilities can and usually do include:

- i) Requirements to meet a variety of quality controls for products and services sold.
- ii) Restriction on what they can sell or how they can operate using the company's name.
- iii) Specifications for their business location and site appearance.
- iv) Prohibitions on the operation of any similar businesses during or after the term of the franchise agreement.

Franchisees usually have an advantage over their non - franchisee competitors, since they have the rights to use the franchisers brand names, trademarks, copyrights, trade secrets and patents, uniform logos, storefronts, and interiors, proven records/goodwill, training and guidance, assistance in securing funding. Major challenge in franchising is the franchise fees, undue control and unfulfilled promises. The entrepreneur needs to discuss with the franchisor on various innovation that could boost the venture. When this is properly done, it is to the benefit of both the franchisor and franchisee.

4.0 CONCLUSION

The company as a business alternative grew of the need for limited liability and a greater pool of funds for establishing businesses. The company as an artificial person is a legal entity different from its owners. It requires documentations for its formation. Franchising is another form of ownership that involves a franchisor and franchisee. It gives an advantage over non-franchisee competitors in the business environment.

5.0 SUMMARY

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

6.0 SELF-ASSESSMENT QUESTIONS

1. Define a Joint Stock Company.
2. List and discuss the features of a Private Limited Liability Company.

3. Write short notes on the following:

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

5. What are advantages of Public Limited Liability Company?

7.0 TUTOR MARKED ASSIGNMENT

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

8.0 REFERENCES AND FURTHER READINGS

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