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LECTURE NOTE ON

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Module 1: **THE CONCEPT OF BUSINESS AND NEW VALUE CREATION FINANCING**

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1.0 BUSINESS PLANNING PROCESS

The business planning process is designed to answer two questions: Where are we now? Where do we want to go? The result of this process is a business plan that serves as a guide for management to run the company. Describing the most critical tasks that must be completed and the time frame for completion .A business plan allows companies to allocate resources to accomplish goals.

1.1 THE BASICS STEPS IN BUSINESS PLANNING PROCESS

- **Defining the Opportunity**

Success in business is the result of providing products and services that meet customers' needs in a significantly better way than competitors. This is because customers are always interested in products that add value. Before launching a product or entering a new market, management must determine a strong customer need to solve a problem. Three things must be considered under defining opportunity. Viz: the economic value, newness of such a venture and whether it has moral and legal acceptability in the environment.

- **Devising Marketing Strategies**

The marketing plan details which customer groups will be targeted and how these customers will be convinced to make a purchase. The planning process must produce specific and detailed tactics, not vague generalities. Instead of saying the company will employ Internet marketing; the plan must detail which categories of Internet marketing will be emphasized, which websites will be used, and the cost of advertising. Also included in the plan must be reasons why these strategies are likely to result in success.

- **Resource Allocation**

The planning process determines how all the assets of the company will be marshalled to achieve the goals and objectives. Thorough planning allows financial resources to be used wisely, and for the human resources of the company to be as productive as possible. Planning helps avoid problems such as cash shortages, inability to deliver products on schedule, or inadequate staff levels.

- **Financial Forecast**

A financial forecast or company budget is produced during the planning process. The forecast numbers are compared to actual results during the year. Discrepancies are analyzed to determine if a change of course is required, or if shifting expenses may be necessary due to a changing economic environment

1.2 WHAT MAKES PEOPLES START THEIR OWN BUSINESS

A number of reasons have been recorded on why people go into business. Some go into business because they are sick of working for someone else and want to be the captain of their own ship. Some go into business because their parents owned their own business and the apple don't fall far from the tree. Others include: desire to pursue a business idea, financial ambition, take advantage of opportunity, love of product, lack of opportunity in the previous employer, among others.

The thing that is clear and common, up to this point, is that the desire to be one own boss is the most cited reason selected by these business owners for starting their own business. There is a clear driver amongst these entrepreneurs; namely to be independent and in charge of their own destiny.

None of these reasons are inherently wrong, but some of them are not a good foundation for a long-term successful enterprise. Just wanting to make lots of money is probably not the greatest foundation for making wise business decisions. Neither is running someone else's business.

1.3 THE LEGAL ISSUES IN STARTING A NEW BUSINESS

A number of legal issues are associated with starting a business that should not be overlooked. Most businesses are regulated and there is much government and legal oversight to make sure that they are operated correctly within the confines of the law. There are a few legal considerations to be familiar with when starting a new business

- **Business Names**

One of the first legal decisions one must make when starting a business can also be one of the simplest--the business name. One cannot use the name of a business that already exists. Check with businesses listed in your local area, as well as online, to determine whether the name you want to use for your business has already been legally registered by someone else. If so, you will have to consider an alternate name.

- **Business Structure**

Another legal consideration in starting a business is the type and structure of business that one wants to create. There are a number of legal business entities, from sole proprietorships, to partnerships, limited liability companies, and full corporations. Determining what is involved in starting a business will help determine what type of business entity that is to be formed. You need to register in order to be a legal business in most states, as well as for tax liability purposes.

Business Licenses

Think about what business licenses you need to operate legally in the area where you want to set up your business. Most municipalities have regulations on what types of businesses can operate in certain areas and most also have specific licensing requirements before business operations can commence. Make sure you have obtained the proper business license for the type of business you want to operate in order to avoid fines or other legal troubles for your start-up business venture.

1.4 FEASIBILITY ANALYSIS OF NEW VENTURES

Feasibility analysis: Feasibility analysis is the process of determining whether a business idea is viable. Viability in terms of operation as well as economic benefits. It is a preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business idea. It follows opportunity recognition but comes before the development of a business plan. Some components of feasibility analysis are as follow:

- **ECONOMIC FEASIBILITY**: This emphasizes the extent to which macro-economic factors affects business in many ways. Such as inflation, taxation policy, exchange rate, interest rate, government budgets and money supply can affect the proposed business idea .The aim here is to evaluate the viability of proposed business opportunity or idea vis-a-vis economic variables.
- **PRODUCT/SERVICE FEASIBILITY ANALYSIS**: This is an assessment of the overall appeal of the product or service being proposed. Concept testing and usability testing are the two primary issues that a proposed business should consider in this area. A concept testing is a preliminary description of a product idea. The three primary purposes of concept testing are to validate the underlying premises behind a product or service idea, to help develop an idea rather than just test it, and to estimate the potential market share the potential product or service might command.

  Usability testing is a method by which users of a product or service are asked to perform certain tasks in order to measure the product's ease of use and the user's perception of and satisfaction with the experience.
- **INDUSTRY/MARKET FEASIBILITY ANALYSIS**: This is an assessment of the overall appeal of the market for the product or service being proposed. For feasibility analysis; there are three primary issues that a proposed business should consider: industry attractiveness, market timeliness and the identification of a niche market. Primary research is original research and is collected by the entrepreneur. In assessing the attractiveness of a market, this typically involves an entrepreneur talking to potential customers and/or key industry participants. Secondary research is examined to discover meaning in or from data already collected.
- **ORGANIZATIONAL FEASIBILITY ANALYSIS**: This is conducted to determine whether a proposed business has sufficient management expertise, organizational

competence, and resources to successfully launch its business. There are two primary issues to consider in this area: management prowess and resource sufficiency.

- **FINANCIAL FEASIBILITY ANALYSIS**: It is a preliminary financial analysis of whether a business idea is prudent. The most important issues to consider are capital requirements, financial rate of return, and overall attractiveness of the investment.
- **POLITICAL FEASIBILITY:** This is concern with the extent to which change in political leadership by way of elections can usher in a new government with new policies that could affect the business idea. It is imperative to examine the extent to which the political climate may favour the proposed business idea.
- **LEGAL FEASIBILITY:** This refers to extent to which existing and prospective legislation by government at all level will affect the business idea. Policy makers from time to time either review existing legislations or repeal them and bring new ones in their place. A business must be concerned about how all of these can affect it.
- **SOCIAL FEASIBILITY:** This concerns itself with examining the extent to which the opportunity or business idea conforms to the norms, culture, beliefs and attitudes of the community. Social feasibility is especially important to the host community in which the business is expected to be situated. A clash between the goal of business and any of these social variables can result in serious conflict if left unresolved.

1.5 OPPORTUNITY SEARCH AND IDENTIFICATION

Investments opportunities can be identified from many sources .These sources include the following:

- The entrepreneur's idea of a felt need based on his personal experience he may then proceed to build a business from such experience
- An investment opportunity can emanate from a hobby or a part time activity of the entrepreneur
- Idea can emanate from public literature on specific research activities, trade journals.

MODULE 2: THEORIES OF GROWTH: AN OVERVIEW

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2.0 CONCEPT OF ENTERPRISE GROWTH

The term 'Enterprise Growth' is used to refer to various things such as increase in the total sales volume per annum, an increase in the production capacity, increase in employment, an increase in production volume , an increase in the use of raw material and power. These factors indicate growth but do not provide a specific meaning of growth. Simply stated, business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output.

Enterprise growth is used to describe a development process of an enterprise from small to big and from weak to strong natural process of adaptation and development that occurs under favourable conditions. The growth of a business firm is similar to that of a human being who passes through the stages of infancy, childhood, adulthood and maturity. Many business enterprises started small and have become big through continuous growth.

However, an enterprise growth is a complex adjustment process, which is different from the simple scale extension. It takes the balance adjustments of various relations in the interior and the exterior of the enterprise as the essential character. It is the process of balanced development affecting all aspect of the enterprise. Therefore, the concept of enterprise growth connotes the development process of an enterprise, with a sustained, balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps recording the large enhancement of total performance and the stage spanning of development quality and level

2.1 Theories of Enterprise Growth

Mao (2009) evaluates, expounds and abstracted the theoretical foundation of enterprise growth from different perspectives.

The Scale Boundary Theory

This theory is based on transaction cost theory which explains that the marketable character of enterprise is the substitute of the price mechanism. He utilized the concept of transaction cost to explain the reason of enterprise generation. His opinion when discussing the enterprise scale was that when the added transaction was organized by the enterprise the scale of the enterprise would be extended, and it was organized by another enterprise or the market, the scale of the enterprise did not change, and when the scale of the enterprise is extended, the added transaction cost in the enterprise equalled the cost to accomplish this transaction in the market or the cost of the added transaction organized by another enterprise.

- **The Lifecycle Theory**

The life cycle theory thought that as the life body would go through the life course from birth, growth to death, the enterprise would also experience the process from generation, growth, aging and death. As the flexibility of enterprise gradually decreases and the controllability of enterprise gradually increases and decreases. The enterprise growth can be divided into the growth stage, the regeneration or mature stage, and the aging stage. The growth stage includes gestation stage, infant stage and step-learning stage. The regeneration and mature stage includes youth stage and prime stage. The aging and death stage includes stabilization stage, noble stage, early bureaucracy stage, bureaucracy stage and death.

- **The Gene -Combination Theory**

That enterprise is regarded as an organism, and various influencing factors on the enterprise were looked upon as genes and chromosomes. The concept of “Biological Corporation” was proposed to explain enterprise growth theory based on the gene combination theory. Eternal life of the life body, “Biological Corporation”, rested with the believe that whether organizations have the ability to drive all systems to transform synchronously. The business transformation theory, believe that the role of the leader was the gene engineer of “Biological Corporation”. Just like the organism, because of the tiny mistake of Deoxyribonucleic acid (DNA) reproduction, certain gene will mutate, and the result of this mutation could be good or bad, and this mutation could limits the theoretical base, which induces last bad private enterprise growth and makes the individual develop to good direction. Therefore, the environmental changes do not mean good or bad, and the key problem is that the change means opportunity or threat for the “Biological Corporation”, i.e. the enterprise. So the transformation of “Biological Corporation” should be the transformation of various systems together.

2.2 NEED FOR GROWTH

The reasons which drive business enterprises toward growth are described below:

- Survival: In a competitive market no single enterprise can have monopoly. The competition can be direct or indirect. Direct competition comes from other firms manufacturing the same product. For example, there are many brands of shampoos available in the market. To survive the competition the manufacturer of each brand of shampoo has to continuously bring new versions of basic product to maintain an edge over his competitors. Indirect competition may come from availability of cheaper substitutes. Severe competition forces a firm to grow and gain competitive strength. Any business firm that fails to grow can’t survive for long. A growing concern will be an innovator and can easily face the risk of competition. Thus growth is means of survival in a competitive and challenging environment.

- Economies of Scale: Growth of a firm may provide several economies in production, purchasing, marketing, finance, management etc. A growing firm enjoys the advantages of bulk purchase of materials, increased bargaining power, spreading of overheads, expert management etc. This leads to low cost of production and higher margin of profit. This also ensures full utilization of plant capacity.

- Owners' mandate: The owners of a company get the ultimate benefit of growth in the form of higher profits. They may direct the management to reinvest a substantial portion of the earnings in the business rather than paying them out. Capable management may on its own like to take carefully calculated risk and expand the size of the company.

- Expansion of the market – Increase in demand for goods and services leads business firms to increase the supply also. Population explosion and transportation led to increase in the size of markets which in turn resulted in mass production. Business firms grow to meet the increasing demand. Expanding markets provide opportunity for business growth.

- Emergence of new Technology: Some business firms invest in research and development activities to create new products and new techniques, while others try to acquire latest technology from the market. Rationalization and automation results in more efficient use of resources and a firm may grow to obtain them.

- Prestige and Power: The more the size of the business firm increase the more is the prestige and power of the firm. Businessmen satisfy their urge for power by increasing the size of their business firm.

- Government Policy: In a planned economy like India, business firms operate under a large number of rules and restrictions. A big firm is in a better position to carry out the various legal formalities required to obtain licenses and quotas. Business firms may plan for growth to make use of the incentives provided by the government. The government provides certain subsidies and tax concessions to the new industrial units in the backward areas and those producing goods for export only.

- Self-sufficiency: Some firms grow to become self sufficient in terms of marketing of raw material or marketing of products. Growth in either or both of these forms reduces the dependency of the firm over other firms.

2.3 ADVANTAGES OF GROWTH

Business firms try to achieve growth in order to obtain the following advantages: for obtaining the economies of scale, for exploitation of business opportunities, for facing competition in the market by diversifying the product line, for providing protection against adverse business conditions e.g. Depression, for gaining economic and market power ,for raising profits and creating resources for further reinvestment into business, for making optimum utilization of resources, for securing subsidies, tax concessions and other incentives offered by
the government

2.4 LIMITATIONS OF GROWTH

Business firms cannot grow indefinitely. Growth has its own limitations which are:

- Finance: Growth, especially external growth, requires additional capital investment which is sometimes difficult for a small firm to arrange.

- Market: Growth can be achieved to the extent that the size of market permits. If a firm grows faster than increase in the size of the market, it is likely to face failure.

- Human Relations Problems: In a big firm, management loses personal touch with employees and customers. Motivation and morale tend to be low resulting in inefficiency.

- Management: Growth increases the functions and complexities of operations. As the number of functions and departments increase, coordination and control become very difficult. If the organization and management structure is not capable of accommodating them, growth may be harmful.

- Lack of knowledge: Under conglomerate growth, a firm enters new industries and new markets about which the managers know little. Managers find it difficult to find and develop managers who can quickly handle new units and improve their earning potential against heavy odds. Many growing firms could not succeed because their managers felt that they could manage anything anywhere.

- Social problems: From social point of view also big firms may be undesirable as they may lead to concentration of economic power and creation of monopolies which may exploit consumers. In their desire for growth firms indulge in combative advertising. The quickening growth creates a cultural gap when society finds it difficult to cope with technological change.

2.5 FORMS OF GROWTH

Once an entrepreneur understands some of the factors that influence growth and development, he can choose a suitable way for achieving it. Business growth can take place in many ways. Broadly, various types of growth can be divided into two broad categories – organic and inorganic growth.

- **Organic Growth**: It can also be termed as internal growth. It is growth from within. It is planned and slow increase in the size and resources of the firm. A firm can grow internally by ploughing back of its profits into the business every year. This leads to the growth of production and sales turnover of the business. Internal growth may take place either through increase in the sales of existing products or by adding new products. Internal growth is slow and involves comparatively little change in the existing organization structure. It can be planned and managed easily as it is slow. The ways used by the management for internal growth include: (I) intensification; (ii) diversification and (iii) modernization.

- **Inorganic Growth**: it can also be termed as external growth. It involves a merger of two or more business firms. An enterprise may acquire another business or may combine together to improve their competitive strength. External growth has been attempted by the business houses through the two strategies (a) mergers and acquisitions and (b) joint ventures. Merger again can be of two types: (i) a firm merges with other firm in the same industry having similar or related products. This type of merger leads to coordination problem between the two firms (ii) a firm merges with another firm in altogether different lines of business and have little common in their products or processes such a merger is known as conglomerate merger.

Inorganic growth is fast and allows immediate utilization of acquired assets. There is no risk of overproduction as the capacity of the industry as whole remains unchanged. Merger leads to combination of independent units to control competition, to gain economics of scale and also sometimes, to modernize production facilities. But merger also leads to social problem of monopoly, problem of coordination, strain on capital structure, etc. Thus, external growth involves problem of reorganization.

2.6 MEANING OF GROWTH STRATEGY

The term strategy means a well planned, deliberate and overall course of action to achieve specific objectives. Strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary to carry out these objectives. Growth Strategy refers to a strategic plan formulated and implemented for expanding firm's business.

2.7 TYPES OF GROWTH STRATEGIES

The following are the main growth strategies available to firms:

- **DIVERSIFICATION**: Beyond a certain point, it is no longer possible for a firm to expand in the basic product market. So the firm seeks increased sales by developing new products for new markets. This strategy towards growth is called diversification. The diversification does not simply involve adding variety in a product but adding entirely different types of products. Products added may be complementary. Diversification is a much talked about and widely used strategy for growth.

- **MODERNISATION:** A firm may use the strategy of modernization to achieve growth. Modernization basically involves upgradation of technology to increase production, to improve quality and to reduce wastages and cost of production. The worn-out and obsolete machines and equipment are replaced by the modern machines and equipment.

- **MERGER AND ACQUISITION:** Merger is an external growth strategy. When different companies combine together into new corporate organizations, such a process is known as mergers. Merger can occur in two ways: (a) Acquisition or takeover and (b) amalgamation.

Takeover or acquisition takes place when a company offers cash or securities in exchange for the majority shares of another company. It involves one company taking over control of another. Amalgamation takes place when two or more companies of equal size or strength formally submerge their corporate identities into a single one in a friendly atmosphere.

- **JOINT VENTURE:** When two or more firms mutually decide to establish a new enterprise by participating in equity capital and in business operations, it is known as joint venture. A joint venture is a business partnership between two or more companies for a specific business operation.

MODULE 3: SOURCES OF FUNDS

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3.0 INTRODUCTION

All businesses need money whether small or large. Irrespective of how bright a business opportunity might be, without good money to meet the challenges of exploiting the opportunity, the opportunity will be a wasted one. The finance journey is continuous; there may never be an arrival point. For any business to travel on a journey, it needs at all points of that journey to be appropriately financed. Choosing the right source of capital is a decision that will influence a company for a life time. Entrepreneurs have to be creative in their searches for capital as they are in developing the business ideas. Similarly, the type of financing one seeks depends largely on the start-ups. If a business is getting started, consider a loan from family, friends or a bank. As the business grows and reaches a larger market, equity funding may become a more viable option if one is willing to give up a portion of the business. In addition, adequate measures have to be taken to ensure utilization of funds for the purpose in which they were collected for. This will ensure adequate cash flow that will enable smooth repayment process of such a debt.

3.1 INTERNAL AND EXTERNAL SOURCES OF FUNDS

Internal financing is the term for a firm using its profits as a source of capital for new investment, rather than distributing them to firm's owners or other investors and obtaining capital elsewhere while external financing consists of new money from outside of the firm brought in for investment.

3.2. SOURCES OF FINANCE AVAILABLE FOR ENTREPRENEURS:

- **Personal Savings: Personal** savings is the most common source of financing for small business enterprises. It has to do with the personal money which the entrepreneur has been able to set aside for an intended business venture. This includes cash and any personal assets convertible into cash or to business use, for example, cash from family/ friends which is an informal form of financing falls into this category. This may also be from past savings, trust accounts or some other form of personal equity of the business owner. This is the least expensive method of financing and also the easiest as the decision to lend is made by the same persons wishing to borrow the fund.
- **Borrowing from Friends and Relations**

Funds can be raised for entrepreneurial ventures through borrowing from friends and relations. The amount to be raised through this source however, depends on the financial capabilities of the friends and relations and the relationship that exists between the business owner and his friends or relations. The repayment period and the interest payable are a function of the terms of borrowing which are usually determined by the lender.

- **Retained Earnings:** Funds can also be obtained through undistributed profits. A business owner may decide to reinvest part of his or her profit back to business for efficient operations of the business. This is also called plough-back profit and it shows the naira value of ownership rights that result from the business retention of its past income. In business, retained earnings are usually considered as an additional fund for financing the future growth of the business. Retained earnings are helpful as a last resort in business finance. The inability of the business owners in meeting up with the stringent conditions of the financial institutions usually makes the business owner come to fall back to their business reserves for funds rising.
- **Selling fairly used Assets**: Some fairly used assets can be sold off and the proceed can be used to acquire bigger and more modern assets.
- **Reducing short-term assets**: Entrepreneurs can practice just-in-time stock system as against the stocking of raw materials in large level. This system will reduce tying down of capital substantially and reduce fund needs.
- **Extended payment terms**: This entails the extending of payment terms so as to reduce pressure on available cash in the short-term. Although care must be taken to ensure good supplier relations and continuous sources of. Supply.
- **Efficient account receivable management**: When an entrepreneur manages its account receivable more efficiently, it means its debtors pay their bills or accounts in good time with the resultant improved cash flow.
- **Accrual Accounts:** This can also be called account payable. It represents the continually occurring current liability of a particular business. These include wages, interest, taxes

and other expenses that are payable in arrears. They are due but yet to be paid. Their repayment period is usually within a period of one year.

Some external sources are as follows:

- **Equity Financing:** Equity finance is a form of business finance in which funds borrowed to operate a business venture are not taken as loan but converted to equity which now makes the lender a part owner of the business venture where risk and profit are shared together. The amount of equity financing in a particular business may be ‘substantial subject to factors such as the nature of the business, the total amount of capital required and the interest of the investors.
- **Bank Loan:** A small business entrepreneur can approach bank for a loan. This is a common practice among established small business enterprises with good reputation doing business with a particular bank. Banks usually charge their borrowers interest in which borrowers will always go for the most favourable one common called a Prime Rate. Banks usually charge a higher interest rate to borrowers whom they perceive as having a higher risk of default. The bank interest rate also depends on the type of loan involved whether is fixed or variable. If the loan is fixed rate loan, the interest rate will be the same for the amount of money over the number of years involved. But if the loan is variable rate loan, the interest payable will vary periodically over the terms of the loan subject to the fluctuation of the market interest rates.

Bank loan can be given either on short term or long term basis. Short term bank loan usually covers between one month and less than one year, while long term bank loan covers a period that is more than year one.

- **Project Financing:** Project financing is the funding of a particular project by a financial institution. This can be a Source of funds only when the proceeds from the project are sufficient to repay the capital sum .Usually known as the principal which is the amount of money borrowed for the execution of the Project with interest accrued. The project will be used as the security for such loan and the advance is self–liquidating. In this case, the borrower‘s financial standing or position is less Important because the institution must ascertain the value of the project and ensure that the value is high enough to settle the amount of money borrowed by the contractor.

- **Venture Capital:** Venture capital is the money invested by individuals or venture capital firms in small and high –risk business enterprises. Venture capitalists are investors that invest in other people's businesses for the sole aim of profit making. They receive equity participation i.e. the equity ownership right of some proportion in the business enterprises they have invested their money in. They participate substantially in the management of the enterprises in which they have invested, holding board positions and working in close liaison with the enterprise's management team.
- **Debt Financing:** These are funds that the business owner borrows and must repay with interest. Borrowed capital maintains ownership of the business (unlike equity financing, which dilutes ownership) but is carried as a liability on Balance Sheet. In general, small businesses are required to pay more interest than large businesses because of perceived higher risks, that is, few percent above prime rate. Entrepreneurs seeking debt capital can have access to a range of credit options varying in complexity, availability and flexibility, both from commercial and government sponsored lenders.
- **Banker's Acceptance:** This is credit facility that involves a bank and its customer. It is a time draft payable at a stipulated date. It is an arrangement between the businessmen who produce goods for sale. The businessman customer then draws the acceptance credit paper requiring his banker to accept the responsibility of settling the bills pending when the goods will be sold. By placing its acceptance on the bill (acceptance credit) the bank has accepted a contingent liability as well as giving an indication that it will honour the bill upon presentation at maturity in case the customer defaults. A discount house usually evaluates the creditworthiness and reputation of the accepting bank. The maturity date is usually less than six months and it is mainly used in international trade.
- **Bills Discounting:** Bills discounting is a source of finance where the supplier of goods (creditor) writes a bill of exchange for the customer for acceptance. Immediate cash may be obtained by the supplier for his goods after the goods have been dispatched to the customer by discounting the bill with the bank or discount house after the bill has been

accepted by the debtor (customer). Other aspects of bill discounting involves Government securities such as Treasury Bills and certificates which can be surrendered before their maturity dates to banks or discount houses for purchase. The amount paid to the bill owner is less than face value.

- **Bank Overdraft:** Bank overdraft is an overdrawn bank current account and a short-term financial facility which is renegotiated every year depending on the performance of the business. It may be secured or unsecured depending on the amount of money involved. Bank overdraft is usually covered by personal guarantee of SME owners and carries a higher interest rate than a normal loan. Often this interest rate is higher than profit margin percentages, which makes it a very short-term loan for covering cash flow problems rather than to finance acquisitions or buy stocks. Before banks grant overdraft, the following factors are considered: the purpose for which the fund is required; the character of the entrepreneur; the management and financial position of the business; the capacity of the business and collateral security (this depends on the amount of money involved).
- **Inventory Financing:** Inventory financing is the use of inventory or stocks as collateral security for borrowing of fund. The stocks are usually placed under the control of the lender pending when the loan will be repaid. Note that not all stocks are qualified for such transaction. The marketability, durability and the price stability of the stocks must be considered before such stocks will be used for inventory financing.
- **Borrowing from Cooperative Societies:** A cooperative society is an association established by group of individuals who pooled their resources together to engage in a business transaction for profit making but mainly for the benefit of members. Depending on the financial capability of the cooperative society, it can provide funds for its members to start business or finance their business transactions. The amount that can be raised from cooperative society is subject to the financial commitment of the members. The repayment period is not usually beyond two years since the fund is provided on short-term sources of finance. The interest charged is also considerable low compared with commercial bank interest rates.

- **Hire Purchase**: Hire purchase is used when purchasing assets such as plant, equipment, machinery and vehicles. An initial deposit may be required followed by a series of instalment payment with an attached interest. The interest rate is usually controlled by the prevailing bank rate. Under hire purchase, agreement periods can range between 1 to 3 years depending on life span of the asset. Hire purchase is quick and easy to arrange, the security for agreement being the asset itself. Upon the payment of the initial deposit, the customer enjoys immediate use of the asset. The asset legally belongs to the owner of the asset and if the buyer defaults, the owner of the assets automatically repossesses his or her asset.
- **Leasing:** A lease is an agreement whereby the owner-manager (lessee) undertakes to make regular monthly payments to the financial institution (lessor) in return for the use of equipment belonging legally to the latter. The leasing instrument is used by SMEs to finance equipment (including vehicles) acquisitions. Operating leases function in such a way that the leasing company retains ownership and risks associated with the equipment (although insurance is mandatory). The lessor is therefore both the financier and the legal owner of the equipment. When the tenure of the lease ends, the lessee can decide to elect to purchase the equipment for a sum which must represent at 10% of the cost of the equipment. In lease financing, the following points are important and worth noting by any entrepreneur that wants to enter into lease agreement: Ownership of the asset does not rest with the business until the asset is sold at residual value at end of contract, capital allowances may be claimed by leasing institution but not by the business, lease payments are tax deductible that is, passed as expenses in Profit and Loss, leasing does not normally affect borrowing capacity unless financial legislation requires balance sheets to reflect leasing finance, period of repayment matches expected life of asset, immediate use of asset.
- **Factoring:** Factoring is a financing source that allows a business owner to raise fund based on the value of his or her invoices yet to be paid. Under factoring arrangement, an entrepreneur can outsource their sales ledger operations and maximize the use of sophisticated credit rating systems for their funding. Factoring arrangement can be with

or without recourse. It is with recourse if the factor company collects the amount due from other means upon the default of the debtor and without recourse, if the factor company bears the consequence upon default of the debtor.

- **Microfinance Banks:** Microfinance bank was established in 2005 by the Central Bank of Nigeria according to the provisions of Section 28, sub-section (1) (b) of the *CBN Act 24 of 1991(*as amended) and in pursuance of the provisions of Sections 56-60(a) of the Banks and other Financial Institutions Act (BOFIA) 25 of 1991. This was mainly to promote monetary stability and a sound financial system in the country. The establishment of microfinance banks is meant to expand the financial infrastructure of the country so as to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs).
- **Public Offerings:** Public offering is a financing option that is only available to companies that are well established. Businesses with sustainable growth potentials in the course of expanding their businesses might decide to use public offerings by 'going public' to raise required funds for their business operations. However, before a company decides to use public offerings as financing means, certain factors need to be considered. These factors include; the cost of the security, other financial obligation of the business, the prospect of the money market, issues concerning the ownership and control of the business. Public offering usually starts with selling of equity holding to the public and this is called initial public offering (IPO) in which stock is registered with the Securities and Exchange Commission (SEC). This is usually offered to the public through a registered Brokerage firm or an investment Banker and this gives the organization the opportunity to trade its shares in the floor of the stock exchange market. Public offerings usually result in long term sources of funds which include the following: Ordinary shares, Preference shares and Debentures

  i. Ordinary Shares: Ordinary shares represent the ownership position in an organization. Ordinary shares holders are also called shareholders and the risk bearers of the firm. Their rate of dividend is not fixed rather it depends on the discretion of the management. Ordinary shares can be issued at par, discount or premium. The rights of shareholders include: Right to participate in the annual general meeting and vote; Right to appoint a proxy; Right to have access to the organization's books; and Right to contribute to the appointment of members of the board.

ii.Preference Shares: Preference shares as a long term source of funds are certificates of ownership in organizations that usually have a fixed rate of dividends which must be paid before ordinary share dividends. It is considered as a hybrid security because it has many features of both ordinary shares and debentures. The types of preference shares include: cumulative and non-cumulative preference shares, redeemable and non-redeemable preference shares, participating and non-participating preference shares. The following features make preference shares to be in the class of ordinary share:

(i) The non-payment of dividends when the company is insolvent;

(ii) Dividends are not deductible for tax purposes; and

(iii) Some preference shares have no fixed maturity date.

On the other hand, the following features make preference share to be in the class of debenture:

(i) fixed rate of dividends;

(ii) Preference shares do not share in the residual earning of the firm; and

(iii) Preference shareholders have claims on the income and assets of the business before the ordinary shareholders in the time of winding up.

- **Debentures:** Debentures are certificates of debts and they are long term sources of funds that give the holders the opportunity to collect the principal amount at a fixed future date. Debentures have definite interest rate which is payable at annual basis until the capital sum of the amount borrowed is fully paid. They are issued in units of hundred and the interest rates depend on the prevailing interest rate in the money market and financial condition of the firm. The following are the features of debenture: Debentures are negotiable instruments; The interests on debenture are tax-deductible; They have a fixed coupon rate; Debentures are redeemable at specific date; Debenture holders do not participate in the control of the firm; and Debentures are secured either on floating or fixed assets.

3.3 FORMAL AND INFORMAL SOURCES OF FUNDS

Formal sources of funds represent those institutions that are registered with appropriate authorities to transact the business of finance with entrepreneurs. Examples of formal sources of funds include loans from commercial banks, insurance company etc. Formal financial services are usually provided by financial institutions that are controlled by the government and subject to banking regulations and supervision. On the other hand, informal sources of funds are provided outside the structure of government regulations and supervision. Examples of informal sources of funds include those groups or individuals that are involved in loan disbursement with little or no formal regulations e.g. Esusu, thrift savings scheme, cooperative society etc

MODULE 4: MARKETING

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4.0 UNDERSTANDING THE CONCEPT OF MARKETING

In understanding the concept of marketing we must first acknowledge that, different people have different meanings of the concept. To some it means advertising, selling, sales promotion, or a combination of all these. Others see it as selling or promotion. These are just some of the functions of marketing. Just a few would imagine or understand it as anything to do with needs assessment, market research, pricing and development.

Marketing has been variously defined. It is seen as the process of developing, promoting, and distributing products in order to satisfy customers' needs-and wants. It is also seen as" the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organizations objectives. Satisfying customer needs and wants are the primary focus. It assumes that the most logical starting point for any company planning is the customer and what is found therein forms the foundation for all strategic decisions. Businesses were not always consumer minded. At one time most firms were sales oriented. This meant that, they made and sold their products with regard for what people needed or wanted. At different stages companies tried different pitches to influence customers to buy.

Marketing affects everyone, the seller, buyer as well as the society; It affects the buyer in brand selection, awareness of the availability and features of the product, price, and the benefits of a product. Marketing affects the seller because the activities of marketing help in identifying the needs and wants of customers, what groups to satisfy, what type, mediums, and methods of advertising to employ, the design and price of a product. It also affects the society in that it ensures that products are safe and reliable to use and are environmentally safe. Most importantly it ensures that competition is in place, this allow for high quality goods and fair prices.

4.1Understanding the differences between small and large corporations marketing:

The classification by the Central Bank of Nigeria CBN in the National Policy for Micro, Small, and Medium Enterprises MSMEs (2005) solved the difficulties of defining what constituted a small, micro and medium business. Small businesses were defined by employment capacity of not less than 10 and no more than 50 and capital of not less than N5million and no more than N50million excluding land and building. Medium enterprises are defined by employment capacity of 50-500 employees and capital excluding land and building not less than N50-500million. Let us look at a few differences in the cultures and mindset of these organisations in terms of their approach to open innovation.

a. Speed of decision making: Large corporations with their abundance of silos and bureaucratic levels often require considerable time to make decisions, in contrast, smaller organizations decision making can be fairly rapid. Thus when these two sides come together in open innovation, the smaller company may find the speed of progress slow. At the same time, people from large-organizations will be troubled by the constant desire to move faster which significantly increases tendencies' for frustration on both sides.

b. Attitude toward risk: How large and small companies feel about risk-taking can vary considerably. Where the organization is small as start-up or in a fast growth stage, the organization at all levels will wholly embrace risk because at these points the whole business is risk. However, in large organizations people have always wanted to keep things as they have always been than trying something potentially risky and new. This also can cause frustration on both sides.

c. ***Allocation of resources:*** Resources are scarce and are therefore allocated based almost solely on whether they will boost the bottom line. This bottom line focus may not be different in large corporations. However, in a small company every Naira counts. Again, this can lead to frustration when the two sides engage in an open innovation partnership. Generally, however, the approach to marketing is the same.

Understanding differences between customer and a consumer: In order to use the marketing concept effectively, students must first acknowledge the distinction between customer and consumer. This is very significant for effective practice. Customers buy a product. Consumers use it. An adult who buys a packet of cereal (Cornflakes) is most likely customer and consumer. However, if the adult is a parent this assumption might not be true. The adult may be buying the cereal for a child. Imagine how this might complicate the task of a marketer. To appeal to children, the cereal might have to be heavily sweetened. For the parent, it must meet the adults' standards for nutrition.

MODERN MARKETING TOOLS

In order to respond to customers' needs and preferences, businesses must first know who their customers are. To find out they must study the market for their product. That is to identify the group of all potential customers who share common needs and wants and who have the ability and willingness to buy the product. The following considers how businesses approach and identify their customers.

Identifying your customer: Any organization that decides to operate in any market will find out that there are too numerous buyers, differing appeals and practices. Buyers are widely scattered and it cannot serve all the buyers. Instead of competing everywhere, firms identify the most attractive segments of the market that it can serve effectively. Generally however, firms adopt either of the following;

- **Mass marketing**. A style of marketing where the seller mass produces and mass distributes one product and attempts to attract all sorts of buyers. The seller pay's little or no attention to differences in demand. The argument is that mass production leads to lowest cost and prices and creates the largest potential market.

- **Target marketing comprises two major steps**. The first is market segmentation; the act of dividing the market into distinct and meaningful groups of buyers who might merit certain products and/or marketing mixes. The second step is target marketing; the act of selecting one or more of the market segment and developing a position and market mix strategy for each.

MARKET SEGMENTATION

All markets consist of buyers and buyers differ in one or more respects. They vary on the basis of their desires, geographical locations, buying attitudes, buying practices and so on. Any of these variables could be used to segment market. There is no one way or right way of segmenting the market. A market can be segmented in a number of ways by introducing new variables and seeing which reveal the best market opportunities. However, markets are broadly segmented on the basis of;

- ***Geographic Segmentation:*** Here the market is divided into different geographical entities i.e., states, countries, neighborhood, cities, regions based on the assumption that buyers needs vary geographically. The company may decide to operate either, in one or more of the segments as a specialist in meeting the needs of that entity or, operate broadly but pay attention to varying geographical consumer preferences and buying practices. Other companies also distinguish their geographical markets based on market potential, and so on. A company may distinguish between geographical markets on the basis of years since the brand was introduced. These groups consist of embryonic markets-one to five years growth markets-six to ten years, and mature markets. Different resources and marketing strategies are employed for these different groups.

- ***Demographic segmentation:*** In demographic segmentation the market is divided into different groups on the basis of demographic variables such as age, sex, income occupation, religion, race, family size, family life cycle and nationality. Demographic variables have been the most popular basis for distinguishing markets groups. One reason is that consumer preferences and wants and usage rate are mostly associated with demographic variables and are most easily measured than all other variables.

- ***Psychographic Segmentation:*** This is an extension of the demographic variable. Demographic variables do not necessarily reveal much about the attitudes and life-styles of customers. People within the same demographic group may reveal different attitudes and so buyers are divided into different groups on the basis of their social class, life-styles and personality characteristics.
- ***Behavioristic Segmentation:*** Also called product related segmentation. Buyers are divided into groups on the basis of their knowledge, attitude, use or response to an actual product or its attributes. Marketers believe these variables are the best starting points for creating effective market segmentation. Here markets are segmented on the basis purchase occasion, benefits sought; buyers are segmented on the basis of the particular benefits that they seek in products they purchase, usage rate; this could also be called *volume segmentation.* Here marketers are divided into light, medium and heavy user groups. A market can also be segmented based on the loyalty patterns of consumers. This is known as *loyalty segmentation.* Buyers can be divided into four groups according to their loyalty status e.g., hard core loyals, soft core loyals, shifting loyals, and switchers.

Developing a Customer Profile: If you combine geographic, demographic, and psychographic data a remarkably complete picture of a prospective customer begins to emerge. This picture is called a customer profile. As .an example, consider *"gari'* and *"fufu"* with *afang soup* consumption. Who consumes what and where? Manufacturers use geographic (regions of the country), demographics (ethnicities), and psychographics (culture) to find out and reveal patterns in regional preferences.

Reaching your Customers: Assume you now know who your customers are, you have a profile. Assume also that you have a product, matched to the needs and wants of your customers. The task, now, is to bring the customer and the product together. This implies that a series of key marketing decisions must be taken to include Targeting and Positioning.

TARGETING YOUR MARKET

Market segmentation would have at this point clearly reveal opportunities. The company will have to decide which of the markets it can effectively serve. Target marketing is focusing of all marketing effort on the specific group of people you want reach, With more information of your target market the easier it becomes to make effective and efficient marketing decisions. Once a target is identified, marketers have the task of making strategic decisions in four key broad areas known as the four P's otherwise known as the marketing mix.

3. THE MARKETING MIX (4PS)

A. The Product

When closely examined, the first P of the marketing mix is a complex and a multidimensional concept. Every offering of an organization to a target market consist of the product mix that is made of product lines and each product line consist of product items. Each product item is a physical product plus packaging plus branding plus service. The organization has to take strategic decisions and develop an optimum mix on these.

Packaging: One of the most interesting features of a product is the packaging. The packaging of a product is so important that one-third of certain products are repackaged every year. Packaging should be attractive and or sometimes double as a reusable container. Many products containers have become collector's item.

Branding: An intimate aspect of the product strategy is the brand. Branding can add value to the product and therefore sellers are confronted with issues in branding. The brand is the name, sign, symbol or design or a combination of all these which is intended to identify the goods or service of one seller or a group of sellers and to differentiate them from those of competitors. Today hardly is anything sold unbranded. Even eggs are branded today. However, it is commonly seen as an intervention of the seller to primarily serve their own purpose. Generally however brands tell the buyers something about product quality contribute to shopping efficiency and help call attention of customers to new product offerings that might benefit them. One will wonder why resort to branding when it adds to costs. It turns out that branding gives the seller several advantages including making it easier for the seller to track down orders and handle problems; providing legal protection especially when there are unique features that could easily be copied by competitors and giving the seller the opportunity to attract a set of loyal customers whose regular purchase' give it more sales stability and long-run profits.

Service: Finally, customers expect important service elements to be included in the product and also want the right amounts and quality of service. For example, If bank customers face lengthy line and frowning tellers, they will be inclined to change or switch to another bank.

B. Price: Prices are all around us, in rates, rent, fares, taxes for the privilege of making money etc. Many considerations must be taken into account before setting the price of a product. Price will be a major determinant of demand and a major influence on the setting of other marketing mix variables. It is the only element of the marketing mix that creates sales revenue the others are costs.

Setting the Price:

Before prices are set, companies have to clarify the target market for the product and the company's marketing objective. The following are some of the most common marketing objective alternatives:

i. ***Current Profit Maximization:*** A simple model worked out by economists for pricing to maximize profits assumes that the firm can estimate the demand level and therefore the total revenue at each possible price. It can also locate the total cost at each possible price. The firm now locates the price that produces the greatest difference between total cost and total revenue, that is, the highest profit. This is the optimal

ii. **Market-share Leadership:** Also called market penetration pricing. Sellers believe that long-run profitability is associated with achieving a dominant market share. Companies set prices as low as possible in a deliberate attempt to dominate the market.

iii. **Market Skimming:** Some buyers are willing to pay more than others because the product has a high current value to them. Firms take advantage of this. They set a high place to yield profit margins per unit sold. But this means fewer units sold.

iv. **Product Quality Leadership:** A company might adopt the objective of being the product quality leader in the market and this might call for charging high price to cover the high quality and high cost of research to improve the product.

C. **Promotion:** These constitute effort by marketers to inform and remind the customers in the target market about their products and to persuade them to participate in an exchange. The combination of promotional tools for the purpose of this process is known as the promotional mix. These tools include advertising, personal selling, sales promotion, and public relations and lately even internet promotions. The whole idea is to create a brand (total product) image that will meet both the marketing and promotional goals of the firm. There are basically six steps undertaken to establish a promotional campaign. First, the marketer has to identify the target market, define the objective of each of the elements of the promotional mix, develop a unifying message, implement the plan, and evaluate the effectiveness because it' is important to evaluate what is working and what is not. The objectives of advertising are first is to inform the target audience about the product or service for example, information on its use, place of purchase and to create or stimulate demand for the product or service through persuasion.

At the tail end, a minimum level of advertising must be maintained to achieve the objective of retaining the loyalty of current consumers and attract new users of the product. The brand image of the product must be maintained because in the future the product may be in abundance and well known products command higher market share.

D. **Place** Getting the product to the customer when and where they want it is critical to market success. Organizations exist that specialize in the distribution of products called *intermediaries or middle-men as they are traditionally called.* When goods are efficiently made accessible to customers, certain utilities or value is added to goods. These utilities include Form, Time, Place, Information, Possession, and Service utilities.

Take a notice of the different kinds of phones that you and your colleagues use. Imagine the challenges of getting the raw materials together, making millions of phones as Nokia does, and then distributing them throughout the world. There are thousands of intermediaries whose jobs is to move goods from the raw material state to producers and then to customers. Channels of distribution consist of a whole set of market intermediaries such as agents, brokers, whole sellers and retailers, that join together to transport and store goods in their paths from producers to consumers.

4. UNDERSTANDING UNIQUE AND SELLING PROPOSITIONS

Developing a Positioning

Authors have defined positioning as "what you do to get into the minds of the respect". When you position a product, you try to get consumers to think of it in a certain way" You especially want consumers to distinguish it from competition. But how do marketers decide where to position their products? The inspiration comes from a number of sources including;

i. Competitors Weaknesses; marketers often play to the weaknesses of competitors. This however is essentially a negative approach that must be used with care. This approach implies positioning your product .as a substitute to competitors.

ii. Looking for holes in the market place; another approach is to identify what customer needs and preferences are not being addressed. Or what potential customers are not being reached. This approach is particularly suitable for small, new or relatively unknown ventures competing against large corporations. The idea is to find a niche that is not important to market leaders.

iii. Leading with your strength; if your venture is small, new or virtually unknown, you must find a unique selling point or rather strength upon which to build a position. For example, when 7up found it was the choice of people who did not want to drink cola, it positioned itself as the "uncola".

iv. Targeting different market segments; marketers position their products by targeting different market segments. This kind of positioning is often used to differentiate similar products made by the same company to strategically reach entirely different socio-economic groups. This practice helps to several markets at the same time. For example, a firm may decide to target value shoppers with a product by selling it in high street departmental store while targeting mass merchandisers in a local city grocery store.

It is noteworthy, that a particular positioning is not a permanent identity. The way a product is characterized can change with time and shifts in the market place. Therefore business must be vigilant and must continually evaluate the effectiveness of their positioning and the attitude of their target customers.

MODULE 5: NEW OPPORTUNITIES FOR EXPANSION

E-BUSINESS: This is the conducting of business on the internet, not only buying and selling, but also serving customers and collaborating with business partners. Organizations realize that putting up simple web sites for customers, employees, and partners does not create an e-business. E-business Web sites must build a sense of community and collaboration, eventually becoming the port of entry for business.

E-BUSINESS MODELS: This is an approach to conducting electronic business on the internet. E-Business transactions take place between two major entities-businesses and customers. All e-business activities happen within the framework of two types of business relationships:

(1) The exchange of products and services between businesses (business-to-business, or B2B) and

(2) The exchange of products and services with customers (Business-to-customers or B2C).

The difference between B2B and B2C are the customers; B2B customers are other businesses while B2C markets to customers. Overall, B2B relations are more complex and have higher security needs; plus B2B is the dominant e-business force, representing 80 percent of all online business.

- **BUSINESS-TO-BUSINESS (B2B)**

Business –to-Business (B2B) applies to business buying from and selling to each other over the internet. Online access to data, including expected shipping date, delivery date, and shipping status, provided either by the seller or a third –party provider is widely supported by B2B models. Electronics market places represent a new wave in B2B e-business models. Electronic market places and e-market places are interactive business communities providing a central market where multiple buyers and sellers can engage in e-business activities.

- **BUSINESS –T0-CUSTOMERS**

This applies to any business that sells its products or services to customers over the internet. The models include e-shopping and e-mall.

- **CUSTOMER –TO –BUSINESS (C2B)**

This applies to a business over the internet. One example of this e-business model is priceline.com where bidders set their prices for items such as airline tickets or hotel rooms, and sellers decide whether to supply them. The demand for C2B e-business will increase over the next few years due to customer's desire for greater convenience and lower prices.

- **CUSTOMER-TO-CUSTOMER (C2C)**

This applies to sites primarily offering goods and services to assist consumers interacting with each other over the internet. E-Bay, the internet's most successful C2C online auction Web site, links like-minded buyers and sellers for a small commission.

E-COMMERCE

This is the buying and selling of goods and services over the internet. It refers only to online business on the internet, not only buying and selling, but also serving customers and collaborating with business partners. The primary difference between e-commerce and e-business is that e-business also refers to online exchange of information. For example, a manufacturer allows its suppliers to monitor production schedules or a financial institution allowing its customers to review their banking, credit card, and mortgage accounts.

Electronic Commerce can also be defined as buying and selling of products, services or information via computer networks mainly the internet. As the fastest growing facet of the internet and other information technologies,

BENEFITS OF E-COMMERCE

Electronic commerce has become very popular because of the benefits and convenience it brings along. The benefits include: Product promotion, cost saving, timely information, shortened remittance time, information consistency, better customer services, better customer relationship, customization/ personalization of products, competitive advantages and convenience of doing business.

ELECTRONIC TRADING DEFINED

The term “electronic trading” encompasses a wide variety of systems, ranging from simple order transmission services to fully fledged trade execution facilities. An ET system is a facility that provides some or all of the following services: electronic order routing (the delivery of orders from users to the execution system), automated trade execution (the transformation of orders to trades) and electronic dissemination of pre-trade (bid/offer quotes and depth and post-trade information (transaction price and volume data). A narrow definition of ET systems is limited to facilities that automate all aspects of the trading process, including trade execution.

MODULE 6: CONCEPTS OF BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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Ethics, in the simplest term, involves learning what is right or wrong. When this word is applied to the world of business it is called business ethics. Simply put, business ethics involves knowing what is right or wrong in a business environment and doing what is right with regard to effects of products or services and in relationships with stakeholders.

Business ethics is the applied ethics discipline that addresses the moral features of commercial activity. According to Wikipedia (2012), business ethics otherwise referred to as corporate ethics represent a form of applied ethics or professional ethics that examines ethical problems that arise in a business environment. It applies to all aspects of business conduct. The range and quality of business ethical issues reflect the interactions of profit – maximizing behaviour with non-economic concerns. Business ethics and the resulting behaviour are in state of constant evolution. It is a form of applied ethics that examines just rules and principles within a commercial context, the various moral or ethical problems that can arise in a business setting and any special duties or obligations that apply to persons who are engaged in commerce. Generally speaking, business ethics is a normative discipline whereby particular ethical standards are advocated and then applied (Tabije, 2012). On the other hand, social responsibility is an aspect of business ethics concerned with the need for business to try and serve their local community and help its employees lead better life. Social responsibility requires that the entrepreneur looks beyond making profits alone but pays attention also to how to relate with the host community of his venture and his employees in a way that promotes good will.

Features of Business Ethics

The following are the features of business ethics as identified by Akrani (2011):

1. **Code of Conduct:** Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society.

2. **Based on Moral and Social Values**: Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes; self-control, consumer protection and welfare, service to society and fair treatment to social groups amongst others.

3. **Gives Protection to Social Groups**: Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.

4. **Provides Basic Framework:** Business ethics provide a basic framework for doing business. It gives the socio-cultural, economic, legal and other limits of business. Business must be conducted within these limits.

5. **Voluntary:** Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

6. **Requires Education and Guidance:** Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

7. Relative Term: Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

The Need for Business Ethics

The points below discuss the need for ethics in business:

- **Stop Business Malpractices:** Some businessmen engage in business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.
- **Improve Customers' Confidence:** Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules.

- **Survival of Business:** Business ethics are needed for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run when discovered by the customers.

- **Protecting Employees and shareholders:** Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.

- **Develops Good Relations:** Business ethics are important to develop good and friendly relations between business and society.

- **Creates Good Imag**e: Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticized by the society. The society will always support those businessmen who follow this necessary code of conduct.

- **Smooth Functioning**: If the business follows all the business ethics, then there will be absence of disruption in the relationship among employees, shareholders, consumers, dealers and suppliers. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.

- **Consumer Satisfaction**: Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics.
- **Importance of Labour**: Labour, i.e. employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. The employees must also be given proper welfare facilities.

- **Healthy Competition**: The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. They must not do cut-throat competition. Similarly, they must give equal opportunities to small-scale business.

Ethical Principles for Entrepreneurs

Ethical Principles are ethical values translated into active language establishing standards or rules describing the kind of behaviour on ethical person should and should not engage in (Josephson Institute, 2010). The following principle represents the kind of behaviours expected from every ethical entrepreneur (business executive) as presented by Josephson Institute (2010).

- **Honesty:** The virtues of honesty and truthfulness are the hallmark of ethical executives. Such entrepreneurs do not deliberately mislead or deceive others by misrepresentations, over-statements, partial truths, selective omissions, or any other means.
- **Integrity:** In a nutshell, ethical entrepreneurs are principled, honourable and upright. They courageously fight for their beliefs. They exhibit personal integrity and the courage of their convictions by doing what they consider to be right even in the face of pressure to do otherwise.

- **Promise-Keeping and Trustworthiness:** Ethical entrepreneurs make a very reasonable effort to fulfil the letter and spirit of their promises and commitments. They are trustworthy. They call a spade by its name. They do not interpret agreements in an unreasonably technical or legalistic manner as a means of rationalizing non-compliance, or creating justifications for escaping their commitments.
- **Loyalty: Ethical** entrepreneurs are ever loyal to persons in their business organization and the organization they are working for. They demonstrate friendship in adversity, and support and devotion to duty. They do not divulge confidential information no matter what they personally stand to gain by so doing. Such executives ensure they do not compromise their right to independent professional judgment by guarding against undue influences and conflict of interest. They cannot accept another employment without providing reasonable notice to their former employer. They will ever refuse to seek cheap popularity with their new organization through castigation of their former employers or engaging in any activities that take undue advantage of their previous positions.
- **Fairness:** Ethical entrepreneurs are fair, just, and treat individuals equally. They tolerate and accept diversity, are willing to admit they are wrong and, where appropriate, are to change their positions and beliefs. They do not exercise power arbitrarily, and neither use overreaching nor indecent means to gain or maintain any advantage. They do not take undue advantage of another's mistakes or difficulties.
- **Concern for Others:** Ethical entrepreneurs strive to achieve their business objectives in a manner that causes the least harm and t he greatest positive good. They treat others the way they would like to be treated. They are caring compassionate, benevolent and kind.
- **Respect for Others:** One of the traits of ethical entrepreneurs is respect for others. They show great respect for the human dignity, autonomy, privacy, rights and interests of all stakeholders in their decisions. They are imbued with the sense of courtesy. They treat all persons with equal respect and dignity irrespective of gender, race, socio -economic status and race.

- **Law Abiding:** Ethical entrepreneurs meticulously abide by laws, rules and regulations guiding their business activities.
- **Commitment to Excellence:** Ethical entrepreneurs are sticklers to excellence. In the performance of their duties they are informed and prepared and always striving to increase their proficiency in all areas of responsibility.
- **Leadership:** Ethical entrepreneurs appreciate the responsibilities and opportunities of their position of leadership. In keeping with this they strive to be positive role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.
- **Reputation and Morale:** Ethical entrepreneurs appreciate the need to maintain their organizations' good reputation while at the same time building the morale of their employees. They do these by engaging in no conduct that might undermine respect and taking whatever actions are necessary to correct or prevent inappropriate conduct of others.
- **Accountability:** Ethical entrepreneurs are willing to be held accountable for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

Importance of Ethics in Business

The importance of ethics in business cannot be overemphasized. The importances are as follows:

1. Provision of Moral Compass

During times of fundamental change, values that were previously taken for granted tend to be strongly questioned. Many of such values are no longer adhered to. Leaders and staff at such periods are left with no clear moral compass to guide them through complex dilemmas about what is right or wrong in the business environment. It is at such moments of crises and confusion that the beauty of business ethics manifests since the ethics provide them with the moral compass to navigate the troubled times.

2. Ethics implicitly regulate area and details of behaviour that lie beyond governmental control. This is necessary because much as governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions, not all areas and details of business lie within such controls. For example, governments may establish minimum wage but how much a worker is paid beyond the minimum wage is expected to be addressed by business ethics.

3. To meet stakeholder's expectation

Stakeholders have the right to expect a business to be ethical. If business has no ethical obligation, other institutions could make the same claim which would be counterproductive to the corporation (Duska, 2007).

4. Definition of the rights and duties between a company and significant others.

Business ethics help to define the rights and duties between a company and its employees, suppliers, customers and neighbours. They also help to define the company's fiduciary responsibility to its shareholders (where applicable) as well as how companies should relate to other companies or business ventures.

5. Enhancement of business performance

Studies have shown that good CSR correlates positively with good business performance in the long run. It must be noted that CSR is an aspect of business ethics hence this positive correlation is seen as one between business ethics and performance.

6. Others

Other values accruing firm business ethics in general and CSR in particular include the following identified by Akinjide – Balogun (2001).

· Building long – term shareholder value, corporate financial stability and sustainability.

· Consumer and customer approval and loyalty;

· Promoting self-regulation and deterring government regulatory intervention; and enhancing corporate reputation.

MODULE 7: MANAGING TRANSITION IN BUSINESS

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PHASES AND STAGES OF GROWTH

INTRODUCTION

In business, change is the way things will be different, and transition is how you move people through the stages to make change work. Efforts at leading change, however, can be serious, if not outright disastrous, unless the entrepreneurs manage transition. Yet managing transition well is often the most neglected part of a change initiative (Stevens, 2008).

Entrepreneurs manage business transitions from one state to another in one or two basic ways, either the business transforms itself i.e. do things differently, or it can replicate its existing routines, processes and actions. The steps involved are identifying the needs, setting up the transition team, laying out the plan, getting inputs from stakeholders, finalizing the plan, clearing the path and marking the progress of the transition by milestones. The managers should recognize that challenges might arise in the process of transition and the same should be resolved to ensure success.

TRANSITION IN BUSINESS AND PHASES OF BUSINESS GROWTH

The Phases of Business Growth

Most people agree that organizations have a life cycle; that, like people, businesses pass through some identifiable stages. Some authors have identified four stages, some five, some six while some seven. In spite of disagreement in number, the important thing is that all authors agree that movement from one stage to the next must be managed. Failure to do this might lead inevitably to the demise of the business.

Michael Masterson (Ready Fire Aim Book), proposed four (4) stages of business growth: start-up/infancy, fast growth/childhood, adolescent and maturity. While Larry E. Greiner originally proposed the Greiner Curve in 1972 with five phases of growth. Later, he added a sixth phase (Harvard Business Review, 1998). The six growth phases are: growth through creativity, growth through direction, growth through delegation, growth through coordination and monitoring, growth through collaboration and growth through extra-organizational solutions. A combination of the works of these two authors gives a better understanding in the phases of business growth.

PHASE ONE

Start up/infancy (growth through creativity)

An **overview for this phase** is that the entrepreneurs who founded the firm are busy creating products and opening up markets. There aren't many staff, so informal communication works fine, and rewards for long hours are probably through profit share or stock options. However, as more staff join, production expands and capital is injected, there's a need for more formal communication. This phase ends with a **Leadership Crisis**, where professional management is needed.

PHASE TWO: Fast growth/childhood (growth through direction)

An **overview for this phase** is that growth continues in an environment of more formal communications, budgets and focus on separate activities like marketing and production. Incentive schemes replace stock as a financial reward. However, there comes a point when the products and processes become so numerous that there are not enough hours in the day for one person to manage them all, and he or she can't possibly know as much about all these products or services as those lower down the hierarchy. This phase ends with an **Autonomy Crisis:** new structures based on delegation are called for.

The fast growth/childhood phase of business is characterized by an increase in employee size and income. The main task should be on aggressive proliferation of new products or goods and services. The manager/entrepreneur is to focus on how to double the business revenue.

PHASE THREE: Adolescent (growth through delegation)

This is characterized by more employees and revenue. The focus of the Entrepreneur is fostering growth through delegation.

PHASE FOUR: Maturity (growth through coordination and monitoring)

An **overview for this phase** is that growth continues with the previously isolated business units re-organized into product groups or service practices. Investment finance is allocated centrally and managed according to Return on Investment (ROI) and not just profits. Incentives are shared through company-wide profit share schemes aligned to corporate goals. Eventually, though, work becomes submerged under increasing amounts of bureaucracy, and growth may become stifled. This phase ends on a **Red-Tape Crisis, and** a new culture and structure must be introduced, which is known as the; the maturity phase. It is characterized by large number of employees. The opportunities of Phase 4 business include selling your business privately, and taking your business public.

PHASE 6: Growth through extra-organizational solutions

Greiner's recently added sixth phase suggests that growth may continue through merger, outsourcing, networks and other solutions involving other companies. Growth rates will vary between and even within phases. The duration of each phase depends almost totally on the rate of growth of the market in which the organization operates. The longer a phase lasts, though, the harder it will be to implement a transition.

Difference between change and transition in business

It is important to note that there is a difference between change and transition.

· **Change** is an observable event that often occurs very quickly – e.g. you get a major promotion to a new level of responsibility. Transitions are challenging due to the amount of energy it takes to learn new behaviours and make emotional re-adjustments (Stevens, 2008).

· **Transition** is defined as the process in which something changes from one state to another (Collins Cobuild English Dictionary). Real change is about doing something about it. It is not the failure to identify change that hurts organizations. It is the failure to implement change that hurts organizations. And implementing change is a transition.

· Change is made up of events, while transition is an on-going process.

· Change is visible and tangible, while transition is a psychological process that takes place inside of people.

· Change can happen quickly, but transition, like any organic process, has its own natural pace.

· Change is all about the outcome we are trying to achieve; transition is about how we will get there and how we will manage things while we are en route. Getting people through the transition is essential if the change is actually to work as planned.

Managing Transition from Start up to Growth: The STARS Model

All businesses go through natural stages of development and evolution. Businesses are dynamic entities with somewhat predictable courses of action derived from their natural product/industry growth cycle and their specific current business situations. A business must adjust and adapt to survive – no matter the economy. They need to understand and be responsive to changes in the marketplace. This requires strong leadership, a strategic plan and good information about the marketplace among others. This means that business owners must make necessary changes from time to time and know how to manage transition effectively.

The number one reason why most businesses (small and large) are failing today is that they do not recognize the need for a transition nor did they manage the transition effectively**.** Some business leaders, who know that there is a need to manage transition, do not know where to get started and how to make the changes that will ultimately lead to sustainable business success. Where to start is to acknowledge that all business ventures must have a start –up.

The STARS Model

The STARS model (Watkins 2003, 2009) provides a perspective on business evolution and development that identifies the most common business transition:

• Start-up

• Turnaround

• Accelerating growth

• Realignment

• Sustaining success.

These are some of the most important aspects to be effectively managed during the start-up phase:

· Have good vision, get your vision right, get your strategies right and get your action plans right.

· Assemble a talented business team.

· Gather sufficient capital and operating cash.

· Work to remove problems in your production system.

Turnaround stage: A turnaround is critical when there is a need to save a failing business. It is similar to radical surgery to save the life of the business. The focus should be on business restructuring and obtaining external advice as needed. It is a period when employees may be demoralized and facing layoffs, when decisions have to be made under time and financial pressures. A turnaround may still fail, due to poor handling of required changes of the new management in the form of wrong decisions, inappropriate timing, no sense of urgency/ slackness, or complacency.

Thus, what you need is to re-evaluate your business plan and make the necessary changes to the strategies, markets, products, or technologies that are not working. More importantly, you need to:

· Learn and understand what went wrong in the business and communicate it to your employees

· Remove any non-core business activities

· Make faster and bolder moves

· Clean house at the top

· Secure early wins

· Create supporting alliances

Managing and Accelerating growth: There are times when entrepreneurs have to deal with the challenges and opportunities of increasing demand. Opportunities arise from a demonstrated potential for growth, which help to motivate stakeholders through earnings, revenues or bonuses. Your focus should be on managing the pressures of scaling up production by ensuring the resources required, improving the existing systems, and creating new business structures.

PLANNING AND DECISION MAKING IN TRANSITION SITUATION

Planning can be defined as the process of setting objectives and putting up the necessary steps to achieve the objectives. It is the process of determining a desired future and the steps necessary to bring it about. It involves setting objectives, forecasting the environment, analyzing problems and taking decisions. Taking rational decisions on transition in a business organization is not possible without proper planning.

Principles of Planning

The aim of every plan and the supporting plans is for the entrepreneur to be able to achieve his organizational objectives. In addition to knowing the steps in the planning process, it is also necessary for the entrepreneur to know the planning principles. The important principles of planning are: primacy of planning, contribution of planning to objective, efficiency of plans, planning comprehension, flexibility and planning control.

Eight Steps in the Planning Process: The eight steps in the planning process below are essential for effective planning:

1. Analyzing the environment/identifying investment opportunity

2. Setting objectives

3. Forecasting the environment/developing the planning premise

4. Determining alternative courses of action

5. Evaluating the alternative courses of action

6. Selecting a course of action

7. Formulating support plans

8. Budgeting for the plan.

The benefits of planning:

· Maximizes Company value

· Minimizes or defers estate and income taxes

· Controls how and when you exit

· Sets and helps establish actions to achieve your business and personal goals

· Determines the path for moving away from the day to day business responsibilities

· Ensures survival of the business and strategies for growth

· Preserves family harmony

. Reduces employees and family uncertainty

. Produces strategic option for which to choose

DECISION MAKING IN BUSINESS TRANSITION

Introduction: A decision is a choice made from at least two alternatives while decision-making involves the selection of one alternative from two or more possible alternatives, based upon some criteria. Decisions can either be programmed or non-programmed. However, to make an effective decision, a manager should create a constructive environment, generate good alternatives, explore these alternatives, choose the best alternative, check the decision, communicate the decision, and take necessary actions.

Definition of Decision Making: Decision-making is the process of identifying and selecting a course of action to solve a specific problem. Decision-making involves the selection of one alternative from two or more possible alternatives, based upon some criteria. Decision-making is the art and science of giving thought to, and making a choice or judgment about an idea or a problem.

Which machine do we buy? When should we computerize? How do we cope with declining productivity? How do we adjust to a new government regulation? All of us have to make decisions every day. Some decisions are relatively straightforward and simple: Is this report ready to send to my boss now? Others are quite complex: which of these candidates should I select for the job?

Simple decisions usually need a simple decision-making process. But difficult decisions typically involve issues like these:

· **Uncertainty** - Many facts may not be known.

· **Complexity** - You have to consider many interrelated factors.

· **High-risk consequences** - The impact of the decision may be significant.

· **Alternatives** - Each has its own set of uncertainties and consequences.

· **Interpersonal issues** - It can be difficult to predict how other people will react.

With these difficulties in mind, the best way to make a complex decision is to use an effective process. Clear processes usually lead to consistent, high-quality results, and they can improve the quality of almost everything we do.

Programmed Versus Non-Programmed Decisions

Programmed decisions are routine and repetitive decisions that are associated with standardized decision rules. They are often made in accordance with written or unwritten rules, procedures, policies or regulations. For example, deciding how much to pay a newly employed.

Non-programmed decisions are decisions that occur so infrequently that standardized decision rules to solve them are not available. They are unusual or exceptional problems, which have not come up frequently enough to be covered by a policy, or are so important that they must be specially handled. For example, how do we cope with the issue of business transition, stress, declining sales or how do we restructure the organization for efficiency?

Seven steps in the non-programmed decision-making process:

· Define the Problem

· Recognize the need for the problem

· Develop alternatives

· Evaluate alternatives

· Select the best alternative

· Implement the best alternative

· Monitor and evaluate the results.

Conditions under which Managers make Decisions

In general, managers make decisions under three possible conditions, namely: certainty, risk and uncertainty. Each of these conditions is briefly discussed below.

i. Decision-making under conditions of certainty: Under conditions of certainty, a manager will have had enough information to know exactly what the outcome of his decisions will be. With enough information at his disposal, it simply becomes convenient for him to act as if a condition of certainty exists. The results or outcomes of such decisions are known with certainty.

ii. Conditions of risk: Conditions of certainty are the exception rather than the rule in today's complex, rapidly-changing business organizations. Under this, managers can know the probability of each of the various possible outcomes associated with a decision, even though they cannot be completely certain which particular outcome will actually occur.

iii. Conditions of uncertainty: When the exact probabilities attached to the alternatives available to a decision-maker are unknown, a condition of uncertainty is said to exist. Most managerial decisions involve varying degrees of uncertainty. There are usually too many variables, or too many unknowns that can affect a decision, for managers to be able to precisely predict its outcome. When such cases arise, managers must use their experience, judgment and intuition to assign approximate probabilities to each of the alternatives available. By so doing, they will be able to narrow the range of choices and simplify the decision.

The importance of decision-making in industrial organizations is indicated by the frequent assertion that decisiveness is one of the necessary requirements of the successful executive. By this is meant the ability to act definitely and to direct the efforts of others accurately and without hesitancy. The quality of this decision-making resulting from the laid-down process is a measure of the executive's leadership ability.