**CHAPTER ONE**

**NATURE OF ENTREPRENEURSHIP**

**1.0 Introduction**

The need for entrepreneurship education started in Nigeria in the mid-1980s when the country’s economy collapsed due to political instability and inconsistencies in the socio-economic policies of successive governments. This resulted in very high youth and graduate unemployment (Arogundade, 2011). Graduates of tertiary institutions were not having sound knowledge and skills which would make them self-reliant. The lacuna led to the introduction and emphasis on entrepreneurial education owing to the belief that its introduction into tertiary education would lead to acquisition of skills that would enable its graduates to be self-reliant and consequently reduce unemployment problems (Nwangwu, 2006). Arogundade (2011) argues that entrepreneurship education will equip the students with the skill to be self-reliant and task of government and other education stakeholders should make sure that educational programme at all levels of education are made relevant to provide the youths and graduate needed entrepreneurial skills. Entrepreneurship education in the narrower sense follows a direct approach, developing students’ competencies and entrepreneur intentions towards starting a business as a career option.

According to Paul (2005), the objectives of entrepreneurship education include:

1. To offer functional education to youths to make them self-employed and self-reliant.
2. To provide youth graduates with adequate training
3. To make them creative and innovative in identifying novel business opportunities.
4. To establish a career in small and medium scale businesses.
5. To reduce high rate of poverty and rural-urban migration.
6. To create employment and serve as a catalyst for economic growth and development among others.

The Federal Government of Nigeria issued a directive through the Nigerian Universities Commission (NUC) to all Universities in the country to establish Centers for Entrepreneurship Development to coordinate the offering of a benchmark entrepreneurship course to all students in Nigerian Universities. Therefore, the NUC has made Course on Entrepreneurship Development (CED) to be mandatory for all Nigerian graduates irrespective of their disciplines since year 2000. The strategic objectives of the national policy are to improve the capacity of youths to develop positive independence and innovative thought process and overall entrepreneurial mind-set, and the development of vocational skills to stimulate future graduates towards venture and wealth creation.

The term "entrepreneur" is derived from the French verb "entreprendre." An entrepreneur is someone who starts their own business and takes full responsibility. This person is an entrepreneur. The terms founder and entrepreneur are commonly used interchangeably. Entrepreneurs add value by selling goods and services. They see a market opportunity and use their resources (land, labour, and capital) to challenge the status quo. Entrepreneurship, when combined with the Internet, democratizes and flattens the planet. Entrepreneurs develop game-changing technologies, goods, processes, and services, launching a second wave of businesses.

Academics and bankers' combined interests gave rise to the concept of entrepreneurial finance. Bankers feel that entrepreneurial settings provide unique characteristics that should guide decisions. Entrepreneurship is the process of creating new or revitalizing mature organizations, particularly new businesses in response to opportunities.

1.1 Entrepreneurship-OriginVarious scholars have written extensively on the origin of entrepreneurship. What is  
interesting is that most of the scholars who wrote about the origin of entrepreneurship are  
either economists or historians. Basically, the concept entrepreneur is derived from the  
French concept “entreprendre” which literarily is equivalent to the English concept “to  
undertake”. From the business point of view, to undertake simply means to start a business   
(QuickMBA, 2010). From the historical point of view, Schumpeter (1951) opined that the  
French economist Richard Cantillon was the first to introduce the concept "entrepreneur"  
in his work in 1755. He viewed the entrepreneur as a risk taker (Burnett, 2000).  
However, some scholars contend that it was an economist, Jean-Baptiste Say, who analysed  
the concept in an advanced way in his work in 1821 where he identified entrepreneur as  
new economic phenomenon (Wikipedia, 2010). Given the foregoing, we can infer that the  
concept “entrepreneur” is almost as old as the formal discipline of economics itself   
(Schumpeter, 1951) especially given the fact that it was economists such as Adam Smith,  
David Ricardo, and John Stuart Mill who have written extensively on it, albeit referring to it  
as "business management”. However, unlike Smith and Ricardo, Mill stressed the  
significance of entrepreneurship for economic growth. Another renowned economist, Alfred  
Marshall buttressed Mill’s view by formally recognizing entrepreneurship as an important  
factor of production in 1890; he viewed entrepreneurship as organization creation and  
believed that entrepreneurship is the driving element behind organization (Schumpeter,  
1951; Burnett, 2000).

Schumpeter (1951) contends with this view and opined that though many economicsscholars agree that entrepreneurship is necessary for economic growth, they do not agreeon the actual role that entrepreneurs play in generating economic growth. These debates,notwithstanding, entrepreneurship theory has kept on evolving over the years andthroughout its evolution different scholars have put forward different characteristics thatthey believe are common among most entrepreneurs. Entrepreneurship theoreticalfoundations extend from economics to other disciplines such as history, politics, education,ecology, culture, experience, and networking and so on. To this effect, Schumpeter (1951)concludes that by combining the various disparate theories, a generalized set ofentrepreneurship qualities can be developed. He then listed the characteristics ofentrepreneurs as: risk-bearers, coordinators and organizers, gap-fillers, leaders, andinnovators or creative imitators. He submits that though not exhaustive, this can helpexplain why some people become entrepreneurs while others do not (Burnett, 2000).

Entrepreneurship is the process of setting up a business from infancy to growth and profitability by taking financial risk. It is the creation of value through risk taking associated with the enterprise. While an entrepreneur is a person who has the ability to forecast a business opportunity and takes advantage to put it into yield profit. He is a person who is creative, risk taker, innovative and hardworking with the passion to venture into business with the hope of establishing, nursing and managing the business to profitability. Therefore, what is the difference between entrepreneurship and an entrepreneur? In simple term, entrepreneurship is the act while entrepreneur is an actor. Therefore, the process of venturing into entrepreneurial venture/business is the entrepreneurship and the person who performs the act of entrepreneurship is the actor referred to as an entrepreneur.

**Types of Entrepreneurship:** Types of entrepreneurship and entrepreneurs vary from different perspective depending on how various authors viewed it from their own discipline. However, the diagram below depicts the types of entrepreneurship and entrepreneurs from five different perspectives as follows:

1. Private Entrepreneurship
2. Public Entrepreneurship
3. Corporate Entrepreneurship
4. Social Entrepreneurship
5. Academic Entrepreneurship

**Private Entrepreneurship:** This is an entrepreneurial activity that is privately owned and control by certain individuals ranging from the identification of the business opportunity, setting up the business, nursing the business to growth and profitability. One can say that most micro, small, and medium-term enterprises in Nigeria fall under private entrepreneurship because most of these enterprises are privately owned.

**Public Entrepreneurship:** This is the type of enterprise that is owned by the government. It could be owned by the federal or state government. These companies were formed by government as part of privatization policy with the aim of providing better and efficient services to its citizens through accountability and transparency.

**Corporate Entrepreneurship:** This type of entrepreneurs carried out entrepreneurial activities involving big, large, multinational or conglomerate companies that are fully engaged in the production, manufacturing or services industry that involves research and development in the creation of new products or services to its customers. For example: Unilever, PZ, Nestle, Nigeria Bottling Co., Dangote group etc.

**Social Entrepreneurship:** This is a phenomenon in the entrepreneurship literature. It exists for a long time and only came to be recognized recently. Social entrepreneurship is an activity carried out by social enterprises/ entrepreneurs, Non-Governmental Organisations (NGOs) and charitable organisations in order to improve the social life of its citizens.

**Academic Entrepreneurship:** These types of entrepreneurship are found in the academic institutions such as universities, polytechnics, research institutes, or colleges of education. It also refers to as knowledge entrepreneurship because most discoveries, inventions and innovations come out from these academic institutions and research institutes.

**1.2 Who is an Entrepreneur?**

Entrepreneur has no specific definitions. It has been defined in different ways by many authors.

The word ‘’entrepreneur’’ is derived from French ‘entrepredre’, meaning an individual who undertakes the risk of a new enterprise. He is an individual who organizes, manages, and takes the risks of an enterprise (Robert, 1984). Although several people view an entrepreneur from slightly different perspectives, they all come up with common characteristics of an entrepreneur which includes newness, organizing, creating something new and risk taking. To an economist, an entrepreneur is one who brings resources, labour, materials and other assets into combination that makes their value greater than before and also one who introduces changes, innovation and a new order. To a psychologist, an entrepreneur is a person driven by certain forces, that is, the need to obtain or attain something, to experiment, to accomplish or perhaps to escape the authorities of others. To a businessman, an entrepreneur may be an ally, a source of supply, or someone who creates wealth for other as well as finds better ways to utilize resources, reduce waste and produce jobs for others (Hisrich, Peter & Shepherd, 2012).

According to Drucker (1983), an entrepreneur is any person who coordinates other factors of production and bears the risk of uncertainty by investing his scarce resources in the business venture. He also takes the managerial decision such as planning, staffing, organizing, developing and controlling the business organization. He is a person who is willing to risk his capital and other resources in a new business venture from which he expects substantial rewards, if not immediately, but in the foreseeable future at least.

**1.3 Who is an intrapreneur?**

An intrapreneur is known as a person inside an organization who generates an innovative idea, and fosters it for a period of time. The individual may be regarded as a company’s champion who derives organizational idea(s) and uses its material and nonmaterial resources to achieve his/her innovative idea(s) or project(s).

**1.4 What is intrapreneurship?**

An intrapreneurship is process of originating innovative and inventing/creating ideas in an organizational environment so as to benefit the organization profitably.

**1.5 Means of acquisition of entrepreneurial skills**

Odia and Odia (2013) propose that entrepreneurial skills acquisition can be obtained through various means such as:

1. Attending entrepreneurial training classes
2. Development programme
3. Through seminars
4. Through workshops
5. By Job rotation
6. By special training
7. Through Apprenticeship
8. Through organisational learning
9. Research and Development Institutions
10. Through consultants
11. By national and international agencies and bodies
12. Through non-governmental organisations (NGOs), and professional bodies

1.6 Characteristics of Entrepreneurship and Entrepreneurs

Scholars do not agree on the characteristics possessed by entrepreneurs. Hence, several scholars through various studies identified several characteristics or traits possessed by entrepreneurs some of which are discussed as follows. For instance, Ben (2022) recognized the characteristics of entrepreneurship as:

1. Creative Activity: Entrepreneurship entails innovations. It deals with product innovation,production techniques innovation while bearing in mind the market.
2. Dynamic Process: Entrepreneurship is a dynamic process that has to bear in mind thedynamic business environment.
3. Purposeful Activity: Entrepreneurship is an activity embarked upon for a specific purpose.This could be for profit making purposes, for humanitarian purposes or to bring a differenceto the market.
4. Involves Risk: Entrepreneurship is a very risky venture; entrepreneurial decisions can havefar-reaching impact on the organization, people in the organization and even the economy.These decisions are critical, enormous and cannot be easily reverted.Ben (2022) then identifies the following characteristics of entrepreneurs as: risk bearingability, technical knowledge, and ability to gather financial and motivational resources. Di-Masi (2011), on the other hand, regards the major characteristics of entrepreneurs as: self**-**confidence and being multi-skilled, confidence in the face of difficulties and discouragingcircumstances, risk-taking, innovative skills, results-oriented, total commitment.
5. Risk Bearing Ability: The entrepreneur must have the capacity to bear risk. This is becausethe new venture is created in an uncertain and risky environment. Di-Masi (2011, however,noted that although risk bearing is an important element of entrepreneurial behavior, manyentrepreneurs have succeeded by avoiding risk where possible and seeking others to bearthe risk. Basically, what he is saying here is that entrepreneurs bear calculated risks and aremore than glad to let others bear their risk when it is convenient for them.
6. Technical Knowledge: Depending on the kind of venture created, the entrepreneur musthave technical expertise about production techniques and marketing.vii. Ability to Gather Financial and Motivational Resources: Financial and motivationalresources are needed for the creation of the new business. Sometimes the entrepreneur, asan individual may not have these resources but he/she/they should have the ability togather it from those who have it.
7. Self Confidence and Multi-Skilled: The entrepreneur must have self-confidence and believein him/herself. Self-confidence is an important characteristic that enables individuals tohandle any situation without having inferiority or any other type of complex. Theentrepreneur also has to be a jack of all trade and master of all. He/she must possess different skills unlike other individuals. For instance, assuming an entrepreneur is a marketer, the entrepreneur should not only possess marketing skills and interpersonal skillsbut also language skills i.e. ability to speak more than one language. This definitely will be anadded advantage.
8. Confidence in the Face of Difficulties and Discouraging Circumstances: The entrepreneurmust be steadfast and resolute and be ready to move on even in the face of adversity.He/she should be a ‘never say never’ kind of person; everything is possible for theentrepreneur.
9. Innovative skills: The entrepreneur may not necessarily be an 'inventor' but the one thatcan make a difference; he/she should be able to see what others cannot see and be able tocarve out a new niche in the market place.
10. Results-Orientated: The entrepreneur is one who knows how to get results under anycircumstances either with others or through others. The entrepreneur does this by settinggoals and ensuring that such goals are doggedly pursued by all concerned willingly and withjoy.
11. Risk-Taker: The business environment is dynamic and filled with uncertainties and risk. Inorder to succeed the entrepreneur has to take risk. Successful entrepreneurs take calculatedrisks and in some cases shift the risks to others.
12. Total Commitment: Starting /creating a new business is a serious exercise that requires a lotof commitment and hard work. It is like bringing a child into the world and nurturing thechild to adulthood. This requires commitment, dedication, hard work, energy and singlemindedness otherwise the ‘child’ (i.e. business) may die prematurely (Di-Masi, 2011).
13. Calm: Entrepreneurs need to be cool, calm and collected. They have to remain calm evenwhen exposed to stress, emergency or crisis situations.
14. Focused: In getting things done and starting and maintaining a business attention has to bepaid to a lot of details. Small things when not handled properly or noticed on time may leadto disastrous outcomes.
15. Tolerance: The entrepreneur has to relate with people. People vary in terms of theirperceptions, personality, motivations and attitudes amongst other things. The entrepreneur needs to be tolerant while not being weak, in order to get things done.
16. Balance: Though, the entrepreneur is a human being, he/she has to be like a super humanbeing in order for him to succeed. To this effect, he/she has to be able to balance allemotions and characteristics and remain focused and objective while having emotional ormental strength and resilience. Balance is important because too much of everything is bad.
17. Versatility**:** The entrepreneur has to be versatile and be ready to learn and use informationtechnology and other technology to the best advantage.
18. Seriousness: The entrepreneur has to believe in him/herself and the business and get thingsdone with total seriousness. As mentioned earlier, starting a new business is like giving birthto a child; it is indeed a very serious business.
19. Planning Ability: The entrepreneur must be a planner; he/she must formulate goals anddevelop action plans to achieve them. Planning is important for he/she who fails to plan,plans to fail.
20. Prudence: The entrepreneur must be versatile in financial management. This is becausefinance is the life-wire of the business. Also, to achieve the profit objective, theentrepreneur must engage in efficient and effective financial management, and have sound financial policies and practices.
21. Customer-Centric: Businesses are created to satisfy unmet needs. A successful entrepreneurmust be able to anticipate customers’ needs and satisfy them through his/her productofferings. To do this effectively, the entrepreneur has to adopt a customer-centric orcustomer-focused approach.
22. Team Player: Creating a successful business is a one-man business but maintaining andsustaining the business cannot be done by one person. The entrepreneur needs others towork with him hence he has to have a formidable or winning team. To this effect, the entrepreneur has to be an effective team manager and recruit the right team members but the entrepreneur’s most important team members are the customers for without customers a business cannot survive

**1.7 Why Entrepreneurship?**

Entrepreneurship is, and continues to be, important to every sector in India and in other global economies. Entrepreneurship contributes to economic and social development of a country. Operating an enterprise, wealth creation, making innovative decisions or managing an organization, all have the thrill of risk, challenges and profitable opportunities.

Entrepreneurial firms are not just money-making ventures for their promoters. The positive impact of entrepreneurial firms is seen throughout the economy and society. A vast majority of these high-impact firms are fast growing companies. David Birch has differentiated these firms by calling them gazelles. He defines a gazelle as a business establishment with at least 20 per cent growth every year. Entrepreneurship has many functions to perform and roles to play in every type of economy. Entrepreneurship is the life blood of any economy and it applies more to a developing economy like India. It influences a number of areas such as innovation, job creation, career alternatives etc. The contribution of entrepreneurship lies in the following areas:

1. **Innovation:** Innovating is a process of creating, changing, experimenting, transforming and revolutionizing. Innovation is one of the key distinguishing characteristics of entrepreneurial activity. The passionate drive and intense hunger of entrepreneurs to forge new directions products and processes and to take risks set in motion a series of decisions that lead to the innovations that are important for economic vitality. Without these new ideas, economic, technological, and social progress would be slow indeed.
2. **Technological Changes and Employment Growth:** The “creative destruction” process of innovating leads to technological changes and employment growth. Entrepreneurial firms act as these “agents of change” by providing an essential source of new and unique ideas that might otherwise go.
3. **Job Creation:** We know that job creation is vital to the overall long-term economic health of communities, regions, ad nations. Entrepreneurial ventures play very important role in it. Small business create more jobs than large business do. During economic recession, when large companies are on their way to retrenchment of their work force, individuals whose jobs are eliminated find employment with small business. The creation of jobs by small businesses is expected to continue into the future as new firms start small and grow.
4. **Number of New Start-ups:** All businesses whether they fit the definition of entrepreneurial or not– at one point in time were start-ups, the most convenient measure we have of the role that entrepreneurship plays in this economic statistic is to look at the number of new firms over a period of time. The assumption that we have to make, then, is that some of these new firms engage in activities that are entrepreneurial in nature.
5. **Starting the Venture:** The next important function of entrepreneurship is starting the venture. In fact, entrepreneurs identify opportunities and possible competitive advantages. They set goals and strategies. Pursuit of entrepreneurship contributed to the overall creation of new firms. Why is the creation of new firms so important? It’s important because these new firms contribute to economic development through benefits such as product-process innovations, increased tax revenues, societal betterment, and job creation.
6. **Opportunity to Contribute to Society and be Recognized for Your Efforts:** Often, small business owners are among the most respected and most trusted members of their communities.
7. **Trust and Mutual Respect:** Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers they have served faithfully over the years.
8. Entrepreneurship often deals with the difficult issues of social responsibility and ethical problems.
9. Entrepreneurship produces such goods and services that protect consumer health and global environment and helps in creating better living conditions in society. It generates employment and conserves natural resources, balances growth in the country and provides more amenities to people.
10. Ethical considerations also play a role in decisions and actions of entrepreneurs.
11. **Path of Creating Tomorrow:** Peter Drucker Says, “Entrepreneur has to seek off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow. Making the business of tomorrow cannot be a flash of genius. It requires systematic analysis and hard, rigorous work today·. The specific job of entrepreneurship is to make today’s business capable of making the future, of making itself into a different business”.
12. Entrepreneurship provides an opportunity to make a difference and create your own.
13. **Destiny:** Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Entrepreneurs are finding ways to combine their concerns for social issues ad their desire to earn a good living. Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them.
14. **Entrepreneurship Serve Small Markets with New Technology:** Large firms, with their crippling overheads, do not find it profitable to serve small populations. This is where small entrepreneurial firms serve an invaluable role by providing specialized products to niche customers. Entrepreneurial firms are usually faster to come to the market with radical new technologies. Ultimately, this will lead to a better standard of living for the whole society.
15. **Entrepreneurship provides opportunity to reach your full potential and reap impressive profit:** Too many people find their work boring, unchallenging, and unexciting, but not entrepreneurs.To them, there is little difference between work and play; the two are synonymous. Entrepreneurs’businesses become their instruments for self-expression and self-actualization. They know that theonly boundaries on their success are those imposed by their own creativity, enthusiasm, and vision.Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich: but many of them do become quite wealthy.
16. **Other Contributions:**
17. Entrepreneurship in small businesses helps in distribution of products of large business. They, thus, support the large business houses.
18. It offers business avenues to women and minorities. Women and minorities are allowed the benefit of financial independence and a chance to exhibit the ability to manage business enterprises.
19. Dispersal of economic activities to different sectors of economy and identifying new avenues of growth.
20. Improvement of the standard of living of different weaker sections in the society.
21. Bring socio political change in the society.
22. Develop technological know-how.
23. Improve culture of business and expand commercial activities.
24. Entrepreneurship acts as a change agent to meet the requirements of the changing markets and customer preferences.
25. Develop a culture of achievement orientation.
26. It helps in bringing about change and development of the civilization through change in trade, comment be and industrialization.
27. It arouses the need for achievement in individuals which brings about a change in the economic scenario through economic development and growth.
28. It results in exploitation of economy’s resources, such as labour, capital and technology to the fullest extent.

**1.8 Roles of entrepreneurship in national development**

The question of why some nations are rich and others are poor has been at the center of economic debate for over two centuries. According to Schumpeter as reported by Ebiringa (2013), capital and output growth in an economy depends significantly on the entrepreneur. The quality of performance of the entrepreneur determines whether capital would grow rapidly or slowly and whether the growth involves innovation where new products and production techniques are developed. The difference in economic growth rates of countries of the World is largely due to the quality of entrepreneurs in those countries. Production factors of land, labour, and capital are said to be dormant or indolent without the entrepreneur who organizes them for productive ventures. Entrepreneurs have led and will continue to lead the economic revolution that has proved repeatedly to improve the standard of living for people everywhere (Ogundele, Idris & Ahmed-Ogundipe, 2012). Their roles are as follows:

1. **Economic Development:** Profits made by entrepreneurs, payments for the various factors of production by the entrepreneur flow as an increase into the National Income. Increase in Gross Domestic Products, National Income, and etc., help in improving the standard of the living of the citizens of the country. The contributions of the SMEs in industrial sector to the Nigeria Gross Domestic Product (GDP) are valued at about 37% thereby making it the second largest contributor to the nation’s GDP after the oil sector (SMEDAN, 2009).
2. **Employment Opportunities:** Entrepreneurship results in the creation of small businesses. The labour intensive nature of small businesses enables them create more jobs than the big businesses. The existence of small scale businesses in the country had provided job and employment to many citizens. Small scale business plays crucial roles in the economic development of countries (Ogundele, 2007). Okezie, Alex and Odii (2013) reiterated that Small Scale Businesses (SSB) constitutes 85% of all firms operating in the Nigeria economy, and like in most other developing countries, they employed the largest number of workers. A study done by the Federal Office of Statistics showed that 97% of all businesses in Nigeria employ less than 100 employees. Looking at the definition of SMEs, (generally an umbrella term for firms with less than 250 employees) it then means that 97% of all business in Nigeria are “small businesses”. The SMEs sector provides an average 50% of Nigeria’s employment, and 50% of its industrial output. Increasing number of graduates from increasing number of public and private higher institutions who roam the streets, seeking for placement in the few declared vacancies can avail themselves of the opportunity available to make a living.
3. **Reduction in Rural-Urban Drift:** One of the primary objectives of promoting entrepreneurship in developing countries is to mitigate rural-urban drift syndrome. The migration of rural dwellers to cities in search of white collar jobs has resulted in congestion, high incidence of crimes, and so on.
4. **Development of Local Technological Base:** The development of indigenous technological base in all countries of the World has been championed by native entrepreneurs; this will help in transferring the much technology for the rapid transformation of the country.
5. **Conservation of Foreign Exchange:** This will result from reduced importation of machinery and equipment, raw materials and payment to foreign experts.
6. **Types of Entrepreneurs:** There exist different types of entrepreneurs depending on the classification and entrepreneurial activities carried out by the enterprise and those who manage the enterprise. The categorization of entrepreneurs is based on roles, functions and responsibilities they performed in the enterprise. Suffice to say that, just like we have types of entrepreneurship so also, we have types of entrepreneurs. The types of entrepreneurs are as follows:
7. Private Entrepreneurs
8. Public Entrepreneurs
9. Corporate Entrepreneurs
10. Social Entrepreneurs
11. Academic Entrepreneurs

**Private Entrepreneurs:** These are entrepreneurs who take the risk of establishing a business venture and have absolute control over the business enterprises and decision making is solely their responsibility. They invest and manage their own business without any outsider interference because they are the sole owners of the enterprise.

**Public Entrepreneurs**: Public entrepreneurs are those who manage public enterprises owned by government often refer to as managers of government or state owned companies. They are similar to corporate entrepreneurs only that they manage government or state owned corporations or companies and they are not owners and are referred to as **Intrapreneurs.**

**Corporate Entrepreneurs:** These are managers that manage big, large and conglomerate companies that are listed on the Stock Exchange of any country. The entrepreneurs usually hold the position of Chief Executive Officers (CEOs)/Managing Director (MDs) and at the same time, they are either employed or own shares in the companies. They are employed because they are Professionals in nature to manage the companies.

**Social Entrepreneurs**: Social entrepreneurs are the social leaders, managers or agents of transformation in instilling entrepreneurial mind-set to their target audience or groups. Social entrepreneurs focus on resources utilization to achieve Social Returns on Investment (SROI) than Financial Return on Investment (FROI). Social entrepreneurs used both the principles of management and application of entrepreneurship principles in managing their respective organisations to achieve result in the most effective and efficient way.

**Academic Entrepreneurs**: These are Lecturers and Research Fellows in education/academic institutions or research institutes that are involved in a series of research to invest, discover and bring in innovation in products and services for the well-being of humanity. They are involved in researches that lead to new inventions and innovations and subsequent commercialization. They are referred to as knowledge entrepreneurs.

**1.9 Nature of Entrepreneurship**

The main characteristics of entrepreneurship are given below:

1. **Economic Activity:** Entrepreneurship is primarily an economic activity because it involves the creation and operation of an enterprise. It is basically concerned with the production and distribution of goods and services and optimally utilizes the resource towards productive use.
2. **Entrepreneurship Involves Innovation:** Entrepreneurship involves changing, revolutionizing, transforming, and introducing new approaches. Entrepreneurship is an innovative function as it involves doing things in a new and better way. Innovation may take several forms, such as a new product, a new source of raw material a new market, a new method of -production, not yet applied in a particular branch or, manufacturing etc. Drucker says, “Innovation is the specific instrument of entrepreneurship”. Entrepreneur is a change agent.
3. **Goal-oriented Activity:** The entrepreneur who creates and operates enterprises seeks to earn profits through satisfaction of needs of consumers; hence, entrepreneurship is a goal-oriented activity. Entrepreneurship emphasizes results, achievements and targets achieved. It is work done not imaginary plans or paper decisions. Hence entrepreneurship is a goal oriented activity.
4. **Value Creation:** Next, we find that the process of creating value is a characteristic in describing entrepreneurship. Through entrepreneurship, new products, services, transactions, approaches, resources, technologies, and markets are created that contribute some value to a community or marketplace. We can also see value created when through entrepreneurship, resources are transformed into outputs such as products or services. During this transformation process, value is created because the entrepreneur is fashioning something worthwhile and useful. Drucker says, “Until entrepreneurial act, every plant is a seed and every mineral just another rock”.
5. **Enterprise Creation:** The next characteristic of entrepreneurship is enterprise creation. In order to pursue the perceived opportunities for innovation and to create value, there must be organized efforts and actions. Someone must take the initiative to do something – take action to get the entrepreneurial venture up and running. Entrepreneurship is a creative response to changes in the environment. It involves innovation or introduction of something new or improved. An entrepreneur is an agent to effect change.
6. **A Function of Risk Bearing:** Risk is an inherent and inseparable element of entrepreneurship. An entrepreneur works under uncertainties and he assumes the uncertainty of future. In the pursuit of profit, there is possibility of loss also.
7. **Entrepreneurship Implies Growth:** The next characteristic in entrepreneurship is growth. One major difference between entrepreneurial ventures and other small businesses is the emphasis on growth. Entrepreneurship is about growing a business and pursuing opportunities as they arise. It’s not about standing still or being content to stay in one market or with one product.
8. **Managerial Skill and Leadership Function:** Managerial skill and leadership are the most important facets of entrepreneurship. An entrepreneur must have the ability to lead and manage. He provides direction, create work culture, and build teamwork and cohesiveness among employees.
9. **Recognition that it is a process:** The characteristics commonly found in entrepreneurship are the recognition that it is a process, very simply, is a set of ongoing decisions and actions. Entrepreneurship is not a one-time phenomenon; it occurs over time. It involves a series of decisions and actions from initial start-up to managing the entrepreneurial venture.
10. **Gap Filling Function:** The gap between human needs and the available products and services filled by entrepreneurship. An entrepreneur determines the needs of people and combines resources to produce goods and services of requirements. He introduces new products and services, new methods of production and distribution, new sources of inputs and new markets for this purpose.
11. **Dynamic Process:** Entrepreneurship is a dynamic function. Entrepreneur thrives on changes in the environment, which bring useful opportunities for business. An entrepreneur deals proactively with changing markets and environment. He looks at the changes as the source of market advantages, not as a problem. Uncertainties are market opportunities for him. He capitalizes on fleeting market anomalies.
12. **Uniqueness:** Other characteristic found in entrepreneurship is that of uniqueness. Entrepreneurship involves new combinations and new approaches with which entrepreneurs are willing to experiment. Through Entrepreneurship unique products are created and unique approaches are tried. Entrepreneurship isn’t merely imitating what others have done. It’s doing something new, something untested and untried – something unique.
13. **Organizing Function:** It is the ability to bring together productive resources of society. Entrepreneur coordinates and control the efforts of all the persons engaged in his enterprises. He harnesses land, labour, capital and other resources of for the benefits of mankind. Therefore, an entrepreneur is called as an organization builder.
14. **Essential in Every Activity:** Entrepreneurship is required in all types of businesses – small or big, trading or manufacturing or service industry. It is essential for every business to exist and grow. Drucker says, “Entrepreneurship is by no means confined solely to economic institutions.”
15. **Knowledge-based Practice:** Drucker writes, “Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. He uses his experiences for high achievements. The enterprising quality is generated after a long practice of risk-bearing behaviour.”
16. Another Characteristics of entrepreneurship is a **recognition that entrepreneurship can take place in both profit and not-for-profit environments.** Although we tend to assume that entrepreneurial activity is geared at making a profit (and we agree that much of it is), entrepreneurship also occurs in social service agencies, in community arts organizations, or in other types of not-for profit settings.
17. **Entrepreneurship and Management:** Management is the agent through which all entrepreneurial decisions and plans are implemented. The entrepreneur brings new changes and improvements through management. To survive and win, the managers must become entrepreneurial in their approach and tasks.

**1.10 Factors Favoring Growth of Entrepreneurship**

Following are the major factors which favour growth of entrepreneurship in a country

1. **Developed Infrastructure Facilities:** Availability of infrastructure reduces the cost & efforts and improves viability of projects through higher profit margins.
2. **Financial Assistance:** Easy availability of cheap funds is vital for promoting entrepreneurship.
3. **Protective and Promotional Government Policies:** Most of the entrepreneurship projects start very small and have no resilience. They are extremely vulnerable to competitors, market, money markets, etc., for considerable time. Favourable government policies shelter them from such vagaries.
4. **Growth of Education, Science and Technology & Management:** Growth of education is **believed** to be promoting entrepreneurship. However, there are enough examples to suggest otherwise. A very large proportion of first generation entrepreneurs are low educated. Take the case of the Microsoft Chairman Mr Bill Gates or Reliance Founder Mr Dhirubhai Ambani. (We also have Mr Narayan Murthy and Mr Ajim Premji to balance this scale). On a wider spectrum, Kerala, the most literate state and West Bengal, another state high on literacy front, are least entrepreneurial states where as Punjab, with 5th rank from bottom on educational scale was top on entrepreneurial charts. But, this entrepreneurial backwardness of Kerala and West Bengal is probably attributable to political and labour climate.
5. **Risk Taking Attitude:** Risk taking attitude is one of the pillars of entrepreneurial spirits.
6. **Hunger for Success (Capitalistic View):** Dreams of riches and fire in the belly is what drives most entrepreneurs on this risky path. Any person content with what he has would take the easier route of salaried job.
7. **Environment/Culture Impact:** Entrepreneurship is contagious. Communities like Punjabies and Marwaries are historically entrepreneurial. They are known for seeking and exploiting business opportunities in most remote areas. It is a culture that propels them.
8. **Social Security:** Social security acts as a safety net against failure of enterprise. Social security guarantees basic **‘roti, kapada aur makan’** in case of failure. Entrepreneurial spirit of United States is born partly out of this security.
9. **Technical/Industrial Training Facilities:** Industrial Training facilities on one hand generate skilled manpower so vitally required for setting up enterprises while on the other hand they are also nursery for future entrepreneurs. Among the educated entrepreneurs, a majority is product of technical institutes from IIT to ITI (Tier I to Tier III institutes).
10. **Globalization:** Globalization has provided another avenue for business. Many dare devils have taken a head along plunge into this uncharted water and have written new success stories.
11. **Economic Growth Rate of Country:** A growing economy creates more demand and improves prospects of success.
12. **General Business Environment:** External environmental factor i.e. political, socio cultural, technology, legal, economic affect growth of entrepreneurship. Kerala and West Bengal have remained entrepreneurially backward due to poor political and legal environment.

**1.11 Intrapreneurship**

Intrapreneurship is defined as entrepreneurship within an existing business set– up. That is to say that Intrapreneurship is corporate entrepreneurship. When a corporation indulges in entrepreneurial activities, like diversification into new businesses, it is called intrapreneurship. Intrapreneur is a manager who focuses on innovation and creativity; who brainstorms, dreams and puts ideas into profitable venture by operating within the organizational environment.

It is a tool for capitalizing the entrepreneurial spirit of employees in the organization. It gives managers the freedom to try new ideas by employing firm’s resources in a unique way.

**Characteristics of an Intrapreneur**

An intrapreneur is not far removed from an entrepreneur. The major difference being that an entrepreneur risks his own money where as an intrapreneur works with his employer’s money. Thus, the risk level of an intrapreneur is considerably reduced. Secondly, the desire for independence and material success is not as strong in case of intrapreneurs. For most other characteristics, the two match perfectly.

1. **Vision:** It is the basis for successful venture. An Intrapreneur has ability to visualize from idea to implementation.
2. **Motivation:** Intrapreneur is generally self-motivated, but expects corporation reward and recognition.
3. **Orientation:** Intrapreneur is achievement oriented.
4. **Risk Appetite:** Intrapreneurs are moderate risk takers since risk acceptance depends on their skills. Wild risk takers are not affordable to corporates.
5. **Locus of status:** Intrapreneurs want to do the work on their own rather than delegate like managers
6. **Failure and Mistakes:** Intrapreneur hides risky projects and ideas to ensure learning without political cost and public failure. They develop multi-disciplinary team in the organisation and may go beyond organization boundaries for results.
7. **Goal set up:** Intrapreneur is determined to do things not even asked for. They set goals and quality standards.

**1.12 Steps for setting up Intrapreneurship in an organization**

Following are the steps required to be taken to establish Intrapreneurship in an organization

1. **Secure Commitment to Intrapreneurship from Top, Upper and Middle Management**
2. **Cultural Changes:** The cultural changes needed for the development of the spirit of intrapreneurship in an organization is not possible without whole hearted commitment of its full line of higher management. It requires prolonged commitment and investment in arranging to expose the spirit of intrapreneurship among the employees. Talk shows are organized and bulletins published to expose people to this concept. Seminars and strategy sessions are held to transform the organization into an intrapreneurial organization.
3. **Resource Requirement:** Intrapreneurship demands commitment of lot of resources; material as well as human. Without commitment of higher management, such resources will not be available for any intrapreneurial venture.
4. **Confidence Building:** While intrapreneurship leads to rich rewards for the company, there is very little direct benefit to the employees. Most tend to work as intrapreneur to give expression to their creative zeal. On top of that, there is always a fair amount of risk of failure in such ventures. Therefore, unless the employees have full support of the higher management, they will not stick their neck out in such a venture.
5. **Create Framework for Intrapreneurship:** Once cultural changes have been launched, which is a long slow process lasting approximately 2 to 3 years parallel, a framework needs to be developed as to how the ideas will be processed and executed, how they will be funded, how they will be monitored and how will the losses, whenever they occur will be accounted.
6. **Identification of Intrapreneurial Leader:** Not everyone has entrepreneurial spirit. These mentors from the top management will give the needed guidance and support to the intrapreneurial leaders
7. **Identify the general areas of Intrapreneurial Thrust:** Every company has a priority area where it would like to move forward. Such areas need to be identified and notified to employees. An IT company would rarely want to foray into hardcore manufacturing sector even if the prospects are quite promising.
8. **Improve Responsiveness and Flexibility:** Intrapreneurial spirit cannot sustain the usual snail paced and ultra-cautious bureaucratic decision making process in case of capital investments that is typical of ordinary organisations. Use of technology to speed up decision making process and induce flexibility in the process is required.
9. **Modifying Organizational Structure:** A fat hierarchical organizational structure is inherently sluggish in decision making (Many cooks spoil the broth). A flat organizational structure is more suited to the Intrapreneurship. Therefore, certain modifications to the organizational structure may be needed. However, it is easier said than done.
10. **Publicity of Ideas:** New ideas should be well publicized. While such publicity is a morale booster for the author of the idea and therefore encourages more people to come forward with ideas, published ideas get scrutinized and value added by other people.
11. **Tapping Customers Base for New Ideas:** Customers are the richest source of new ideas. 3M Corporation, holding over 6 lakh patents, claims that almost 70% of new ideas have been contributed by the customers themselves.
12. **Create Strong Support Structure for Intrapreneurship:** This is particularly important since most people have short term focus on quarterly, half yearly and yearly numbers. Intrapreneurial ventures are long term projects and therefore may get overlooked for funding and other support. Similarly, appraisal of the intrapreneurs may get adversely affected since there is nothing concrete to show quarter by quarter. Such a mishap is to be strongly guarded against because if such a thing does happen, it would kill the initiative among the employees.
13. **Create a Strong Reward System Linked to Performance of the Intrapreneurial Venture:** Notwithstanding all the OB theories to the contrary, nothing works asfast and as effectively as tangible/material rewards system to motivate most peopleto put their best feet forward.
14. **Create an Evaluation System:** Some Intrapreneurial venture are bound to fail for various reasons including change in external environment. Also, some ventures are likely to astonish with their success even the most optimistic supporters.

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**CHAPTER TWO**

**BUSINESS ORGANIZATION**

**2.0 Introduction**

A business organization is a company founded by an individual, a group of individuals, the government, or one of its agencies with the primary objective of producing money and fulfilling customer demands for goods and services. Regardless of size, ownership, or organizational structure, all business organizations provide goods and services to satisfy the diverse requirements of the population.

This module opens with the classification of business organisation based on two major criteria; classification according to business sizes and classification according to business ownership. We then look at various factors that influence the choice of a particular form of business ownership. The sole proprietorship is then discussed with its characteristics, advantages and disadvantages. Other forms of business organization are then examined and treated as different topics on their own merit. We also take a deep look at the partnership form of business before examining limited Liability Company, cooperative societies, public corporation as well as importance of entrepreneurship. Thorough and elaborate discourses were done on each of these economic activities’ issues.

**2.1 Classification of Business Organisations**

Business writers all over the world have classified business organisations differently. We shall therefore classify business organisations into two broad categories according to their sizes and pattern of their ownership.

* + 1. **Classification of Business Organisations according to Their Sizes:** All business organizationscan be classified into two according to their sizes; viz:
  1. Small Business Organisations: These include Sole Proprietorship and Partnership.
  2. Big or Large Business Organisations: They include Limited Liabilities Companies, Public Corporations, and Cooperative Society.
     1. **Classification of Business Organisations according to their Ownership:** All business organisations can also be classified into two, based on their ownership structure. Thus, we have:
  3. Private Enterprises: These are business organisations that are owned and managed by private individuals. Examples include Sole Proprietorship, Partnership, Private and Public Limited Liability Companies, and Cooperative Societies.
  4. Public Enterprises: These are business organisations owned and managed by the government. These may be run by the local, state, or federal government of a country. Examples include public corporations and companies owned by the government such as Water Corporation, Nigeria Railway Corporation, among others.

**2.2 Determinants of Choice of Appropriate Form of Business Ownership**

Before we discuss the various forms of business organisations, it is pertinent to first of all examine the factors that influence the choice of forms of business organization a businessman may choose to establish or get involved in. These factors include the following.

* + 1. Capital Requirement: The amount, source and available of capital needed by the firm goes a long way in determining the kind of business to be chosen.
    2. Market Size: The market size here refers to the extent of effective demand for the products. Market plays a significant role in determining the form of business to operate. This is because the larger the market in focus, the larger the capital requirement to be able to exploit the market and, vice versa.
    3. Managerial Capability: One of the requirements for successful business operations is managerial prowess. Therefore, a businessman who does not have good managerial ability may choose a form of business organisation in which the owner of the business is separated from management of the business.
    4. Registration Requirements: The law specifies certain requirements to be fulfilled for the registration of business organisations. Therefore, the procedures and requirements to be fulfilled for business registration have impact on the forms of business organisation to be chosen. This point will be made clearer when we look at different forms of business ownership.
    5. Risk Bearing: All forms of business activities involve risk taking. The form of business to set up by an individual will be determined by the extent to which an individual is a risk lover or risk averter. For Example, an individual who is a risk averter will like to involve in a business in which he will have limited liability.
    6. Ease or difficulty of transfer of ownership and the number of owners.
    7. The number and extent of availability of factors of production to the firm e.g. raw materials, labour, capital infrastructural facilities as well as entrepreneurial ability.

**2.3 Types of Business Organisations**

There are two major groups of business organisations. These are private and public enterprises.

**Private enterprises**: Privately owned and operated businesses are known as private enterprises. This kind of company is typically categorized as a private sector enterprise, and examples of such private enterprises include sole proprietorships, partnerships, private and public limited liability corporations, and cooperative societies. To maximize profits is the primary goal or objective of private businesses.

Characteristics or features of private enterprises

1. Private persons contribute the capital: Individuals who owned the businesses are the ones that raised money for the business's start-up.
2. Ownership is held by private persons: Business enterprises are owned by private individuals, such as sole proprietorships or partnerships.
3. Profit-making goals: The establishment of a commercial enterprise is done with the intention of generating profits for the firm's owners.
4. Owners are held accountable for company transactions: The owners of the firm are often presented with an accounting of the business's transactions.
5. Firm owners have assumed all risks: In the event that a business fails or is liquidated, owners will be responsible for all related risks.
6. Owners manage the business themselves: The daily operations of a business enterprise is controlled and managed by the owners of the enterprise.

**Public enterprises:** Governmental ownership, control, and management of commercial organizations are known as public enterprises. These corporations are owned by the federal, state, or municipal governments, and their main goal is to offer the public social services. They go by terms like "authority," "corporation," "boards," and "commissions." The National Electric Power Authority (NEPA), the Nigerian Ports Authority (NPA), the Nigerian Television Authority (NTA), the Nigerian Railway Corporation (NRC), and Nigerian Telecommunications plc. are examples of public enterprises (NITEL).

1. Features of public companies
2. The government provides the capital: The government supplies the money needed to launch public companies.
3. Government owns the business: Public businesses are typically established by statute, and the government owns the business.
4. The goal is to provide social services: The main motivation for creating public businesses is to affordably provide social amenities and services to the populace.
5. Management is directly responsible to the government: Public enterprise management is directly responsible to the government that established the firm.
6. The risks connected with public companies are often held by the government and tax payers who contributed the funds for building up the enterprises. vi. Government and tax payer absorbed the risks.
7. The board of directors runs the company: The government appoints the board of directors to run the public enterprise.
8. Public enterprise is a corporate body or a legal entity, which entitles it to bring and defend legal actions on its own behalf.

**Differences between the Private and Public Enterprise**

* 1. Individuals own private businesses, whereas the government owns public ones.
  2. While government funding is required to launch a public enterprise, private sector capital is given by people.
  3. While the primary goal of public enterprise is to offer social benefits to the populace, the primary goal of private enterprise is to make a profit.
  4. Owners or directors chosen by owners control private businesses, whereas a board of directors chosen by the government governs public businesses.
  5. Unlike public companies, which are created by parliamentary acts, private businesses are created by regular registration or incorporation.
  6. Owners of private businesses absorb losses, but taxpayers face losses incurred by public businesses.

## 2.4 Forms of Business Ownership

No matter how big or little, every company falls into one of the three types of legal ownership: corporations, partnerships, and sole proprietorships.

**Basic Forms of Business Organisations**

There are eight major types of business organisations. They are:

* + 1. Sole Proprietorship: This type of business is usually owned by a single individual
    2. Partnership: This is usually owned by 2 – 20 persons. However, if it is a banking business, it is usually owned by 2 – 10 persons.
    3. Private Limited Company: Owned by 2 – 50 persons.
    4. Public Limited Company: Owned by 7 persons upward.
    5. Cooperative Society: Owned by any number of persons.
    6. Public Corporation: Owned by government.

##### 2.4.1 Sole Proprietorship

The simplest and most common type of ownership is the single proprietorship. This type of corporate ownership is intended for a company run and controlled by a single person. You can investigate sole proprietorship the most easily in your search for a fulfilling profession. The lone owner and final decision-maker for the company is the solitary proprietor. There is no legal distinction in a sole proprietorship between the status of the sole proprietor as an individual and as the owner of a business. The sole proprietorship is the most common kind of ownership in Nigeria since it is straightforward and simple to set up. When naming a firm, one strategy is to picture the ideal client.

Sole proprietorship is a business concern established, owned, operated, financed and controlled by one person with the sole aim of making profit (Ilesanmi, 1995). It is otherwise known as one-man business. It is the oldest and largest form of entrepreneurial organisation even in the developed countries like United Kingdom and United States of America. But in terms of productive capacity or business conduct, performance and amount of turnover and capital, the sole proprietor is by far the least (Nickels, McHugh & McHugh, 2005). The owner is fully entitled to the income or revenue of the business and fully responsible for any losses the business suffers. The formation and operation of a sole proprietorship is subject to virtually no regulation except for the formality of obtaining a license to operate in some cases. Examples of sole proprietorship include small retail shops, local bookshops, the roadside restaurants, barber shops and so forth.

**Characteristics of Sole Proprietorship**

1. **Single Ownership:** The ownership is vested in one person.
2. **Unlimited Liability:** The liability of one-man business is unlimited. As a result, when his business assets are not adequate for paying the debts; his private properties have to be sold.
3. **Source of Capital:** The capital outlay in forming and running the business comes solely from the proprietor.
4. **Own Control:** He has absolute control over the affairs of the concern. His decision is final. Since he need not consult others, he can take quick decision and gain enormously.
5. **Own Profit:** The attraction of reaping the entire profits motivates him to put forth the best in him. He strives tirelessly for the improvement and expansion of his business.
6. **Absence of Government Regulation:** A sole proprietary concern is free from Government regulations. No formalities are to be observed in its formation, management or in its closure.
7. **No Separate Entity:** The sole trading concern is not regarded as an entity different from the proprietor but consequently, the business comes to an end with the permanent disability or death of the proprietor.
8. **Limited Capital:** Since capital is contributed by only one individual it is bound to be small. Apart from this financial constraint his inability to manage beyond a level also impedes its expansion. The size of the business unit therefore tends to be small.

**Advantages of Sole proprietorship**

* + 1. Small Capital Outlay: It requires small capital to start the business.
    2. Easy to Establish: No formal procedures are required for its establishment.
    3. Quick and independent decisions can be made without consulting anybody.
    4. No business income tax/lower taxation.
    5. Individual Accountability: He pays personal attention to the needs of his customers.
    6. He singly formulates the firm’s policies and set the goals that guide the business internally and externally and strives to work towards them.
    7. Privacy of Business Affairs: The business and its owners are not required by law to disclose their annual account or publish them.
    8. Business gains are personal gains. He returns all profits for personal use and does not share them with anybody.
    9. Lower organisational costs: The cost of setting up a sole proprietorship is not as much as that of any other type of business forms. The cost is so low and this makes it easy to manage.
    10. Fitness to any Environment: Because of the nature of one-man business, it adapts easily to any environment it finds itself as long as there are customers to be served.

**Disadvantages of Sole Proprietorship**

* + 1. **Unlimited Liability of the Owner:** The owner bears all risks and losses of the business alone. In other words, if the owner fails to fulfill his financial obligation to any person, the creditor has right under the law to lay claim not only to business assets of the owner, but also to the personal assets or properties of the business owner.

1. **Limited Financial Resources:** The owner has problem of raising adequate capital in running the business. This is because the sole proprietor relies only on his personal savings and assistance from friends and family members for funds. A sole proprietor cannot generate funds from money and/or capital market through private or public placement.
2. **Retarded Growth:** Difficulty of expansion due to smallness of capital outlay coupled with managerial inabilities of the owner to source for more funds to finance his business.
3. **Limited Life Span:** This form of business is not permanent. There is lack of continuity which may be associated with the death or incapacitation of the owner. This may mean the end of the business.
4. **Workaholic:** He is very incentive to work hard and please himself. This may result in overwork, which may injure his health.
5. Unable to employ or retain well-skilled workers.
6. **Management Difficulties:** This type of business does not enjoy abundance of managerial expertise required for successful management of the business. This is because such business is owned and managed by one person who is usually not sufficiently versatile to handle all vital functions of the business efficiently.

##### 2.4.2 Partnership

This is a very old type of business ownership and it is most common in professional business like accountants and lawyers (Buskirk, Green & Rodgers, 1976). A partnership is an association of two or more persons who carry on as co-owners of a business for profit. The persons so associated are called partners. In other words, it can also be defined as the relationship that exist when two or more persons contribute skill, money or money’s worth in order to establish, own and manage business organisation with the sole aim of making profit and jointly responsible for any losses. There are few formalities in the formation of a partnership

To organize a business, you may also create a partnership. A firm having two or more proprietors is legally referred to as a partnership. A partnership agreement specifies how partners will legally split a company's assets, obligations, and earnings. Although a formal partnership agreement, also known as the articles of partnership, is not required by law, it is advisable to consult with a lawyer to create one that outlines the status, obligations, and rights of each partner. For the benefit of each partner, the partnership agreement is a written statement of all the conditions under which the partnership should be operated.

**Characteristics of Partnership**

* + 1. There may be between 2 to 20 partners; but 2 to 10 partners in case of banking business.
    2. The partnership must be registered with the Registrar of company.
    3. At least one of the partners must have unlimited liability.
    4. If one of the partners dies or leaves the association, the partnership dies or dissolves automatically.
    5. Withdrawal of capital by one partner must be approved by other partners as laid down in their partnership deed.
    6. Partnership is not a legal entity.

**Types of partners on the basis of the involvement in partnership**

An entrepreneur who is interested in a partnership business structure should make an effort to comprehend the kinds of partners that may be included in this structure. Partners can be categorized based on their responsibility, level of management involvement, management share of the profit, and other factors. The following types of partners are organized

* 1. **General partner:** A general partner is a partner who owns the company with unlimited liability and participates in its management.
  2. **Limited partner:** A limited partner is an owner who contributes funds to the company but is not responsible for management decisions or financial obligations beyond the initial investment.
  3. **Silent partners:** These are partners who are acknowledged by the general public as the company's owners but may not actively participate in its marketing.
  4. **Secret partners:** These partners participate actively in the operation of the firm but are not recognized as partners by third parties.
  5. **Sleeping partners:** Also referred to as inactive partners, these individuals are neither acknowledged publicly as partners nor take part in the company's management. They only receive a portion of the business's profit or loss based on the capital they invested.
  6. **Nominal partners:** These partners are acknowledged in the public as such, but they have no ownership stake in the company and hence no managerial powers. They only give their names to the business and might be held responsible for some of the partnership's debt.

**Partnership Deed**

Partnership deed can be defined as a written agreement, rules and regulations that guide members of partnership business. The deed contains the following items among others.

* + 1. Name of business firm.
    2. Names of the partners.
    3. The place of business.
    4. The description of the nature of business.
    5. The amount of capital contributed by each partner.
    6. The role of each partner in the business.
    7. The method by which profits and losses are to be shared.
    8. The compensation, if any, to be received by each partner for services rendered to the business.
    9. The rights and obligations of the partners.
    10. Interests to be paid on capital and drawings of the partners.
    11. How long the business shall last.
    12. Procedures for the admission of the new members.
    13. The limitations of liability of one or more partners.
    14. How matters affecting the business shall be resolved.
    15. Arrangement for the dissolution of the business.

**Rights and Duties of Partners**

* + 1. Each partner is entitled to participate in the management of the firm.
    2. Each partner has the right to inspect the books at the place of business.
    3. No partner may be expelled by the other partners unless there is an express provision for this in the Deed of Partnership.
    4. Unless there are unanimous consents of all partners, no new partner can be admitted into the business.
    5. All partners have the right to share equally in the profits and must contribute equally to the losses of the firm.
    6. Each partner must be indemnified for payments and liabilities incurred in the ordinary course of partnership business.
    7. Each partner must deal in partnership affairs with the utmost good faith and consent to changes in the nature of the partnership business.
    8. No partner is entitled to interest on his capital before profits have been determined.
    9. Any partner who loans or advances money to the firm to use in the partnership business over and above the amount of capital he has agreed to contribute is entitled to receive interest on the amount advanced.

**Advantages of Partnership**

1. Greater capital or financial resources.
2. Greater specialisation and diversified managerial talents.
3. Better credit rating than the sole proprietorship.
4. Less government regulations.
5. Creation of employment opportunities.
6. Cordial relationship existence between partners and customers.
7. Taxes are paid on individual partner’s income only.
8. Opportunity for extending the business and for increasing its efficiency by exploiting the benefit of division of labour.
9. Joint and better decisions can be easily taken by partners.

**Disadvantages of Partnership**

* + 1. **Unlimited Liability:** Each partner is individually liable for all the debts of the business and that the liabilities of the owners are not limited to the amount contributed into the business.
    2. **Not a Legal Entity:** Partnership does not have separate legal entity different from owners.
    3. **Disagreement:** Disagreement among the partners can lead to dissolution especially if some fundamental issues are at stake.
    4. **Limited Life:** This means that the partnership dies at the death or bankruptcy or resignation or retirement of one partner.
    5. **Limited Capital:** It is difficult to acquire long-term loan because of lack of continuity.
    6. Difficulty in finding qualified and agreeable partners.
    7. Delay in decision taking because of the need to consult with every partner.
    8. **General Agency:** Any action taken by one partner is legally binding on all the other partners. Therefore, there is possibility of entering a partnership with someone whose business judgment is poor.

**Benefits of Partnerships**

1. More financial resources More easily established
2. pooled/complementary talents and knowledge under shared management
3. sharing of profits
4. Governmental limitations should be kept to a minimum.
5. Flexibility
6. avoiding double taxes
7. Secrecy
8. extended survival

**Partnership Drawbacks**: The following are the drawbacks of partnerships.

1. perpetual liability
2. sharing of profits
3. Disagreement between spouses, particularly around power and control
4. Because partners are obligated under the law of agency, it is difficult to terminate.
5. Limitations on ownership transfers
6. Lack of continuity

##### Dissolution and Termination of a Partnership

Partners anticipate that their business ties will endure a lifetime. But the majority do not. When the entrepreneur learns he or she is not in command of his or her own firm, there is a chance that issues might arise. Even in successful partnerships, there is always a concern that the partners would adopt distinct corporate objectives. The partnership may be dissolved or ended by the partners. Therefore, dissolution happens when a general partner no longer has a connection to the company. This may be as a result of:

1. The passing of a deadline or the conclusion of the project, as specified in the cooperation agreement.
2. A general partner's expressed desire to shut down operations.
3. The dismissal of a partner in accordance with the terms of the contract.
4. A general partner's withdrawal, retirement, insanity, or demise (except when the partnership agreement provides a method of continuation).
5. The partnership's or any general partner's bankruptcy.
6. The addition of a new partner, which causes the existing partnership to end and the creation of a new partnership.
7. A court ruling stating that a general partner is permanently crazy or incapable of carrying out their obligations under the partnership agreement.
8. Growing losses that make running the firm impractical.

## 

## 2.4.3 Limited Liability Companies

A company can be defined as an association of people who agreed to, and jointly pool their capital together in order to establish a business venture distinct from owners. Limited Liability Company is also called Joint Stock Company. It exists in law absolutely independent of the owners. This implies that the owners have limited liability. That is, their liability is limited to the amount of capital they have invested in the company. Limited Liability Company can own property, make contracts, borrow money, sue and can be sued. And it has an indefinite life not dependent on the life of its owners.

Companies are incorporated in different ways depending on the jurisdiction. Each nation has a set of rules that govern how businesses are registered and run. The main legislation governing the creation and registration of businesses in Nigeria is the Companies and Allied Matter Act (CAMA) of 1990.

##### Formation of Company and Capacity of Individual

In accordance with the provisions of the act, two or more people may create and incorporate a company under Section 18 of CAMA 1990. It also describes the type of individuals that can band together to start a corporation. Anyone who falls into one of the following categories is not eligible, according to Section 20:

* + 1. He/she is under the age of 18;
    2. He/she has been determined to be mentally ill by a court in Nigeria or elsewhere;
    3. He/she is an un-discharged bankrupt;
    4. He/she is disqualified under Section 254, which states that a person is disqualified if they have been found guilty by a High Court of any offense related to the promotion, formation, or management of a company, etc.

**Types of Companies:** three types of companies can be identified

1. Limited by shares
2. Limited by guarantee
3. Unlimited company

A business is considered to be limited by shares if the memorandum limits the liability of its members to the amount remaining on the shares, they each own, if any. A corporation is considered to be limited by guarantee if the memorandum specifies the maximum amount that each member may agree to contribute to the business's assets in the case of its dissolution. When a corporation's members' liability is unrestricted, that firm is said to be limitless.

##### Private liability Companies

The minimum number of shareholders for a private liability corporation is two, and the maximum number is fifty, excluding all current and former workers (according to Section 22 Subsection 3). A private corporation may have up to fifty members in total, except those who are legitimately employed by the company, were employed by the company at the time of the finding that they were employees, and have continued to be employed by the company following that determination. The private company's bylaws must place restrictions on the transfer of its shares, which means that the company's shares cannot be transferred through a public offer for subscription. The term "limited" must conclude the name of a private corporation according to the legislation.

The shareholders of a public liability firm are other members of the public. Typically, shares are freely transferrable. Large trading concerns known as public businesses have a minimum membership requirement of two but no maximum. A public company's name is often concluded with Public Limited Company (PLC).

**Features of a Private Limited Company**

* + 1. It is established by two to fifty persons.
    2. It is managed by Board of Director headed by a Chairman.
    3. Limited Liability up to the number of shares held.
    4. Members of the public cannot be invited to subscribe to shares.
    5. Payment of shares of profits is on the basis of the number of shares held.
    6. There is restriction on transfer of shares.
    7. It does not require by law to publish its financial statements at the end of the year.
    8. The shares are not quoted in the stock exchange.
    9. Voting right is according to the number of shares held

**Public Limited Liability Company**

This type of company can be formed by minimum number of seven persons while it has no maximum number. It is otherwise known as an open company. This means that its shares are available for sale to the public and it is usually through the stock exchange. The shareholders are the real owners of the company and are free to transfer their shares to other people. The liability of shareholders is limited to the amount invested in the company.

**Features of Public Limited Liability Company**

* + 1. It has minimum of seven owners but has no upper limit.
    2. The public can subscribe to its shares.
    3. Shareholders can transfer their shares on stock exchange market.
    4. It is managed by Board of Directors through appointed Managing Director.
    5. The liability of the shareholders is limited.
    6. It is a legal entity different from the owner.
    7. Dividend is paid to shareholders on the basis of the shares they held.
    8. Required by law to prepare its financial statement on annual basis.
    9. It can commence business as soon as both certificate of incorporation and certificate of trading are obtained.

**Legal Requirements for Company Registration**

Section 35 of the Companies and Allied Matter Acts defined the papers of incorporation as follows:

1. Memorandum of Association;
2. Articles of Association;
3. Notice of the address of the registered office and head office;
4. Statement of the lists and particulars of the first directors of the company;
5. Statutory declaration of compliance with the provisions of the acts
6. Any other document that may be required by the Corporate Affairs Commission

(CAC), e.g. tax certificate of the directors, etc.

Memorandum and Articles of Association: The foundational documents that make up a company's constitution are these two. They serve as the primary documents for incorporation. The provisions of the Memorandum of Association supersede those of the Articles of Association. The Memorandum of Association is thus preferable to the Articles of Association. When the two clauses clash, the one from the Memorandum of Association takes precedence and is followed.

The Memorandum of Association contains the fundamental law of the company that regulates the relationship between the firm and the public. It contains the following amongst others.

* 1. The name of the company with either the word “Limited” or “PLC” (Public Limited Company) as the last word as the case may be.
  2. The location of the registered office of the company.
  3. The objectives of the company.
  4. The amount of authorized capital and how it is divided into various classes of shares.
  5. The names and addresses of the promoters and the amount of the capital taken by each of them.
  6. A statement indicating that the liability of the company’s shareholders is limited.
  7. The statement indicating that the company is a going-concern.
  8. The conditions for the amendment of the Memorandum of Association.

Contents of Memorandum of Association: Section 27 of CAMA 1990 specified the content of the Memorandum of Association. The content include among others:

1. Name of the company: For a private company to end with (Ltd); public company to end with (PLC), i.e. both are limited by shares. If limited by guarantee to end with limited by guarantee or (Ltd/GTE). No two different companies must have an identical name;
2. The address of the registered office of the company must be located in Nigeria;
3. The object of the company: the type of business and contract the company can lawfully enter into;
4. The restriction, if any, on the powers of the company;
5. Share capital clause: minimum share capital required for private company is ~~N~~10,000, while that of public company is ~~N~~500,000;
6. Liability closure: the statement whether the liability of its members are limited or unlimited or limited by share or guarantee;
7. Subscription clause: the subscribers of the memorandum are required to subscribe nothing less than 25% of the company’s share capital. Each subscriber must write his full names, signature, profession or status as well as address on the column provided.

**Content of the Articles of Association:** The guidelines for the internal administration of the company's affairs are set forth in the Articles of Association. The rights, duties, and responsibilities of the members to one another as well as their rights, duties, and obligations to the company and vice versa are governed by the articles of association. Additional things in the document include:

* Membership;
* Meetings, notices of meetings, conduct of meeting;
* Directors, their qualifications, disqualification powers, duties, etc;
* The company borrowing powers;
* Company Secretary;
* Custody of the company’s common seal.

This document lays down the internal rules and regulations governing the relationship between the company and its members. It contains the following:

* 1. The duties, rights and position of each member of the company.
  2. The method of issue, transfer and forfeiture of company shares.
  3. The rights and responsibilities of shareholders.
  4. The method of the appointment of the Directors.
  5. The rights and powers of the Directors.
  6. How dividends made by the company are to be declared and shared.
  7. The procedure for accounting and auditing the company’s book.
  8. How general meetings are to be held and members voting rights.
  9. How the minutes of the Annual General Meeting may be recorded and preserved.
  10. Methods of settling disagreements among the company’s members.
  11. Procedures for winding up the company in the event of liquidation.

**The Prospectus**

Public Limited Liability Companies are expected to submit prospectus, which serves as mechanism for raising capital. A prospectus is a document of notice, which extends invitation to the general public to subscribe to the shares of the company. It is mandatory that a copy of the prospectus be filed with the Registrar of companies and in certain cases approved by the council of the stock of exchange. The prospectus contains the following information:

* 1. The names and addresses of all the Directors of the company..
  2. The types of shares available for purchase in the company.
  3. When and how shares may be bought.
  4. Minimum and maximum number of shares a subscriber may apply for.
  5. The relative cost of the shares.
  6. Financial history of the company.
  7. Possible value of the assets and liability of the company.

**Certificate of Incorporation**

This is the certificate issued by the Registrar of Companies to signify that a business unit has been incorporated. This certificate is usually given to both private and public limited companies after the Registrar of Companies is satisfied with the information contained in Memorandum of Association and Article of Association. The certificate of incorporation confers legal status on a company. Once the certificate of incorporation is obtained, the private limited company can commence operation. However, public limited company cannot do so until it is issued another certificate called certificate of trading.

**Certificate of Trading**

This is a certificate issued to a public limited liability company by the Registrar of Companies to commence business and exercise borrowing powers. It should be noted that the certificate of trading is issued only when the company has fulfilled some requirements like raising the minimum required capital from the public, and each director has paid for his own shares among others.

**Advantages of Limited Liability Company**

* + 1. It enjoys a separate legal entity distinct from the owners.
    2. The liability of the owners is limited to the amount invested in the company.
    3. Death or withdrawal of a shareholder does not lead to the end of the business.
    4. It is easy to expand business because of availability of large capital.
    5. There is opportunity for the employees to acquire shares in the company and thus become co-owners.
    6. The interests of the shareholder in the business are safeguarded as no secret profit can be made.

**Disadvantages of Limited Liability Company**

* + 1. The formalities and requirements by law for the establishment of a limited liability company are very cumbersome.
    2. Public Limited Liability Company lacks privacy because it is required by law that the company must publish its account for public consumption.
    3. The managers of the business are not always the owners of the business.
    4. Huge capital is required for the formation and running of the business.
    5. Disagreement between shareholders and members of Board of Directors may bring the company’s progress to a halt.
    6. Delay in policy and decision making as it takes long time for the members of the Board of Directors, which is the decision and policy making body to convene a meeting and take decision.

**Winding Up of Limited Liability Companies**

By winding up of limited liabilities companies, we mean bringing the existence of the companies to an end. Limited liability companies may be wound up or liquidated as a corporate entity as a result of any or all of the following reasons:

* + 1. The expiration of the agreed life span of the company.
    2. If there is unnecessary delay to commence business for about a year from the date of incorporation.
    3. If the membership falls below the minimum number of two for private and seven for public liability companies respectively.
    4. If the company default in filing its statutory reports.
    5. The occurrence of event beyond the owners’ control.
    6. When the court order that the company should be wound up.
    7. By passing special or ordinary resolution partly as a result of the company’s involvement in illegal act.
    8. By passing special resolution as a result of the company’s inability to pay its debts.
    9. If the Registrar of companies strikes out the company’s name from the register for reasons not unconnected with criminal violation of the Companies Act regulation.

## 2.4.4 Co-operative

A co-operative is a type of corporate ownership that entails shared ownership of a manufacturing, storage, transportation, or marketing organization. Some people object to the idea that business owners, managers, employees, and customers are distinct parties with distinct objectives. They see a scenario in which individuals will cooperate with one another in a group setting and distribute money more fairly. This is why the type of corporate ownership known as cooperatives is necessary.

Cooperative society is a very old form of business and economic alliance by the people. It exists in the olden days and even presently in form of contributions like Ajo, Adashe or Esusu (as they are called in the local languages). By definition, a cooperative society is a business organisation established by a group of individual people of similar economic background with the aim of protecting common interest of their members. Membership of a cooperative society is voluntary and open to all persons and members are free to leave when they wish, enjoy all the benefits as well as bear the full risk of the organization (Ojo, 2009).

**Features of Cooperative Societies**

* + 1. It is a democratic organisation of one man one vote.
    2. Membership is open to those who fulfil certain conditions stipulated by the societies.
    3. The minimum required membership is two.
    4. Dividend paid to members is based on patronage.
    5. Little interest is paid on capital.
    6. Elected members run the society on behalf of members.
    7. It is a voluntary association.
    8. The sole aim of cooperative societies is not profit maximisation but to promote the economic activities and welfare of the members.

**Types of Cooperative Societies**

* + 1. **Consumers Cooperative Society (CCS):** This is the oldest form of cooperative societies. This type of cooperative society is established by consumers, usually with low incomes, for the distribution of basic consumer goods, primarily among its members and sometimes to outsiders living in the same locality. It is formed to:

1. Educate members on the needs for cooperative association.
2. Reduce exploitation of the consumers by buying large in quantity from wholesale market and sell them at cheap retail market prices.
3. Ensure that good sold are of high quality and not adulterated ones.
4. Encourage saving among its members.
5. Improve both the quality of life and standard of living of members.
   * 1. **Producers’ Cooperative Society (PCS):** This is otherwise known as produce marketing society. The producers’ Cooperative Society is the association of producers of similar products who have come together in order to promote the production and sale of their product. At times, members of this society like farmers and other producers of primary products, may contribute money in order to buy or hire equipment, machinery and raw materials at reduced rates and use them to enhance their productive activities.It is set up to achieve the following additional purposes:
6. Make expensive machines and equipment needed for production available through leasing.
7. Educate and train members on newly discovered method of production.
8. Make improved seedling available to producers.
   * 1. **Credit and Thrift Cooperative Society (CTCS):** This is one of the commonest and oldest type of cooperative societies found in our present-day society. This type of cooperative society is organised for promoting and providing its members with a ready source of fund at moderate rate of interest. It performs the following additional functions.
9. It encourages members to save.
10. It buys essential products and sells to members at reduced rate.
11. It educates members on the necessity of cooperative society.
12. **Multipurpose Cooperative Society (MCS):** As the name implies, a Multipurpose Cooperative Society combines two or more functions and features of different types of cooperative societies. It is set up to provide comprehensive services to members.
13. **Retailers Cooperative Society (RCS):** This type of cooperative is formed by retailers of same or similar products or by retailers in the same or close locality. RCS is set up to achieve the following objectives among others.
14. Pooling resources together to buy in large quantities.
15. Increases retailer’s mark-up and hence profit margin.
16. Improves the standard of living of members.
17. **Wholesalers Cooperative Society (WCS):** As indicated by the name, WCS is formed by wholesalers of same or similar products. Its functions are similar to that of retailers’ cooperative society discussed above.
18. **Apex Cooperative Society (ACS):** This is an umbrella cooperative society in a given geographical area and it is meant to perform a number of functions which include the following:
19. Training of staff of primary cooperative societies.
20. Provision of books of record of cooperative society at affordable prices.
21. Looking for and make available latest developments in other cooperative societies as obtained elsewhere.

**Advantages of Cooperative Societies**

* + 1. The credit and thrift cooperative society encourages its members to save their money for raining day.
    2. Cooperative societies provide credit facilities to its members either through cash or leasing or hiring of equipment.
    3. It stimulates economic growth and development through encouragement of mass production and distribution processes.
    4. It educates its members in the areas of production, buying and selling, and distribution of goods and services.
    5. It promotes the welfare and standard of living of members by making goods available to members at reduced rate.
    6. It encourages interpersonal relationship among members as they treat themselves as brothers, sisters, friends and colleagues.

**Disadvantages of Cooperative Societies**

* + 1. Majority of cooperative members are not well educated and do not understand the working and principles of cooperative societies.
    2. Lack of interest by the members on how the society is managed. Thus, some of them are managed by members who lack administrative and managerial acumen.
    3. Insufficient capital is one of the challenges militating against expansion of cooperative societies places.
    4. Some cooperative societies have high enrolment rate of members to the extent that the managers find it difficult to effectively coordinate and control the association.
    5. Cooperative societies suffer from lack of secrecy because their affairs are exposed to all the members.

**2.4.5** **Public Corporations/Enterprises**

A public corporation or enterprise can be described as a business organisation, established, owned, managed and financed with tax payers’ money by government of a country with the main objective of rendering essential services to members of the public. A public corporation is also known as public enterprises or statutory corporation. It is established by acts of parliament which also determine the functions it will perform. Public corporations are owned by the government but managed by board of directors appointed by the government; examples are National Electric Power PLC, Nigerian Airways, Nigeria Railway, NITEL, Water Corporation, etc. They are non-profit making business organisations.

**Characteristics or Features of Public Corporations**

1. **1. Ownership and Finance** It is owned by government and financed with tax payers’ money.
2. **Capital Involvement** A huge capital involvement is significant in the establishment, running, and maintenance of the public corporation.
3. **Motive** Public corporations are not set up for profit motive but to provide essential services to the general public at the least minimum affordable price.
4. **Type of Services Rendered** Essential services meant for the benefit of entire populace are rendered such as provision of electricity and pipe borne water among others.
5. **Method of Establishment** A public corporation is established by Acts of Parliament.
6. **Enjoyment of Monopoly** Usually, public corporations enjoy monopolistic power in the sense that there is no competition from other organisation in the provision of essential services.
7. **Ownership and Management** Public corporations are owned by the government of a country and managed and controlled by Board of Directors appointed by the same government.
8. **Restriction of Services** In spite of the essential nature of its services, a public corporation may not be able to extend its services to every nook and cranny of the country.

**Merits of Public Corporations**

* + 1. **Legal Status** The owners of public corporations cannot be sued to court, but the corporations themselves can sue and be sued because they are legal entities.
    2. **Availability of Large Capital** Public corporations enjoy the advantage of having large capital base because they are financed by government with tax payers’ money. This is why they are able to render essential services at reasonable amount.
    3. **Large-Scale Production** Public corporations can enjoy economies of large-scale production because they have huge capital resources that can be used to operate large economies of scale in serving very large market.
    4. **Generation of Employment Opportunities** Apart from agriculture and government administrative duties, public corporations provide more employment opportunities than other business organisations because this is one of the reasons why government established them.
    5. **Enjoyment of Monopoly** **Power** Public corporations are not to compete with any other business organisations. They are also protected by government through law as private enterprises are not allowed to duplicate public corporation effort in the provision of essential services.
    6. **Continuity** Public corporations are going concerns whose continued existence is guaranteed. The exit of a member of the board of directors or their dissolution or even a change of government can never affect the continued existence of a public corporation.
    7. **Employee Welfare** The interests of the workers of public corporations are adequately taken care of through various welfare schemes available to them, e.g. conducive working environment, health and safety provision, pension and gratuity among others..
    8. **Provision of Efficient Services:** In theory, public corporations are established to provide essential services needed by members of the public at affordable prices because they are supported by the government financially and otherwise.
    9. **Prevention of Exploitation** The sole aim of public corporations is the provision of essential services for the generality of people and not for profit motive. Therefore, they are devoid of any exploitative tendencies. That is why they charge reasonable prices for their services.

**Demerits of Public Corporations**

* + 1. **Undue Government Interferences:** The board of directors appointed on political basis to oversee public corporations is unduly interfered with by the government in the internal day to day management of these corporations. These undue interferences prevent policy stability and good business judgment in decision making process of the directors of these corporations.
    2. **Bureaucracy:** There are lot of complicated administrative bottlenecks and lot of red-tapism which delay decision making, slow down implementation of action plan and sometimes lose focus or direction.
    3. **Inefficiency:** This is as a result of the unconcern attitude of the workers to work; in fact many public corporations are manifestations of inefficiency. Workers are not serious because they view pubic corporations as property of nobody and when they reported for work they are “not on seat” fifty percent of the working hours. There is generally poor attitude to work.
    4. **Huge Capital Involvement:** The establishment of public corporations require huge capital which the government may not even be able to undertake on its own unless she enjoy financial backings from external bodies.
    5. **Delay in Policy and Decision Formulation:** This is because their decisions and policies are taken and made by members of the board of directors, subject to government ratification. In addition, the acts of parliament that established them make it difficult for them to change easily in order to suit new conditions.
    6. **Social Vices:** One of the reasons for poor performance of public corporations is the existence of social vices in the day-to-day management and administration of these public corporations. Social vices that are evident in public corporations included but not limited to nepotism, tribalism, bribery and corruption, and political victimisation. These and other vices do cripple public corporations in the performance of their functions.
    7. Lack of cordial relationship among workers and board of directors which may be as a result of differences in political views or some other sentiments which may not augur well for the progress of the organisation.
    8. Enjoyment of monopoly as a result of government ownership of these corporations makes them to operate without competition and it renders them inefficient. In addition, many public corporations are inefficient because their officials strive in delusion that government’s main motive for establishing these corporations is not to make profits.
    9. Civil servants lack the necessary business acumen for effective performance of public corporations. Favouritism in the appointment of general manager and board of directors leads to the enthronement and glorification of mediocrity in place of meritocracy. In other words, appointments into the high echelon of the administrations of public corporations are based on political rather than economic considerations as a result of government ownership.

**Disadvantages of Government Ownership of Public Corporations**

* + 1. Government ownership of public corporations leads to frequent interference into the affairs of these corporations and it slows down their effectiveness.
    2. Many public corporations are inefficient because their officials strive in delusion that government’s main motive for establishing these corporations is not to make profits.
    3. Appointments into the high echelon of the administrations of public corporations are based on political rather than economic considerations as a result of government ownership.
    4. Enjoyment of monopoly as a result of government ownership of these corporations makes them to operate without competition and it renders them inefficient.
    5. Bureaucracy and red-tapism, i.e. inform of delay in decision making process.
    6. Kickbacks and lot of resources are wasted. High embezzlement propensity of the officials.
    7. Civil servants lack the necessary business acumen for effective performance of public corporations. Favouritism in the appointment of general manager and board of directors leads to the enthronement and glorification of mediocrity in place of meritocracy.
    8. Government ownership of public corporations – denies consumers of their traditional rights to choose and pick.
    9. Lack–lustre attitude of the workers of the public corporations who regard the corporation as government property. There is generally poor attitude to work.
    10. Ethnicism, sectionalism and political victimisation cripple public corporations in the performance of their function.
    11. Political instability which results to frequent changes in government and officials of this public corporation.

**2.5 Concept of Entrepreneurship**

The aptitude and preparedness to create, plan, and manage a commercial enterprise—along with all of its uncertainties in order to turn a profit is what is meant by entrepreneurship. The creation of new firms is the most visible illustration of entrepreneurship.

In terms of economics, entrepreneurship including land, labor, raw materials, and capital may be profitable. The entrepreneurial vision is characterized by exploration and taking risks, and it is a crucial component of a country's ability to prosper in a world market that is always evolving and becoming more competitive.

**Meaning of Entrepreneur**

A person who possesses the aptitude and motivation to launch, manage, and be successful in a start-up enterprise, coupled with the risk necessary to do so, is referred to as an entrepreneur. The launch of a new company endeavor is the finest illustration of entrepreneurship. The market is opened up to new ideas by entrepreneurs, who are frequently credited as innovators or sources of fresh concepts.

From tiny, home-based businesses to international corporations, it may be categorized. An entrepreneur produces money in economics by combining land, natural resources, labor, and capital.

**2.6 What are the four (4) Types of Entrepreneurship?**

1. **Small Business Entrepreneurship:** A hair salon, grocery store, travel agency, consultant, carpenter, plumber, electrician, etc. are some of these companies. These folks own or operate their own businesses and employ locals or members of their families. They obtain loans from friends and family or small business lenders to finance their enterprise.
2. **Scalable Startup Entrepreneurship:** This new company owner launches a venture with the conviction that their vision can alter the course of history. They draw intelligent investors and support unconventional thinking. They employ the smartest and the brightest workers since the research focuses on scalable businesses and experimental models. For their concept or business to be supported and funded, they need additional venture money.
3. **Large-scale business ventures:** These large corporations have established life cycles. The majorities of these businesses expands and remain profitable by introducing fresh, cutting-edge goods that complement their core offerings. Large businesses are under pressure to develop an innovative product and market it to a new group of customers in a new market as a result of changing technology, customer preferences, new competition, etc.
4. **Social Entrepreneurship:** This kind of entrepreneurship is centered on creating goods and services that address issues and needs in society. Working for society rather than generating any profit is their sole slogan and objective.

**Entrepreneurship characteristics**

There are specific traits that make entrepreneurship successful; not all entrepreneurs are successful. Here are just a handful of them:

* + 1. Ability to take a risk: Starting a new business endeavor has a high chance of failure. As a result, becoming a successful entrepreneur requires the bravery and ability to weigh the pros and cons of taking chances.
    2. Innovation is essential if you want to come up with fresh concepts, launch a business, and make money from it. Change can take the form of a brand-new product entering the market or a method that does the same task but more effectively and economically.
    3. Leadership and visionary qualities – An entrepreneur needs a strong vision for his new business in order to succeed. However, a lot of resources and staff are needed to make the notion a reality. Here, a leader's ability to inspire and direct their team members down the successful road is crucial.
    4. Open-Minded: Every situation in business may be turned into an opportunity and exploited to a company's advantage. For instance, Paytm took advantage of the circumstance and rapidly increased its business during this period since it understood the seriousness of demonetization and the increased necessity for online transactions.
    5. Know your Product: A business owner should be knowledgeable with the available products as well as the most recent market trends. It is critical to understand if the offered product or service satisfies market demands or needs some minor adjustments. Being able to take responsibility and then adjust as necessary is essential to entrepreneurship.

**2.7 Importance of Entrepreneurship**

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

* + 1. **Employment Generation:** It helps to provide jobs through the establishment of new businesses, especially small and medium scale enterprises.
    2. **Productivity:** One of the factors for the greater interest in entrepreneurship has been the increasing recognition of its role in raising productivity through various forms of innovation. Entrepreneurs, through their innovation and creativity are capable of transforming existing business sectors, and creating new sectors. They are helping to bring about new goods and services (expanding productivity) and supplying the needs of large enterprises, which have to rely on their operations for business success.
    3. **Facilitate the Transfer/Adaptation of Technology:** It enables entrepreneurs to have the opportunities of developing and adapting appropriate technological methods and provide a veritable avenue for skilled, unskilled and semi-skilled workers.
    4. **Ensures Increased Resource Utilization:** It helps entrepreneurs to put limited resources that might otherwise remain idle into good use. They contribute to the mobilization of domestic savings and utilization of local resources, including human resources.
    5. **Stimulates Growth in those Sectors which Supplies it with Inputs:** Entrepreneurship stimulates growth in its supply market. The greater the number of entrepreneurships that exist in the downstream of a particular sector, the greater the market. Hence, the greater the potential for increased capacity utilization.
    6. **Reinvigorates large-scale enterprises and public enterprises:** Most large-scale enterprises and public sector enterprises depend on the activities of small and medium scale enterprises (SMEs) to supply them with various raw materials and other component parts and also to assist them in the distribution of the finished goods to the final consumers. Entrepreneurship has made it possible to be able to transform the public sector into a viable, market oriented and profitable organization.
    7. **Encourages and Sustains Economic Dynamism that Enables an Economy to Adjust Successfully in a Rapidly Changing Global Economy:** As a result of the dynamic nature of the environment, small and medium scale enterprises have no choice than to respond and adapt to environmental changes from time to time.
    8. Enables individuals to use their potential and energies to create wealth, independence and status for themselves in society.

**2.8 Types of Entrepreneur**

Different sorts of entrepreneurs may manifest themselves depending on how they engage with the business environment. Accordingly, Rockstar (2008) classifies entrepreneurs into four categories: Innovative, Imitating, Fabian, and Drone.

1. **Innovative:** This kind of business person is focused on introducing something novel to the industry, company, or country. They are enthusiastic about innovations and make significant investments in R&D.
2. **Imitating:** These are additionally known as "copy cats." They take note of an existing system and improve upon it. Through their vision, they may enhance a current product, production method, or technology to produce something comparable but superior. Here, the apprentice has surpassed the master in ability.
3. **Fabian:** These business people implement any adjustments with great attention and caution. In addition to this, they lack initiative and are lethargic.
4. **Drone:** These are the change-averse businesspeople. They are viewed as being "old school." They desire to maintain their conventional or traditional production methods and processes. Entrepreneurs play three different roles, including that of agents of economic, social, and technical change. Behavioral roles are what we refer to as these. Despite the many types and functions of entrepreneurs, they all share some traits and are inspired to start their own business for a variety of reasons, which we will cover in this section.

## 

## 2.9 Roles of Entrepreneurs

Entrepreneurs must play specific roles in order to successfully carry out their duties and run a profitable firm. These responsibilities are the same as the fundamental management roles that Henry Mintzberg described in 1973. These are what they are:

1. **Figure Head Role**: The entrepreneur must serve as the organization's symbolic leader, performing ceremonial tasks in that capacity. By representing the company in official and casual events, this is accomplished. The entrepreneur must play the role of a leader since it is they who bring the many stakeholders together to start the firm. So, in order to lead the organization's personnel, he or she must hire, fire, train, and inspire them.
2. **Liaison Role:** The entrepreneur must serve as the conduit between the company and those outside the company. The role of the entrepreneur is that of a monitor; he continuously keeps an eye on the company's internal and external environments. The entrepreneur's role as an information disseminator entails acting as the organization's spokesperson and disseminating information both inside and outside the company.
3. **Spokesman Role**: The manager must speak on behalf of the company; he or she represents it both internally and externally. The primary responsibility of an entrepreneur is to create new business ventures and take on the associated risk.

## 2.10 Creativity

Although the words "innovation" and "creativity" are frequently used interchangeably, they each have a distinct meaning. The capacity to create something new is what is meant by creativity. This focuses on the "ability," rather than the "action," of creating something new. So, even if someone has an original idea and can see how it can be valuable, they might not necessarily take the required steps to make it a reality. Doing new things is the process of innovation. It is the transformation of original concepts into products that consumers are willing to purchase. This difference is important. Before they are transformed into new goods, services, or procedures, ideas are of little value.

## Innovation and its benefits

Zimmerer (2008) defines innovation as the particular tool of entrepreneurs, the technique by which they take advantage of change as a chance for a new product or service. Innovation is a component of corporate entrepreneurship and refers to a company's dedication to developing and launching new goods, procedures, and organizational structures. By creating unique processes, solutions, goods, and services as well as new ways to market them, innovation adds value and novelty for an organization's suppliers, customers, and employees.

According to Knight (1997), an organization's ability, capacity, and desire to promote innovation and experimentation to address persistent consumer problems constitutes its level of innovativeness. Creativity and experimentation that lead to new services, goods, or enhanced technical processes are what it means to be innovative. It may be said to be the most important element of corporate entrepreneurship.

Innovation is the result of a company's successful creation and application of new technology, as well as awareness of market potential.

A company must have a free-flowing, "boundary-less" brainstorming culture in order to produce unique ideas. Organizations must also go past the present situation and abandon outdated technology and methods. Its characteristic highlights a company's requirement to introduce innovation with additional value.

Innovation may result in a competitive advantage and serve as a foundation for business expansion. Innovative businesses build solid, favorable market reputations. They participate in opportunity exploration, which involves actions like attempting to rethink present work procedures, products, or services, or searching for methods to improve existing goods or services. Additionally, innovative businesses adjust to market shifts and seize market or opportunity gaps. Additionally, persistent innovation separates entrepreneurial businesses from their competitors in the marketplace, increasing financial return.

##### Forms of Innovations

Innovations can take a variety of forms, according to Hamel (1997) in Dess and Lumpkin (2005):

Research and engineering activities focused at creating new goods and processes make up the majority of technological innovativeness.

Market analysis, product design, and improvements in advertising and promotion all contribute to products-market innovation.

Administrative innovation is concerned with uniqueness in organizational structure, control methods, and management systems.

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**CHAPTER THREE**

**BUSINESS ENVIRONMENT**

**3.0 Introduction**

Businesses operate in a resource-constrained world where they must compete with other businesses for resources. The company conducts local operations in the nation and foreign operations in other nations. Being in a business environment is unexpected and uncertain, and the environment itself is complicated and ever-changing. The nature of the internal and corporate settings is examined in this subject.

Business managers must realize that they are operating in a given environment. Thu, they must take into account the influence of the environmental forces that can affect the performance of their organizations. They must have sufficient knowledge to be able to identify, evaluate and cope with environmental forces that may affect the operations of their organizations. Therefore, any manager that wants to succeed must be mindful of the organization’s environment, both internal and external. In this module, our attention will be focused on a number of issues identified in our learning objectives.

**3.1 The Nature of the Business Environment**

The factors and circumstances both inside and beyond the company's borders that might have an impact on how the organization does business are referred to as the business environment. These factors and circumstances fluctuate from time to time. Organizations can take advantage of the possibilities and avoid the hazards presented by the business environment. Examples of environmental developments that present chances for managers to acquire resources or enter new markets and so enhance their firms include the introduction of new technology or the opening of global marketplaces. In contrast, if managers are unable to secure resources or sell the company's goods and services, the emergence of new rivals, a worldwide economic downturn, or an energy crisis pose threats that can destroy an organization. Organizational performance is significantly influenced by managers' grasp of organizational environmental pressures and their capacity to react properly to such forces.

**3.2 Features of the Business Environment**

When we examine the elements of general and task environments carefully, it is discovered that these environments create a complex set of conditions for any particular organization. Although the specifics vary from one organization to the other, the characteristics of the environment can be broadly described in terms of its dynamism, complexity, uncertainty and munificence.

* + 1. **Dynamism:** In its simplest meaning, environmental dynamism refers to the rate and predictability at which the elements of an organisation’s environment are changing. Environmental dynamism can be divided into two major groups: stable and unstable environments. Organization’s environment is said to be stable when the rate of change is slow and it’s relatively predictable. On the other hand, environments in which the rate of change is fast and it’s relatively unpredictable are said to be unstable. The greater the elements of the environment become more unstable, the greater the challenges they present to the businessman. Thus, environmental dynamism requires managers to continually keep abreast of what is happening by studying the organization’s environment as an important ongoing process, not a one-time task (Ojo & Omatobe, 2017).
    2. **Complexity:** This term “environmental complexity” simply refers to the number of elements in an organization’s environment and their degree of similarity or segmentation. The greater the environment contains many different forces, the more complex the environment is. Environment in which there are relatively small number of similar elements are said to be homogeneous or simple. Conversely, environments with a large number of dissimilar or segmented elements are referred to as heterogeneous or complex. The more the elements in the environment become heterogeneous, the more the variables the managers will have to contend with.
    3. **Uncertainty:** According to Pfeffer and Salancik (1978), environmental uncertainty is a condition in which future environmental circumstances affecting an organization cannot be accurately assessed and predicted. The degree of environmental uncertainty is a function of two major factors – complexity and dynamism. The more an environment is dynamic and complex, the more its future is uncertain.

Every organization faces some level of uncertainty. The more the uncertain an organization’s environment is the more strenuous for managers in monitoring it, assessing the implications for the organization and deciding what actions to take at present and in future. We shall now make an overall assessment of the degree of environmental uncertainty using the concepts of complexity and dynamism. Duncan’s (1979) two-dimensional approach produces a matrix of four cells that represent four degrees of uncertainty, as shown in Figure 2 below. Environmental complexity is presented on the horizontal axis while vertical axis presents environmental dynamism.

|  |  |
| --- | --- |
| **LOW**  **UNCERTAINTY**   * Stable and predictable environment. * Few environmental factors. * Factors are somewhat similar. * Factors remain relatively unchanging.     **Cell 1 (Simple/Stable)** | **MODERATELY LOW**  **UNCERTAINTY**   * Stable and unpredictable environment. * Many environmental factors * Factors are not similar * Factors relatively unchanging     **Cell 2 (Complex/Stable)** |
| **MODERATELY HIGH**  **UNCERTAINTY**   * Unstable and predictable environment. * Few environmental factors * Factors are somewhat similar. * Factors are constantly changing.     **Cell 3 (Simple/Unstable)** | **HIGH**  **UNCERTAINTY**   * Unstable and unpredictable environment. * Many environmental factors. * Factors are not similar. * Factors are constantly changing.   **Cell 4 (Complex/Unstable)** |

Stable

Environmental Dynamism

Unstable

Simple Complex

**Environmental Complexity**

**Figure 3.1: Environmental Characteristics Contributing to Uncertainty**

**Source: Adapted from Robert B. Duncan, 1979.**

When the organization is having a simple and stable environment, it is dealing with low uncertainty, Cell 1. Moderate uncertainty exists in two different situations: (1) complex but stable environments, C2; and (2) simple but unstable environments, C3. The most uncertainty is found in environments that are complex and unstable, C4. Environmental uncertainty is inevitable in all organisations because managers are not in a position to control or predict all the occurrences in the environment.

1. **Munificence:** The last characteristic of the environment we shall examine is called munificence. Environmental munificence can be defined as the degree to which the environment supports sustained growth and stability by making resources available to an organisation. In the words of Castrogiovanni (1991), environmental munificence can range from relatively rich to relatively lean, depending on the level of resources that are available to the organisation within the environment.

Organisations that are able to operate in rich environments usually built up a cushion of internal resources. Unfortunately, rich environments eventually tend to attract other organisations which will ultimately lead to inter-organisational rivalry. In spite of that, managers should look for and capitalise on the aspects of the environment that are likely to support the organisation’s activities.

**3.3 Types of Business Environment**

Business environment is generally divided into three groups.

**3.3.1 Internal Environment**

The third major environment of significance to business is the internal environment. The internal environment is quite different from the two other environments we have discussed – the general and the task environments. This is because an organization’s internal boundaries that immediately influences how work is done and how goals are accomplished. Besides, the internal environment is more directly controllable by an organization. In addition, it also reflects the organization’s efforts to adapt effectively to its general and task environments. Important factors that make up the internal environment are discussed below. They are:

* + 1. **Employees:** Adequate and skilled workforce is in a sine qua non for business success. They are responsible for setting objectives, analyzing both internal and external environments and for formulating, implementing and evaluating the firm’s strategies and operations. When employees embrace the same valued and goals as their employers, the organization succeeds.
    2. **Production:** Production is one of the major functional areas of a business and has a strong relation with other functional areas such as marketing department is responsible for the production of high-quality products at relatively low costs, and in sufficient quantities to meet customers’ needs.
    3. **Marketing:** No company can stay in business for very long unless its products can be sold at a profit. The businessman needs to examine the strengths and weaknesses of marketing position. “Who is our customer?” This analysis involves the determination of the needs, wants, perceptions and preferences of target market culminating in formulation of marketing policies.
    4. **Finance:** The financial function involves the analysis, planning, and control of the financial performance of the organization. It deals with the examination of financial strengths and weaknesses through statement such as the balance sheet and an income statement and compares trends to historical and industry figures. The finance department sees to it that all financial matters are properly take care of and periodically auditing the account and informing the management about the financial state of the business.
    5. **Owners:** Owners compose an important element in the internal task environment of a typical enterprise. The owners of a business are the people who have a legal property right to that business. Owners range from a single individual who establishes and runs a small business, partners who jointly own and control the business, to individual shareholders who buy stock in a corporation, or other organizations.
    6. **Organisational Culture:** Organisational culture can be defined as the shared philosophies, values, assumptions, beliefs, norms, and behavior patterns that unite the members of an organisation, form the organization’s core identity, and distinguish the organisation from other similar units. Culture also involves many other matters internal to the organisation, such as the organisation’s structure, employees’ characteristics, decision-making process, and the company’s reward and promotion system amongst others. Culture provides a guideline for appropriate and acceptable behaviour as well as given an identity for employees and organization.

**3.3.2 Task/Operating Environment**

The task is otherwise known as industry operating environment. It is the most immediate environment within which an organisation operates (Oyeniyi, 2004). The task environment is that part of the external environment made up of the specific outside parties which an organization interact with in the course of performing its day to day business activities. The task environmental factors are:

* + 1. **Competitors (Rivalry among Existing Firms):** Generally speaking, business competitors are other business organizations in the same industry that compete for resources and sell similar products or services to meet the same customers’ needs. Business organizations attempt to win market shares at each other’s expense. A businessman should be able to identify who the competitors are, how big or strong they are relative to his own organization, understand the competitors’ strengths and weaknesses and generally keeping close track of what their competitors are doing.
    2. **Customers (Bargaining Power of Customers):** All organisations and businessmen rely on customers to survive and thrive Drucker (1982) aptly said the primary purpose of a business is to create customers. Business customers are those individuals and corporate bodies that purchase its products and/or services. Customer’s attitudes, preferences and complaints should be understood and attended to promptly. Therefore, monitoring customers’ changing needs and wants is crucial to business success. In all businesses as well as in all organizations whether services or manufacturing, strategies that focus on good customer service provide an important competitive advantage.
    3. **Suppliers (Bargaining Power of Suppliers):** An organization’s suppliers are those individuals and organizations that provide the materials and other resources needed by the organization to conduct its operations. Suppliers can affect a business through their ability to raise price or reduce the quality of goods and services. In general, the greater the powers of suppliers, the lower the business profits. What need to be done to set up buyer-supplier transactions to emphasise relationship behaviour, which will focus on mutually beneficial, long-term relationship between buyers and suppliers?
    4. **New Entrants (Threats of New Entrants):** Another element in the task environment is the extent to which it is easy or difficult for firms to enter the industry. New entrants into an industry compete with established companies. The ease with which a new firm can enter the industry increases competition, reduces prices and usually leads to lower profit margins because customers have more choices. If many factors prevent new companies from entering the industry, the threats to established firms is less severe.
    5. **Substitute Products (Threats of Substitute Products):** An important factor in the task environment is the extent to which products in one industry are closely related to those in other industries. Substitutes focus on the extent to which alternative products or services can substitute for the existing products or service. According to Porter (1980), substitute limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. Thus, substitutes reducer market share and profit and make products and company obsolete.
    6. **Regulators:** Regulators are units in the task environment that are capable of influencing a business’ operations. In Nigeria, federal, state and local governments affect organizations by regulating what they can produce and how they may produce and the costs of operating. The government establishes many regulatory agencies that are usually given the responsibility of protecting not only the general public from sharp business practices but also to protect the organization from cutthroat competition among one another.
    7. **Stakeholders:** In recent times and in many organizations, stakeholders have become a major concern and their importance cannot be overemphasized. This is especially true of the stakeholders who hold large blocks of stock of any particular organization. These stakeholders include government, unions, local communities, creditors (if they are separate from suppliers), trade associations, special interest group and stockholders.

**3.3.3 External/Macro Environmental**

The general environment consists of the major forces in the external environment that reflects the broad conditions in the society in which the business operates. The general environment is made up of the following elements.

* + 1. **Economic Factors:** The economic dimension of a business general environment is the overall health of the economic system in which the business operates (Brownstein & Spiers, 1995). In addition, all businesses must operate within some form of economic domain such as socialism, capitalism, communism and missed economy to mention a few. A wide range of economic forces in the external environment affect the business operations. These forces include:
* Savings **i.**e. personal savings and business savings.
* Interest rates.
* Money supply.
* Prices, wages, and productivity – inflation rate, consumer price (index) changes, producer price (index) changes.
* Labour force and employment.
* Size of government budget deficit or surplus.
* The purchasing power of the people.

All the above-mentioned economic forces have critical impact on the performance of businesses.

* + 1. **Socio-Cultural Factor:** This consists of institutions, customs, moves, values, attitudes, norms, and beliefs of people of the society in which the business operates. Socio-cultural processes are the determinants of the products, services and standard of behaviour that the society is likely to cherish. Socio-cultural customs and beliefs shape the economy, political-legal system and technology embraced in a given society. As society changes, so also the socio-cultural forces are rapidly changing. As such customers’ tastes also change overtime and new needs are perceived, new products appear, and businessmen are faced with new challenges that must be addressed appropriately.
    2. **Political-Legal Factor:** The political and legal forces exert significant impacts on business organizations. The political and legal dimensions of the general laws, rules and regulations that govern the affairs of business organizations in a given economy. Basically, these governmental laws, rules and regulations are designed for three major reasons:
  1. To foster the overall common good of a society.
  2. To create an environment conducive for business growth; and
  3. To promote the relationship between business and government.

Government at all levels, legislatives, and leaders influence business organization. The businessmen must therefore respond to political as well as legal pressures to enable his business thrive in the society in which it is located.



**Figure 3.2: Business Environmental Factors**

**Source: Adopted from Olu Ojo 2009.**

1. **Demographic Factor:** The demographic environment is essentially the descriptive element and measure of various characteristics of the people in the society such as the absolute size of the population, average age, birth rate, gender, family size, income, literacy level, occupation, total workforce available, relative level of skills possessed, the growth rate of population, and possible effects of future increase in population.

The businessman’s analysis of the demographic environment should cover such demographic issues as:

1. **The Qualitative Changes in Population:** The current level of standards of living, and the possible future trends that will affect and change the average standard of living. The analysis must cover such things as possible tastes and preferences of the populace.
2. **The Occupational Distribution of Population:** The manager’s analysis of occupational distribution of population will cover the predominant occupation such as white collar, blue collar, or self-employed.
3. **The Geographical Distribution of Population:** The analysis of this issue will include geographical needs of each area and the population density of each area and so on.

Migration of the people is an important factor that significantly influences the population and the labour force of any given society. The manager’s analysis of migration should consider the nature of immigration and emigration, the age and class of people involved, the educational and occupational backgrounds of the people involved, and the effects of migration on population and labour force. The knowledge of workforce demographics will help the managers in formulating their human resources strategies and deal with other issues that can affect business inputs and outputs.

1. **Technological Factor:** This is the most dramatic force shaping business today. The technological elements reflect the application of scientific knowledge regarding the production of goods and services. Technological force can have positive or negative effects on business organisations. A particular technological breakthrough can account for the birth and growth of one firm and the decline and demise of another. Changes in technology can help companies provide better products or how to manage their activities effectively if only the managers will keep in touch with the process of technological changes. The advent of computer has revolutionized business in record keeping, data processing and communications. The discovery of the satellite, Internet and GSM has greatly improved communications. This made business activities to be conducted over a wider area as information could be obtained easily and faster. Therefore, in order to be relevant and remain competitive, organizations must keep abreast of current technological breakthroughs that may affect their ability to provide desirable products and services at affordable prices. To continue in business, businessmen must use technology prudently. As observed by Ivancevich, Lorenzi, Skinner, and Crossby (1997), astute managers employ technology to improve their services to customers, find new customers, lower cost, and speed the introduction of new products.
2. **Ecological Factor:** The ecological environment is otherwise known as natural environment and consists of our natural surroundings. Ecology is the branch of science that deals with the relationship between living things and their environment. A prominent issue today pertains to natural resources. The ecological problems of energy shortages, toxic wastes, deforestation, pollution and abuses to the natural environment are generated as a byproduct of producing goods and services. They are direct result from years of economic growth, affluent lifestyle, urbanisation, industrial progress, and technological breakthrough without adequate concerns for ecological consequences. Deforestation, for example, has many negative effects. Loss of trees results in a reduction in earth’s capacity to absorb carbon IV oxide (CO2), and this is said to be a cause of global warming. Certain species of plants, with the potential source of lifesaving medicines, have disappeared. In the same vein, dumping of harmful materials toxic wastes both on land and in the sea is a serious problem that has the potential for bringing great harm to millions. Radioactive wastes, heavy metals, and by-products of plastics are among elements that can cause abnormalities, sickness, or death in humans as well as in animals. The protection of the ecological environment is so important to managerial decision that astute managers of today have been doing everything possible to halt environmental degradation. Various organisations have been in the forefront of environmental protection. These include the United Nations Educational, Scientific, and Cultural Organisation (UNESCO), the United Nations Environment Programme (UNEP), and Greenpeace. In Nigeria, the Federal Environmental Protection Agency (FEPA) is saddled with the responsibility of protection our ecological environment.
3. **International Factor:** Another environmental factor that managers must pay particular attention to is the international environment. All managers irrespective of the size of their organisations should pay attention to the international environment. The importance of international forces varies depending on the organisation’s size and scope of business. For small organisations, the domestic environment has a much stronger impact. This is because the domestic environment may generally be more important since their operations tend to be concentrated at a more local level. However, for medium size and large firms, the international environment can be more important than the domestic environment. In this era of globalization, even for small firms, the relevance of the international environment is increasing almost on daily basis. The international environment offers the domestic firms’ opportunities that are not always available in the domestic economy. For example, domestic or small firms can source for raw materials from the international scene. Limits to local markets and resources are important constrains to corporate growth and survival. In addition, managers need to be conversant with international environment because domestic firms are always confronted with new local competition coming from a number of aggressive foreign multinational corporations. As a result of advances in transportation and communication technology in the past century, observed Rosenzweig and Singh (1991), almost no part of the world is cut off from the rest. Virtually every organization is affected by the international dimension,

**3.4 Importance of Business Management**

1. **Develop key management skills**: One of the most rewarding aspects of earning a business management degree is learning the essential managerial abilities that will make you an asset to any organization. With the capacity to adapt to difficulties and contemporary social and corporate trends, you will acquire a skill set that will enable you to make wise managerial decisions that take ethical, financial, and social ramifications into account. Some of these essential business management skills include:

1. critical and strategic thinking
2. communication
3. problem-solving
4. organization
5. presenting
6. reporting
7. leadership
8. project management.

**2. Employability**: University students who choose to major in business management graduate with highly sought-after transferrable abilities and solid business knowledge, both of which are desired by prospective employers. You will be able to steer the course of your career while you complete your business management degree by selecting a specialty area of business that interests you, such as entrepreneurship or human resource management. Graduates of business management are presented with a variety of job opportunities in:

1. management
2. consultancy
3. marketing and advertising
4. human resources
5. retail and sales
6. finance

3. **An introduction to the business world**: A business management degree is an excellent way to get started in the world of business if you don't have any prior experience and will help you learn the fundamentals of management and company in-depth. You will be encouraged to apply academic theory to real-life business issues, which will help you launch your career once you graduate. It offers industry information, such as market trends and industry reports, which can prove to be useful.

**4. Be your own boss:** After graduating, you'll have great professional prospects as well as the fundamentals needed to launch your own business; all you'll need is a concept to begin going. A business management degree sets you on the path to being your own boss by fostering your entrepreneurial talents and enabling you to test-launch any company ideas you may have. You could even meet your future business partner at university.

**5. Learn about multiple disciplines:** A business management degree is a great option if you're not quite sure of what you want to do for a living or if you just want to know a lot of things. You will gain an understanding of the key business processes that influence a company's performance, and you may frequently choose to specialize in a particular area after that. These typically include:

* 1. human resource management
  2. entrepreneurship
  3. finance
  4. service operations.

**3.5 Types of business management**

* + 1. **Financial management:** Finding a sound balance between profit and risk is the goal of financial management in order to make the company successful over the long term, notwithstanding any setbacks. Planning, directing, and organizing a company's accounting, investing, banking, insurance, securities, and other financial operations are all part of this form of business management. Financial decision-making, financial control, and financial planning are the three main facets of financial management. Working capital management, which includes cash management, inventory management, and debtor management, is another name for short-term financial management. This kind of corporate management encompasses both the evaluation and methodology of financial choices.
    2. **Marketing management:** The administration of a company's marketing resources and activities is a key component of marketing management, along with the actual execution of marketing strategies. Company analysis, partner analysis, competition analysis, and customer analysis are the four main pillars of marketing management. Along with marketing strategy and pricing, brand management is a part of marketing management. Develop branding possibilities and implement marketing strategies based on comprehensive study of every area of your organization to optimize return on investment. The size and sector of a firm determine the extent of its marketing management. Effective marketing management makes use of a company's resources to grow its clientele, enhance consumer perceptions and feedback, and raise perceived value.
    3. **Sales management:** Managing and leading sales teams is a part of sales management. As a sales manager, you motivate your sales representatives to develop trusting bonds with potential customers, turn them into leads, and advance them down the sales funnel. Marketing management and sales management frequently collaborate.
    4. **Human resource management:** The recruitment and administration of personnel are the main areas of focus for human resource management (HRM). This covers pay, recruiting, safety and wellness, benefits, and other facets of managing employees. The idea that human resources management (HRM) is the exclusive purview of a human resources department or individual is a widespread one. In fact, all department managers need to be aware that good HRM enables workers to contribute positively and productively to the company's overall direction and objectives. While employee programs are employed in a contemporary HRM strategy to benefit both the workers and the company as a whole, traditional HRM concentrated more on personnel administration.
    5. **Strategic management:** The application of strategic thinking to the role of managing an organization is known as strategic management. Because financial, marketing, and operational strategies frequently determine a company's performance, many other areas of business management relate with strategic management. The overall picture of a business is what strategic management focuses on: where do you want to be and how can you get there? An organization's relevance is maintained by strategic management, which is flexible and contains a competitive strategy. Setting the organization's goals while taking into consideration external elements like regulations, competition, and technology is the most crucial aspect of strategic management.
    6. **Production management:** Making decisions while producing goods or services is known as production management. Both the industrial and service sectors utilize production management strategies. Since the goal of this sort of corporate management is to transform raw resources into completed goods or services, the "four M's" machines, methods, materials, and money are frequently mentioned in this industry. Production efficiency, which includes inventory management and personnel training, is one of the key goals of production management. Product managers' primary duty is inventory control, which entails keeping track of all manufacturing inputs, including raw materials and completed items.
    7. **Program and project management:** Planning, carrying out, and supervising projects are all parts of project management. Project managers give top priority to acquiring the resources or expertise necessary to meet the project's short- and long-term needs. Program management resembles this: The same task is involved in several projects, not just one.
    8. **Knowledge management:** Knowledge managers develop, disseminate, and oversee an organization's knowledge. When their projects require information that would be challenging to get elsewhere, project managers may turn to knowledge managers.
    9. **Operations management:** The duty of operations management is to guarantee the effectiveness of all company divisions. Dealing with a variety of departments, strategies, and procedures is a requirement of managing a business' operations. Operations teams must think about how to acquire, develop, and use the resources their company requires to provide the goods and services customers demand.
    10. **Service management:** The type of service management varies greatly depending on the firm and the sector. It is frequently used interchangeably with IT service management; however there are some differences between the two fields. First, even if the service is not tied to IT, service management typically includes both automated technology and experienced personnel. It also frequently offers service development.
    11. **Information Technology management:** Information technology management focuses on watching over and managing a company's technological resources to fulfill its demands and priorities. Information technology teams and managers make ensuring a company's technology is in line with its business objectives. Information technology configuration, information technology services, and information technology finance management are the three main components of information technology management. Information technology management also entails achieving organizational objectives while exceeding consumer expectations. Information technology administrators must concentrate on specific components and the delivery of end-to-end services while utilizing the most effective techniques for cutting costs and increasing worker productivity. Information technology management includes training and developing managers, who can successfully plan, create, choose, implement, use, and oversee new and convergent information and communications technologies.
    12. **Public relations management:** In public relations management, you interact with prominent people, typically journalists, who may tell the public about the most recent news, goods, and other information about your firm. Industry-specific public relations tactics may differ, but a solid public image is always the final aim.
    13. **Supply chain administration:** Supply chain management is the control of the flow of raw materials to your company from producers, distributors, or other beginning locations. In the end, these raw resources are used by your firm to make its goods.
    14. **Procurement management:** Similar to supply chain management, procurement management may entail buying goods from another organization. It may also entail agreements for services from other suppliers, and its emphasis is frequently more on deadlines and financial constraints than on the supply chain.
    15. **Management of research and development:** A team or an entire company's product research and development efforts are managed by an R&D manager. R&D managers may supervise researchers and developers, carry out their own R&D activities, or take on both of these responsibilities.
    16. **Engineering administration:** Among the management styles with the largest overlap is engineering management and R&D management. While engineering management and R&D management sometimes include comparable duties, engineering management may involve more manufacturing turning research into sellable things.
    17. **Design management:** Design management, like R&D management, is the control over how goods develop from a concept to a physical object. R&D managers frequently give function precedence over form, but design managers may pay equal attention to an item's utility and look.
    18. **Quality control:** All quality assurance tasks are supervised by quality management. Planning for products or services is frequently involved. A quality manager will evaluate the adjustments that users desire after using the product or service for the first time and lead the team in putting those changes into practice.
    19. Risk management: Risk management entails evaluating operational procedures and pinpointing trouble spots. Risk managers contact corporate CEOs and other department heads after significant problems have been found to discuss how these risks might be reduced.
    20. **Change management:** A broad category of management known as "change management" deals with a range of business changes, both internal and external. Guide teams through the adoption of new teams or policy changes as part of change management. It can cover a wide range, such helping with corporate mergers and acquisitions.
    21. **Management of innovation:** A variety of other management styles are under the supervision of innovation management. In order to simplify work toward broad business goals, innovation managers may coordinate the duties of R&D, strategy, and change managers.
    22. **Facility management:** Resource allocation is important in facility management, as it is in other forms of management. The resource in question with facility management, however, is typically a complete building, such an office or data center. Conclusively, managing the business environment is a crucial component of managing business organizations since it has a significant influence on whether a corporation succeeds or fails. Due to the impact on their overall performance, organizations must exercise caution while interacting with their business environment. The surrounding factors that might affect an organization's success are referred to as the business environment. As you can see, we made a distinction between internal and external elements that might have an impact on an organization's operations when looking at the business environment. The management team, personnel, and organizational structure, which consist of the company's numerous departments, make up the internal environment.

**3.6 Environmental Analysis**

Any business that wants to survive and have some significant impact on its environment should be able to understand the environment and how the business affects its environment. The businessman should recognize that the environment offers opportunities for growth and also presents threats to business survival. As such, business manager should do his possible best to identify the opportunities within the environment and use same to overcome the threats in such environment. This can properly be done by a thorough analysis of the environment in relation to the available resources at the disposal of the organization. Such environmental analysis should provide a realistic understanding of the organization in relation to its environment. Environmental analysis can be successfully done through the following channels:

* + 1. **Environmental Scanning:** This involves monitoring and evaluating changes and trends in the environment. It deals with searching out information about the environment that is not available to most people. This can be done through analysis of current competitors, nature of entrance into the industry, bargaining power of key players and so on. Outcomes from this analysis lead to competitive intelligence.
    2. **Scenario Analysis and Development:** This is an approach that addresses a number of possible futures by evaluating major environmental variable, assessing the likely strategies and tactics of other important actors (competitors, other organisations, suppliers, and consumers), formulating possible counter-strategies and tactics, and developing different scenarios that pre-empt future constraints.
    3. **Environmental Forecasting:** This is monitoring the environment and attempting to predict its future and how the prevalent variables, changing conditions and future events may affect the business of an organization. If the organization is able to predict the future conditions with reasonable level of accuracy, this will definitely help the organization to adequately prepare in advance to face the future challenges.
    4. **Benchmarking:** This is another important channel by which an organization can analyse its environment. O’Dell (1994)says benchmarking is the process of identifying outstanding practices, processes, and standards in other companies adapting them to one’s company. In other words, benchmarking involves identifying the best-in-class performance by a company in a given area (i.e. product development, customer service) and attempts to compare your organization’s processes with others and see how you are faring. Managers must strive to gather information on competitors’ processes and his organization processes and compare the two. Benchmarking helps organization realize that it can achieve extraordinary levels of performance without compromising standards.
    5. **SWOT or TOWS Analysis:** The full meaning of SWOT is S is strengths, W is weaknesses, O is for Opportunities and T is for Threats. These are factors found within the business environment in which the organization operate. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best combinations of these factors. The best practice is to effectively maximize a firm’s strengths and opportunities and at the same time, minimize the weaknesses and threats found in the business environment. This frame work can be used to choose and design an effective strategy that can assist an organization to compete in its business environment.

A firm’s strengths are its resources and abilities that can be used as a foundation for expanding competitive advantage. It includes factors like better brands, reputation and goodwill, cost reduction etc. Similarly, weaknesses include those zones where the firm is not strong. For instance, high cost structure and inefficient production processes may keep a firm weak. Opportunities are the factors which open doors to profitability and expansion for a firm, and are present in the external environment of a business. Novel technologies developed, a particular need of consumers etc., can be seen as opportunities for improvement. The vibrant external environment can challenge the prosperity of an enterprise by throwing threats against it. Such threats include, a new policy of regulation by government, steeply increasing cost of raw materials etc. In SWOT analysis, one has to identify all the four factors. Strengths should be enhanced and weaknesses should be eliminated for effectively reaping benefits of opportunities and avoiding challenges of threats.

**3.7 Managing Environmental Elements**

Most businesses operate in a complex, dynamic and turbulent environment. As such businessmen must have a better understanding of how to manage their environments. Kotler (1979) observed that managers essentially have three major options: (i) adapt to the existing environmental elements (ii) attempt to influence the environment favourably, and (iii) changing the environment by shifting the domain of operations away from threatening environmental elements and towards more beneficial ones.

**3.8 Adapting to the Environment**

The adaptation approach involves changing internal operations and activities to make the organization more compatible with its environment. This can be done in a number of ways:

* + 1. **Buffering:** The use of buffering involves stocking a large supply of resources either inputs or outputs in order to cope with environmental fluctuations arising from unpredictable needs.
    2. **Smoothing:** This involves taking actions aimed at minimizing the impact of fluctuation in a given market.
    3. **Forecasting:** This is the process of making predictions about changing conditions and future events that may affect the operation of an organization.
    4. **Rationing:** This is the process of providing limited access to a product or service that is in high demand.
    5. **Empowerment** If the environment of an organization is the case of uncertainty arising from environmental complexity, the best way by which the organization can adapt is by decentralizing decision making. This is called empowerment. That is, the situation in which the top management team gives authority to lower-level managers to make decisions that benefits the organization.
    6. **Flexible Processes** In order to adapt to the environment, organization should make constant adjustment in structure and work processes in response to the changes in the environment. This is otherwise known as the flexible processes. This simply refers to the methods for adopting the technical core to changes in the environment.

**3.9 Influencing the Environment**

Organizations can favourably influence their environments by developing proactive responses aimed at altering the environment in advantageous way rather than accepting environmental elements as given in the society. The following are the methods of influencing the environment.

1. **Boundary Spanning**: This involves creating roles within the organization that interface with important forces in the environment.
2. **Advertising:** The business can use communication media to gain favourable publicity and build a desired image for itself and its product and services.
3. **Public Relations:** This is the use of communication media and allied activities to establish and maintain a favourable overall impression of the organization in the minds of the public.
4. **Recruiting:** This is done when organization looks for job applicants who have knowledge of the significant elements of the environment for example, the language and socio-cultural values of the environment.
5. **Co-opting:** This is the process by which new and important environmental elements are absorbed into the leadership or policy-making structure of an organization to avert threats to its stability or existence.
6. **Political Activity** In using political activity as a channel of influencing organisation’s environment, organisations make efforts to enhance their competitive situations by influencing elected representatives and/or the behaviour of government regulatory agencies to create a more favourable business environment or limit competition.
7. **Negotiating Contracts** In some cases, organisation’s environment can also be influenced by negotiating contracts. This simply means seeking favourable agreement on matters of importance to the organisation with other environmental elements or forces such as customers and suppliers. Negotiations of agreements between the organisation and other group to transact business are one popular means of creating environmental favourability.

**3.10 Changing the Environment**

The third approach available to business organization to cope with environmental uncertainty is to change it environment. This is referred to as domain shifts or strategic maneuvering. By making a conscious effort to change the boundaries of its competitive environment, firms can maneuver around potential threats and capitalize on arising opportunities (D’Aveni, 1994).

There are a number of major methods that organizations can use in attempting to change its environment. These include:

* + 1. **Domain Selection:** This is practiced when an organization moves completely out of a current product, service or geographical area into a more favourable domain.
    2. **Diversification:** This is the expansion of current domain by investing in different types of business, manufacturing different types of product or geographical expansion to reduce dependency on a single market or technology.
    3. **Divestiture**: This is a retrenchment strategy in which an organization sells one or more of its business.
    4. **Merger and Acquisition:** At times, environmental condition can best be dealt with by two or more companies combining together into a single enterprise.

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**CHAPTER FOUR**

**BUSINESS IDEAS AND BUSINESS OPPORTUNITY**

**4.0 What is Business Idea?**

The word idea refers to a plan that is triggered by the thinking faculty of the mind. It refers to a plan or suggestion e.g. when we say ‘I think it is an excellent idea, we should do it’. This refers to a particular suggestion which is being approved by another as a good plan. The main point for a new business idea should be the customer, the needs and wants of the customer, which will provide the rationale for a product or service, can be analyzed or ascertained through a survey. Such a survey may be conducted formally or informally by speaking to people; usually through interviews or using a questionnaire or through observation. Listen to customers complaints and frustrations on the part of customers have led to many new products or services. Whenever consumers complain badly or bitterly concerning a product or service, or when you hear someone saying I wish there was or If only there were a product/service that could then, you have the potential for a business idea. The idea can be to set up a rival company offering a better product or service, or it may be a new product or service which can be sold to the company in question or to others. A business idea is prerequisite for a person venturing into business. It is the potential entrepreneur’s understanding of self, market, product or service which helps to generate ideas and determines which ideas would best to develop into a business opportunity. The business idea is the essence of entrepreneurship and the raison d’etre of the entrepreneur. (Ilesanmi & Omitola, 2022)

**4.1 Why Do You Need to Generate Business Idea?**

* + 1. Business idea generation is sine-qua-non (inevitable) for any business
    2. Business ideas are generated to respond to market needs
    3. Ideas are generated to respond to changing fashion and requirement
    4. To stay ahead of competition
    5. To be in tune with latest technology so as to do things better
    6. In response to product lifecycle
    7. In order to spread risk and allow for failure

**4.2 Characteristics of Business Idea**

1. A promising business idea must have the following characteristics**:**
2. Relevant (must fulfill customers’ needs or solve their problems).
3. Innovative, Unique, Clear focus and Profitable in the long run.
4. The acceptability and profitability of a business idea hinges largely on how innovative the idea is. Being innovative means using conventional production or distribution methods that have rarely been adopted before. In fact, the entire business system could be innovated.

**4.3 Criteria for a Successful Business Idea**

A successful business idea must meet the following three conditions:

* + 1. It must offer benefit to the customer by solving a problem or fulfilling a need. Customers buy products and services for just one reason; to satisfy a need. So, if your business idea cannot satisfy customers, it won‘t be successful. Every successful business idea must have a unique selling proposition.
    2. It must have a market that is willing to accept it. A promising business idea must offer a product or service that would be accepted by a large market. It must also have feasible arrangements for catering to that large market as well as unique values that differentiates it from the competition.
    3. It must have a mechanism for making revenue. A successful business idea must show how much money can be earned from it and how the money will be earned. Having discussed in full detail what a business idea means, let‘s now look at business opportunity.

**4.4 Identifying business idea**

1. Travel Agency
2. Courier Business
3. Bakery
4. Restaurant
5. Yoghurt Production
6. Adire Production
7. Plumbing work
8. Photography
9. Fish Farming
10. Dairy Farming
11. Horticulture
12. Business Center-Typing
13. Computer services
14. Laundry and Dry-Cleaning Services
15. Liquid soap Manufacture
16. Garri processing project
17. Brick-Making Plant
18. Saw-Milling
19. Palm Kernel Crushing Plant
20. Remedial School
21. Convenience Store
22. Garbage Clearing Business
23. Shoe Making Factory

**How do you turn a business idea into an opportunity?**

Well, you can turn a business idea into a business opportunity by conducting market research and feasibility study on your idea, writing a business plan and assembling a business team that will work with you on your idea. Only then will such idea become an opportunity that will attract investors and probably get the needed financing.

**4.5 Five basic elements to turn ideas into tangible opportunities**

* + - * 1. **Strategic Fit:** To understand what the market needs and realistically take account of capabilities you have to be able to provide it.
        2. **Business Plan:** The process of writing a business plan actually helps develop an idea into an opportunity. It forces you to ask and answer hard questions and explore your options.
        3. **Team:** An idea rarely becomes an opportunity without a team. No individual has all the knowledge and skills necessary to make the transformation.
        4. **Leadership**: Once you have a team, the right leadership is essential to guide the development from idea to opportunity.
        5. **Resources:** The planning process will give you a good idea of the resources that will be required to turn your idea into an opportunity.

**How is Idea Different from Opportunity?**

1. opportunity refers to a favourable time of doing something whereas idea refers to a thought or suggestion about a possible cause of action
2. An opportunity is a chance that an individual gains idea on the other hand is a plan. Opportunity is viewed as favourable to the individual in question whereas an idea may not always be favourable.
3. Opportunity is more important because it is an idea that passes the test of planning.

**4.6 Business Opportunities**

Entrepreneurs identify and exploit new opportunities despite the presence of experienced competitors. Business opportunities do not present themselves; they have been actively sought out. There varieties of reasons why existing business leave gaps in the market that the innovative entrepreneurial venture can exploit.

Established business fails to see new opportunities. Established business are guilty of organizational inertial, that is, resistance to change in response to changing circumstance. An established business may become complacent. It can took back on past success and take its market for granted, opportunity scanning systems becomes rigid and bureaucratized or caught up with management squabbles. The organization may be less attuned to identifying new opportunities in the market than a hungry new entrant. New opportunities are though to be too small. Small opportunities might be ignored or not pursued while the new entrants find the small opportunity very attractive (Odia & Odia, 2013).

**Techniques in Sourcing and Managing opportunities**

In Nigeria case where the banks agree to give any facility to the entrepreneur, the leading interest rate is very high at a rate of an average of 30% depending on the bank in question. It is therefore not recommended to any aspiring entrepreneur or even those already in the business to take bank loan to finance start-up operation or even expansion unless where it is absolutely necessary. The best alternatives on how to invest in a New Business Enterprise are as follows:

1. Boot strapping
2. High net worth individuals
3. Venture capital
4. Barter
5. Crowd sourcing

**Boot Strapping-** This is starting a business from the smallest possible size using all the resources and opportunities available to the enterprise. In this situation there is no cash coming from outside sources of the company and the company has decided to sources funds from within. Boot strapping using one’s resource get out of a business start-up. The boot strapping enables a businessman or investor to start his business without losing control and financial resources. Boot strapping technique includes:

1. Negotiating extended credit term from suppliers.
2. Receiving advance payment from customers.
3. Exchanging equity stakes for outside service and suppliers.
4. Developing internal cash generating projects.
5. Getting free flow or low-cost help from friends and family members.

**High net worth individuals-** Prospective entrepreneurs wanting to operate micro, small or medium scale businesses can raise capital from private investors that have the funds needed for investment in entrepreneurial ideas. This could be in exchange for equity share and for agreed percentage returns on profit. These private investors are known as angels because they are rich businessmen, lawyers, accountants, bankers, or other entrepreneurs who are willing to trade where institutional investors are afraid to venture into and these types of investors are looking for stratospheric return (extremely high return). With that in mind, they do assist genius prospective entrepreneurs financially.

**Venture capital-** Venture capital is an investor contribution to a new micro or small-scale enterprise in return for an equity position in that enterprise. As the business grows, this equity can be sold for capital gain. Venture capital investment funds have three stages in an enterprise development.

The start-up phase or Series A funding stage: This is first round of venture capital, by now the start-up must have a developed product and a customer base with consistent revenue flow. And this stage it is significant to have a plan that will generate long-term profits. Many times, start-up comes with great ideas that can generate a substantial amount of enthusiastic users; however, they do not know to monetize it in the long run.

The growth phase or series B funding: This stage may appear to be similar to the former funding stage in terms of processes and key players, however, series B funding is often led by same characters, including a key anchor investor that helps to attract other investors. The major difference is the addition of a new wave of venture capital that specializes in investing in well-established start-up so that they can further exceed expectations.

Establishment phase or series C funding: At this stage investors happily fund successfully start-ups. They are hopeful to receive a profit that is more than the money they invest. The series funding C funding stage focuses on scalling the start-up as rapidly as possible. Start-up that engages in this phase are well-established, hold a strong customer base, have procured stable revenue streams alongside proven histories of their growth, and want to expand their operations on a global scale. If you have not accomplished any of the above, then you are not ready for the series C funding.

**Barter:** As the name implies barter is the exchange of goods and service without cash. It can help any cash-starved organization to turn its excess inventory into purchasing power. For example, if a business venture is into production of accounting service and wishes to expand its office and scope of operation. It could approach an estate organization for provision of accommodation. It could also approach a bank for provision of computer, all in the exchange for the accounting services that must be rendered for a specified time.

**Crowd funding and Crowd sourcing:** Crowd funding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the internet. Crowd funding is a form of crowd sourcing and alternative finance. It is a method of raising capital through the collective effort of friends, family, customers, and individual investors. It is also another way people, businesses and charities to raise money. It works through individuals or organization who invest in (or donate to) crowd funding projects in return for a potential profit or reward. This approach taps into the collective efforts of a large pool of individuals – primarily online via social media and crowd funding platforms – and leverages their networks for greater reach and exposure. Even though investing in crowd funding can be risky, you must be sure of who are dealing with. While crowd sourcing is the process of sourcing information, or skills or end products from a group or groups of people and using the knowledge and power of the crowd to speed up a process (Odia & Odia, 2013).

**The Difference between Business Ideas and Business Opportunities**

Now for those who are yet to identify the difference between a business idea and opportunity, I want you to know that they are not the same; and these notes will help you understand the difference. A business opportunity on the other hand is a proven concept that generates on-going income. In other words, a business opportunity is a business idea that has been researched upon, refined and packaged into a promising venture that is ready to launch. While multiple business ideas may strike you on a daily basis, only few of them will be profitable in the long run based on market research and feasibility study conducted. These few are the real business opportunities. Major difference between an idea and an opportunity is that you can sell a business opportunity, but you cannot sell an idea (it is not entirely impossible but it’s difficult). For instance, Colonel Sanders tried for many years to sell his chicken recipe idea but no one listened to him until he repackaged it and KFC (Kentucky Fried Chicken) was born. The moral of this lesson is that investors invest in business opportunities and ventures, not business ideas.

**4.7 Sources of New Business Idea**

An entrepreneur should be alert at all time to new ideas. Common sources of new enterprise ideas are newspaper, magazine, hobbies, shows and exhibitions, surveys, brainstorming, and vocational training experience; (Ilesanmi &Omitola, 2022).

1. Newspaper (Classified advertising): Business ideas can be searched for when we read the Newspaper especially when we pay attention to classified advertising section for commercial opportunities; personal services etc.,
2. Magazine Article: Entrepreneur must be alert to the World around them so as to be current, though in different areas of business.
3. Hobbies: Relaxation or entertainment and pleasure are often the sources of ideas for new enterprises. A business related to your hobby will enable one to spend more time doing what one enjoys most.
4. Shows and Exhibitions: Business ideas can be sought while attending shows and exhibitions sponsored by manufacturers and distributions.
5. Surveys: New enterprises idea can be identified by findings out what customer need and want. This information is obtained through formal surveys. Formal surveys include questionnaire and interviews while informal surveys are personal contact observation.
6. Brainstorming: This is a technique used in generating as many ideas as in order to solve a problem.
7. Vocational training and Experience: Business idea can also be generated through vocational training and experience.
8. Personal skills and experience: One half of idea for successful business comes from experience in the work place so the background of potential entrepreneur plays a crucial role in the decision to go into business as well as type of venture to be created, kind of training you are expose to.
9. Franchises: it is an arrangement whereby manufacturer or sole distributors of a trademark, product or service gives exclusive right for local distribution to independent retailers in return for their payment or royalties and conformity to standardize operating procedures. It may take several firms but would consider the type that offers.
10. Exhibition and trade fairs: Where you can discover not only new product but where you can meet manufacturers, wholesalers and retailers this people are always excellence sources of new business idea.
11. Complaint and frustration: on part of customer can lead to the creation of new business, the idea to step up a rival firm offering a better product and service or it might be a new product and service which could be sold to existing firm.

**Other ways to invest in a new business**

**Partnership:** Instead of investing in a business in exchange for an equity stake, you can look into becoming a partner in an existing business. This can mean doing day-to-day work in the business focusing on something the founder doesn’t have time for, such as marketing or finance or it can be a more hands-off role. This can give you the entrepreneurial experience, minus the start-up phase, and allow you to choose the type of work you want to do. Even if you are absolutely set on starting your own business, the right partner can make the start-up phase go more smoothly, depending on the experience and skills they bring to the table (Odia & Odia, 2013).

**Intrapreneurship:** Another option is to become an entrepreneur within a larger organization. Some companies have structures encouraging employees to pioneer new business lines in return for equity or bonuses. If you can find a company with a strong culture of innovation, you can build your own business within it, with the advantage of having start-up capital from the beginning and less personal risk. You may even be able to kick-start in Intrapreneurship program by asking to spend a percentage of your time working on pet projects with bonus structures. Intrapreneurship can offer some of the same benefits as entrepreneurship without forcing you to give up the security of a job.

**Buy a Franchise:** A business in a box is one way to avoid many of the hassles involved with starting from scratch. Essentially, a franchise owner is following a script proven to be successful in other locations. Benefits of a franchise include a recognized brand, resources to draw from, and economies of scale the franchise network creates.

The drawback to franchise ownership is primarily the cost of the initial purchase and the royalties, which can be expensive, will also have issues with the limitations the franchise office imposes as far as creative control. That said, franchises have a stronger support network and generally have a better success rate compared with the vast majority of start-ups.

**Buy an Existing Business:** Buying a business that is already in operation and profitable is another shortcut. There are some obvious benefits, like less time spent in the planning and creation stage, infrastructure such as supplies already in place, and existing customers the brand. The major downside is that the cost of acquiring a profitable business is usually much higher than the start-up costs of the same type of business. This cost reflects the efforts of the person who started it, plus additional premium charged for the business having proven its viability. If you choose this route, it is important to perform due diligence, such as confirming all the revenue figures and finding out why ownership is selling a seemingly successful business.

**4.8 What is Business Opportunity?**

In general sense, the term opportunity implies a good chance or a favourable situation to do something offered by circumstances. In the same vein, business opportunity means a good or favourable change available to run a specific business in a given environment at a given point of time (Shinha 2015). Agu (2011) defines business opportunity as an attractive idea or proposition that provides the possibility of a return for an individual who takes the risk of using the idea to solve an identified problem of individuals or society. Definition of business opportunity varies because the term means different things to different people. A business opportunity can also involve the sale of foods or services that enable the entrepreneur to begin a business (Perez, 2016). Under some countries federal law, the promoter of such business opportunity is required to provide potential investors with complete pre-sale information in the form of a disclosure document. Some countries impose additional licensing and disclosure requirements. Opportunity can be described as an exploitable set of circumstances with uncertain outcome, requiring personal commitment, resources and involving exposure to risk. Opportunities arise from a wide variety of circumstances ranging from change, chaos, confusion, inconsistencies, ambiguity, uncertainty, etc., Opportunity begins as an initial idea that entrepreneurs develop. A business opportunity therefore is a proven concept that generates on-going income. In other words, a business opportunity is a business idea that has been researched upon, refined and packaged into a promising venture that is ready to launch.

**An opportunity is regarded as one after it has been found to meet the following criteria**:

1. It must have high gross margins.
2. It must have the potential to reach break-even cash flow within 12 months – 36 months.
3. The startup capital investments must be realistic and within the range of what you can provide.
4. You must have the strength and ability needed to drive the business to success.
5. Your level of enthusiasm for the business must be very high.
6. It must have the potential for residual income.
7. It must have the potential to keep on improving with time.
8. It must have a low level of liability risk.

**4.9 Types of Business Opportunities**

There are many entrepreneur opportunities one may choose. The different types of business opportunities are discussed below:

1. **Buy a Franchise**: This involves having an opportunity to start your business on already set-up business. It is expected that such entrepreneurs buy a Franchise opportunity. A franchise is just an arrangement whereby the manufacturer or the sole distributor of a trademark, product or service grants exclusive rights for local distribution to independent retailers in return for their payment of conformity and royalties in order to standardize operating procedures. Franchising may take several forms, but the most interesting one is the type that offers a name, method of running business, image and operating principles. How then can franchising become a source of business opportunities? You can look at good companies or products that exist in other countries but are not operating your country. Then you can purchase a franchise to that product and become a pioneer in your country. A franchise is an existing business with a solid Business Identification.
2. **Distributorship or Dealership:** An important business opportunity is with distributorships and dealerships. A distributor is a person or business agent that has an agreement to sell products or services produced by another company. this refers to an interdependent agent that have agree to enter into an agreement to offer and sell the product of another but is not entitle to use the manufacture name as part of its trade name depending on the agreement to the distributor to sell only the product.
3. **Network Marketing:** In addition to distributing the product or services offered by the parent company, a network marketer also endeavours to recruit other distributors, hence creating a network of distributors and earning considerable income through residual commission.
4. **Licensing:** Opportunity exists through licensing; which offers an entrepreneur the right to be creative and invent product or service, but retaining the name brand, icon or trademark of the widely recognized business.
5. **Finding and Filling a Niche:** Another area where opportunities find attraction to the entrepreneur is in finding or filling a small niche. A niche is small area where a business opportunity is likely to bring profit. A well-timed product or service has a greater likelihood of success in the market. Marketing the right idea into the right niche at the right time is an awesome combination.
6. **Rack Jobbers:** they are wholesaler that provides racks of and split the profits obtained from sales between the two parties. Convenience stores are often made up various rack jobbers from large and small wholesalers. For example, the rack of chips in a store. Also, it is a company or trader that has an agreement with a retailer to display and sell products in a store. It is the selling of another company’s products through a distribution system of racks in a variety of stores that are serviced by the rack jobber. This involves the selling of another company product through a distribution system of racks in a variety of stock that are serviced by the rack jobber. Typically the agent/buyer enters into an agreement with the parent company to market their goods to various stores by means of strategically located store racks. The parent company obtains a number of location in which the racks are placed on consignment bases. It is up to the agent to maintain the inventory and moves the mechandise around to attract the customer and to do the book keeping.
7. **Vending Machine Routes:** A vending machine is an automated machine that provides items such as snacks, beverages, cigarettes and lottery tickets to consumers after money, a credit card, or a specially designed card is inserted into the machine.

**4.10 Implementation Potential of Opportunity**

* 1. Industry and market potential
  2. Economics potential like capital requirement, fixed cost, cash flow, return on investment and risk
  3. Competitive advantage; degree of controls, barriers to entry
  4. Management team; people who know the market, the logistic etc.

Opportunities flittered through business planning process do not reject any idea, but welcomes many idea, and when you are through with the business idea, filter them to become business opportunity.

**4.11 Business Opportunity Evaluation Process**

Entrepreneurs have begun and failed at new businesses. Most entrepreneurs actually fail to fully analyze and evaluate business ideas and opportunities in the first place. Whether starting a small business from the scratch or by purchasing an existing company or franchise, one need to take steps to evaluate the business potential, and one's abilities to make it successful. The investigation must be thorough, in analyzing the risks and benefits of the opportunity created.

**Steps to Evaluating Business Opportunity**

**1. The five steps to evaluating business opportunity have been identified by Ray (2015).**

* 1. Self-Analysis: Considering the Willingness to take risks as well as the amount of time and energy one needs to make the business a success While most small businesses fail is because of poor management and the owner's inability to manage resources.
  2. Financial Components: evaluation of one's resources and availability of finance.
  3. Market Research: conducting feasibility of the project to determine its viability and ascertain the existence of customers for the product or service; and what kind of competition exists.
  4. Risk Assessment: including factors that could negatively affect the business, such as the general state of the economy competitiveness, health, the level of credit available.
  5. Support: evaluate the amount of support expected from family, friends and government.

**2. The RAMP Model**

An easy model that you can use to evaluate your business ideas you come up with is called the RAMP model. Let’s look at each letter one after the other.

**R stands for Return on Investment**

* Discuss exiting strategy.
* Is it profitable? Will your revenues be higher than your expenses?
* Time to breakeven (how long before cash flow positive? How long until the company begins to have an aggregate net income).
* Investment Needed. How much money will it take to start-up this venture?

**A stands for Advantages**

* Look at cost structure (suppliers, what each element will cost to source or manufacture).
* Barriers to entry (large competitors, regulations, patents, large capital requirements. If there are many barriers to entry, it will be difficult to enter a market. The higher the barriers to entry, the more disadvantaged you will be.
* Intellectual Property. Do you have a proprietary advantage such as a patents or exclusive licenses on what you will be selling?
* Distribution Channel. How will you be selling your product? Will you sell it direct to the consumer via the Internet, sell it to wholesales, sell it to businesses, or sell it to retail stores. If can develop a unique distribution channel this can surely be an advantage.

**M stands for Market**

* The need. Is there a big need for this product or service? Try to avoid ideas that sound cool but there is no real need for. Make sure your product or service fills and need or solves a problem.
* Target market (who are you selling to? businesses? consumers? what demographics?)
* Analyze target market (who are you selling to? businesses? consumers? what demographics?)
* Pricing (what you they charge, what will be the price, will there be a high enough markup).
* Analyze market size

**P stands for Potentials**

* Risk vs. Reward. How risky is the opportunity? If it is very risky, it there a chance for the business to do very well. Will there be a high reward for the founders and investors if the company succeeds?
* The Team. Is the team right for the business? Do you have knowledge in this area?
* Timing. Is the market ready for your product? You may have a great idea for [flying](http://www.zeromillion.com/entrepreneurship/business-idea-evaluation.html) cars, but if consumers are not ready for your product you may not be able to turn your idea into a successful business.
* Timing. Is the market ready for your product? You may have a great idea for [flying](http://www.zeromillion.com/entrepreneurship/business-idea-evaluation.html) cars, but if consumers are not ready for your product you may not be able to turn your idea into a successful business.

By using the RAMP model, you should be able to do a thorough job analyzing your business ideas and opportunities presented to you.

**3. SWOT Analysis Model**

SWOT analysis is an exercise meant to identify and evaluate the strengths, weaknesses, opportunities and threats - hence the acronym SWOT. Taking a critical look at internal and external factors that impact your business arms you with knowledge that can help you plan, manage or grow your business. It can help you meet challenges or take advantage of business opportunities. Both strengths and weaknesses are internal factors while opportunities and threats are external factors.

**Identify your Strengths and Weaknesses**

An internal analysis is meant to determine where you have an advantage over your competitors, and where you are not as strong.

* Identify success factors for your industry or market segment.
* Assess your competitors' competencies with respect to these factors.
* Compare them to your own strengths and weaknesses to determine where you may have a competitive advantage.

The success factors can vary depending on your industry. They include comparing your abilities to your competitors for factors such as:

* Marketing: market share, reputation for quality and service, distribution costs, geographical coverage, promotion and sales force effectiveness.
* Manufacturing: Facilities, economies of scale, capacity, workforce availability and skills, on-time delivery, technical manufacturing skill.
* Finances: Availability of capital, profitability, financial stability.
* Organization: Employee dedication, flexibility and responsiveness.

Since it can be difficult to be objective when evaluating your own strengths and weaknesses, soliciting the views of your employees, customers and suppliers can help.

**4.12 Identify Opportunities and Threats**

An external analysis takes a closer look at the industry and markets where you do business by identifying opportunities and threats. You will want to find out:

**Which opportunities could increase your profitability? Examples could include:**

* Increased demand for your goods or services
* Access to new markets
* New products and services that can fill a need
* Efficiencies in your operations
* Few or weak competitors
* Market not segmented
* Higher profit margins
* Stable price structure
* Low risk

**What threats can affect your profitability?**

* Obsolete products or services
* Shrinking market
* Existing or new competition
* Upcoming regulatory changes
* Increased market segmentation
* Reduced availability of materials
* Increased supplier prices
* Foreign exchange fluctuation
* Inflation or economic stagnation
* Political or social changes
* Environmental factors
* Takeovers or mergers

Done well, a SWOT analysis can provide a good scan of your business environment. It can help identify opportunities you may have overlooked and prepare you to meet challenges. A SWOT analysis should not be depended upon solely, but used in conjunction with your arsenal of planning and management tools.

**4.13 Guidelines for Evaluating Business Opportunities**

The guidelines for evaluating business opportunities are:

* 1. Evaluation of own capabilities and abilities.
  2. Determine to run the business enthusiastically.
  3. Having complete knowledge of the product or service with which you are involved.
  4. Market evaluation of the product or service to be offered. There must be need for the product.
  5. Find from previous owners how successful the business has been for a period of time.
  6. Determine the training and experience required to run the venture properly.

Before a person decides whether a business opportunity is suitable and which one should be viable, certain information are needed to make an informed decision on what kind of opportunity is the best. Some factors to consider when choosing a business are the initial investment, capital requirements, business financing, current trends and the amount of time it will take to get the business plan and running.

**4.14 Guidelines for Choosing Business Opportunities**

* 1. Make an honest evaluation of yourself and your ability: able to understand yourself, your talent and your abilities into the business, which you really are, your strength and your weakness
  2. You must run your business enthusiastically: i.e. with passion, you should be happy introducing a product or an unsual service that the public.
  3. You must have complete knowledge of the product and service in which you are involved
  4. Make a market evaluation of the product and service to be offered: is it the right time to introduce it to the public? Is there a need for the particular product? What is the potential in relation to competition?
  5. Find out how many buyers or potential buyers are available for your product
  6. Find out how many people are in the same business for a respectable period of time
  7. Check the training and experience required to run the business properly. What is the scope of training, does your background fit the requirement of the training, can you afford the training.
  8. Consider the company profit ratio to sales:-what is your profit on your sale, your profit to time and service requirement to financial leverage requirement, can you make more money in another business.
  9. Do you have to work more hours to make the same amount you make now?
  10. Check the current people in the same business if they are happy doing that same business, what problems do they have and solution preferred.
  11. Make a research of the history or precedent of that business find out the financial implication of the start-up or capital needed for the business.

**Advantages:**

* 1. **It requires a lower initial fee than a franchise:** Although the numbers of low investment franchises was increased the fee to get business opportunity is still considerably lower
  2. **A proving system of operation or product:** Existing systems serve to maximize efficiency and returns and minimize problems. It is simply a matter of passing on experience which is the best teacher. Most people like having their hands held once in a while during crises the parent comp-any is there to help the license over the bumps and many people like the idea of safety in number
  3. **Intensive training programs:** In any new business a lots of time and money are consumed a good business opportunity venture can therefore eliminate the majority of ineffective move through an intensive training program
  4. **Better financing option:** Because of its financing size credit might attract the parent company offering the business opportunity can often arrange better financing than an individual; could obtain financial leverage is an importance consideration in any investment situation
  5. **Professional advertising and promotions:** Most small business people don’t spend sufficient money on advertising when they do these effort are often poorly conceived and in constituent but many business opportunity ventures supply the buyer with print advertising sticker, radio, etc.
  6. **Ongoing counseling:** Most business opportunity ventures offers support not only through training but also through counseling from a staff of expert who offer assistant that no independent owner could afford. Even legal advice is available to certain degree. The most efficient accounting system perfect for that particular business have been designed by expert in the field some licensors offer free computer analysis of record and through compassion with other unit and this can pin point areas of inefficiency or loss as well as profitable aspect of the business that are being neglected
  7. **Site selection assistance:** Expert in site selection and marketing choose location using all the scientific tools available professional’s negotiators arrange leases and contract to the best advantage using the power of large organization to influence landlord and other important figures.
  8. Many time the parent company’s tremendous buying power and special buying techniques can bring product equipment and outside service to the licensee at a much lower cost than an independent owner could ever get.
  9. **No ongoing royalties:** In a business opportunity unlike in a franchise, there are no ongoing royalties to pay to other seller as all the profits are yours.

**Disadvantages:**

* 1. **Poor site selection:** The majority of business opportunities are consumer oriented retail operations which rely on good location visibility and easy access to the establishment most buyers of the business opportunity causality accept the location choosing for them. This should not be the situation one has to look it over thoroughly by oneself you might even hire an outside marketing consultant to evaluate and possibly argue with the choice of the parent company
  2. **Lack of ongoing support:** There is usually no requirement for the business opportunity seller to offer ongoing support of any kind if the seller decides not to supply information or guidelines that could help you once you are in operation you may not have much recourse available to you
  3. **Exclusivity clauses:** Another disadvantage is that you may be restricted to selling only the manufacturer merchandize and if this is the case and you denote for any reason whatsoever you run the risk of the licensor cancelling the agreement. If you do buy from other sources it will be very hard to hide as most parent companies will require you to open your books for examination of pre-designated period of time any irregularities will be spotted at this time.
  4. **Parent Company Bankruptcy:** Another pitfall is the possibility of the parent company over extending itself and going bankrupt. Though this is not as serious in a business opportunity or in a franchise, you will still run the risk of losing the business because your property contract may have been financed through the parent company.

**4.15 Stages of Opportunities Identification**

Generally, there are five (5) stages that lead to recognition of business opportunities:

* 1. **Preparation stage**: This is the knowledge experience exercised just before the opportunity is discovered. This knowledge and experience are not often deliberately acquired because of any particular opportunity, however, preparation itself is usually a deliberate attempt to widen capability in any area and become sensitive to concerns in the field of interest. In most organized situation the background of the business, the product, service or technological knowledge must have majorly informed the main ideas of the successful venture.
  2. **Incubation stage**: This stage involves the consideration of a concept or a specific problem ordinarily not subjected to conscious or formal analysis by an entrepreneur and his team. It is usually not consciously done and therefore more often than not an instinctive and unempirical alternative. The result of incubation leads to the next stage.
  3. **Insight stage**: Insight stage occurs at the moment a fundamental solution suddenly becomes recognized unexpectedly. It is a particular moment that keeps occurring persistently through the process of opportunity identification. Insight stage has been found to be an extensive channel to the discovery of start-ups and sometimes it reviews additional knowledge for the development of a current process of discovery.
  4. **Evaluation Stage:** This is the investigative stage. It investigate if the recognized and developed ideas are feasible i.e. if the entrepreneur has the required abilities to realize the business ideas, it implementation should commences and if the ideas is innovative enough, a times evaluation stage involves feasibility analysis. This stage also investigates the prospect and viability of the business idea.
  5. **Elaboration:** This is the stage that exposes the opportunity to external analysis with the tedious and time consuming option selection, choice decision and organization of resources. It is customarily in search of all legalities that could build confidence and guarantee the practicability of the business. Elaboration reduces uncertainties by providing the detailed planning activities after the evaluation viability combination. This will eventually reveal the concept area that still need further analysis and attention for improvement to be made.

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**CHAPTER FIVE**

**VENTURE CAPITAL**

**5.0 Introduction**

Venture capital has been acknowledged to play an important role in supporting entrepreneurial development and small business growth .Most entrepreneurs are often capital constrained hence they seek external funding for their projects. Venture capitalists therefore provide the needed financing window to entrepreneurs with very innovative ideas and who can transform their ideas to form innovative products that can turn into great businesses. Typically, venture capital finances start-ups and the expansion of existing operations in terms of advancing into new stages in the production and/or the distribution process.

**What is Venture Capital (VC)?**

Several scholars have defined venture capital differently. According to [Solanki](https://www.blogger.com/profile/06540367641747850328) (2022), the term venture capital consists of two words 'venture' and 'capital'. Venture implies a course of action with uncertain outcomes including the risk of loss. Capital denotes resources to move and run the projects. Thus, the term can be defined in two different ways i.e., in the narrower sense and broader sense. In the narrower sense, the capital used for financing a new business project may be termed as venture capital. It deals with offering funds, to growing companies. In the broader sense, venture capital involves investing in the long term equity finance on which the return is obtained by the way of capital gain. It is assumed that the entrepreneur and the venture capitalist work as partners. Aboh (2017) defined venture capital as the provision of private equity to new and young firms with high growth potential.

TRINITI (n.d) defined venture capital as investment capital made available to high growth, scalable startups, typically beginning at the early stage through to maturity of a company, from a venture capital fund. Venture Capital (VC) is viewed as a form of private equity and a type of financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential. It generally comes from well-off investors, investment banks and any other financial institution (Investopedia, 2022)

**5.1 Venture Capital**

The dictionary meaning of “**Venture**” is **“a risky or daring undertaking that has no guarantee of success”**. Thus, a venture capital is a source of finance for risky and daringundertakings; and an entrepreneurial venture is a risky and daring undertaking. So, the twomatch perfectly.

Venture capital is a type of private equity capital typically provided by outside investors to new, growth businesses. Generally made as cash in exchange for shares in the investee company, Venture capital investments are usually high risk, but have the potential for above-average returns. A **Venture Capitalist** (VC) is a person who makes such investments. A **Venture Capital Fund** is a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital as a concept was born to fund the promising but unproven and therefore risky business ideas. Even though the modern venture capital concept is no more than half a century old (1958 to be precise when a semiconductor business was funded), original venture capital funding in Europe started over half a millennium back (before Christopher Columbus) back when the voyagers use to go on expeditions towards distant, and sometimes new, locations in hunt of exotic items like Indian Spices which use to fetch great profit back home. Such expeditions used to be funded by rich people including kings and queens (Columbus’s expedition which led to discovery of America was funded by Queen of Spain after King of Portugal refused). There was risk of loot and natural elements like storms, wild animals, etc, besides the risk of mercahndise not finding buyer at anticipated price. Thus, there was great personal risk as well as equally big financial risk. The profits earned from such ventures were divided provided between financier **(Venture Capitalist)** and the adventurers **(Old days** **Entrepreneurs)**.

**5.2 Salient Features of Venture Capital**

* 1. It is long term source of investment, generally for 5 to 10 years.
  2. Venture capital firms opt for equity participation through shares or convertible securities and rarely as loan at fixed rate.
  3. Venture capitalist seeks participation in management of business.
  4. Venture capitalist is often an active partner in business and provides his seasoned expertise in terms of marketing, technological management and developing organisational structure.
  5. It is easier source of funding than conventional sources but expensive (equity is always costliest source of funding).
  6. Venture capitalist is not averse to risk, only growth potential should be high.
  7. Flow of funds is in phases of production or in initial stages as debts
  8. Venture capitalists are not permanent equity holders – Such high growth businesses have a typical growth curve which slows down and then flattens after a meteoric rise in initial years. Venture capitalists exit at the end of initial high growth phase while ensuring that entrepreneur’s interest is not jeopardised.

**5.3 Stages of Process**

* 1. **Delivery of business plan** from an entrepreneur to venture capitalist. While evaluating business plan venture capitalist broadly ascertains the prospects of the proposal and the ROI viz-a-vis risk of capital. He also ascertains the capability and credentials of entrepreneur. Many venture capitalists put more emphasis on credentials of entrepreneur than the business proposal itself.
  2. **Due Diligence** - If some merit is found in the proposal during the initial stage, the detailed analysis of the business plan begins. This is called due diligence. It is a stage of thorough scrutiny of business plan from every angle and intense cross questioning of the entrepreneur. Resume of promoters and key managers, financial background of promoters and risk of business are analyzed at this stage.
  3. **Negotiation –** After viability study of project, negotiation takes place in respect of quantum of funds to be provided, modality of funding, like, percentage of equity in lieu, or convertible debentures, interest rate on loan, tenure, fund release timing, etc. Further, other factors like, right to control the management of business (seats in the Board of Directors), buy back arrangement and exit policy are also negotiated. (Typically, a venture capitalist would like to invest in the form of equity share while entrepreneur would like to have it as fixed rate loan).
  4. **Contract and MOU –** After the negotiations have concluded satisfactorily, contract or MOU is signed by both the parties.
  5. **Flow of Funds** – Begins as per MOU, higher degree flexibility is desired from both parties and periodic review is done at each stage.
  6. **Exit** – Since venture capitalist are not permanent equity holders so they exit at appropriate time through equity buy back, IPO (initial public offering), mergers and acquisitions and smooth transition as exit strategy.

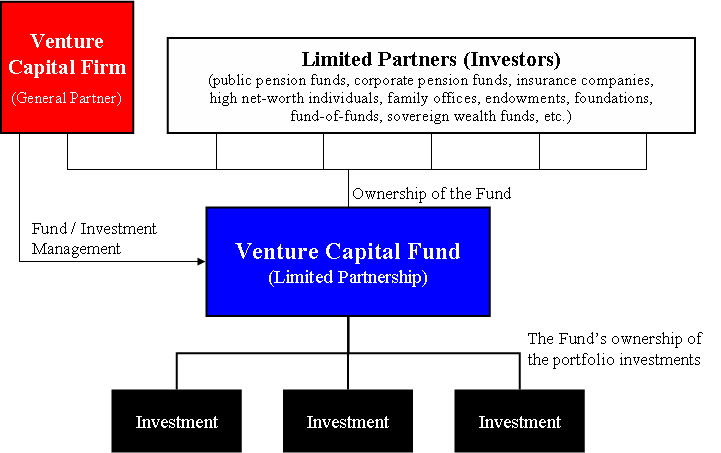
[](http://upload.wikimedia.org/wikipedia/commons/7/79/Venture_Capital_Fund_Diagram.png)

Figure 5.1: **Venture Capital Fund Structure for Venture Capital**

**Source: Wikipedia (2008).**

**5.4 Characteristics of Venture Capital (VC)**

According to Metrick and Yasuda (2011) a VC fund has five main characteristics:

* 1. It is a financial intermediary, meaning that it takes the investors’ capital and invests it directly in portfolio companies.
  2. It invests only in private companies. This means that once the investments are made, the companies cannot be immediately traded on a public exchange.
  3. It takes an active role in monitoring and helping the companies in its portfolio.
  4. Its primary goal is to maximize its financial return by exiting investments through a sale or an initial public offering (IPO).
  5. It invests to fund the internal growth of companies.

**5.5 Distinguishing Features of Venture Capital**

Venture Capital can be distinguished from other forms of finance on the basis of its special characteristics which are as follows:

1. The most distinguishing feature of Venture Capital is that it is provided largely in the form of equity, when the investee company is unable to float its equity shares independently in the market, or from other sources in the initial stage. Thus risk capital is provided, which is not available otherwise due to the high degree of risk involved in the venture.
2. The venture capitalist, though participates in the equity, does not intend to act as the owner of the enterprise. The venture capitalist does not participate in the day-to-day management, but aids and guides the management by providing the benefit of his skill, experience and expertise. He nurtures the new enterprise till it enters the profit-earning stage.
3. The Venture Capitalist does not intend to retain his investment in the investee company for ever. He intends to divest his shares, as soon as the company becomes a profitable business and the returns from the business are high as per expectations. At this stage he withdraws himself from the venture and in turn provides finance for another venture.
4. A Venture Capitalist intends to earn largely by way of capital gains arising out of sale of his equity holdings, rather than through regular returns in the form of interest on loans.
5. A Venture Capitalist also provides a conditional loan which entitles him to earn royalties on sales depending upon the expected profitability of the business. (Such loan is partly or fully waived if the business enterprise does not prove to be a success).

**5.6 Venture Capital Investment Criteria**

Venture Capital investors normally invest in SMEs/companies that provide good prospects for capital growth over a 5 to 15 year time horizon. They undertake investments based on a well thought-out investment criteria. Investment decisions may be based purely on viability, growth potential and sustainability of returns of the target portfolio or investee company (Asamoah and Buckman, 2020). To invest in an SME or in a company, the venture capital criteria may be based on the following:

* + 1. **Viability of the Company/Project**: This may be determined based on product/service assessment, market assessment, distribution/channels assessment, and management capacity/operational sustainability.
    2. **Business Plan / Investment Memo**: Detailed due diligence and a comprehensive business plan for the Company/Project to be invested in.
    3. **Off-taker Agreement /SLAs**: Acceptable contractual arrangements with key suppliers or buyers of the products or service to be produced and service(s) to be offered.
    4. **Track Record**: Demonstrable track record and technical expertise in the particular sector, as well as the professional reputation of the entrepreneur/project promoters.
    5. **Adherence to Best Business Practices**: Companies’ consistent adherence to international standards of corporate governance and local environmental standards. This also includes Environmental, Social and Governance (ESG) issues affecting the sector or business in question.
    6. **Availability of Satisfactory Exit Mechanisms.** The exit strategy for investments will typically be negotiated with the entrepreneur/project promoter before the investment closing. There are several alternatives available to venture capitalist to exit from an investee company which include; Initial Public Offering, Buy back of Shares by the Promoters: Sale of Enterprise to another Company: Sale to New Venture Capitalist: Self-liquidating Process: Liquidation of the Investee Company**.**

**5.7 Stages of Venture Capital Financing**

A venture capital fund provides finance to the venture capital undertaking at different stages of its life cycle according to requirements. These stages are broadly classified into two; (i) Early stage financing, and (ii) Later stage financing. Each of them is further sub-divided into a number of stages. We shall deal with them individually.

**A) Early Stage Financing** includes: (i) Seed capital stage, (ii) Start-up stage, and (iii) Second round financing.

1. **Seed Capital Stage:** This is the primary stage associated with research and development. Seed capital is mainly used in financing the preliminary operations such as market research and product development. Seed capital is invested in research and development before the business can start investing. The risk perception of investment at this stage is quite high and only a few venture capital funds invest in the seed capital stage of product development. Such financing is provided to the innovator in the form of low interest bearing personal loans.
2. **Start-up Stage:** Venture capital finance is made available at the start-up stage of the projects which have been selected for commercial production. A start-up refers to launching or beginning a new activity which may be the one taken out from the Research and Development stage of a company or a laboratory or may be based on transfer of technology from abroad. Such product may be an import substitute or a new product/service which is yet to be tried. But the product must have effective demand and command potential market in the country. The entrepreneurs who lack financial resources for undertaking production, approach the venture capital funds for extending funds through equity. Before making such investments, venture capital fund companies assess the managerial ability, capacity and the commitment of entrepreneur to make the project idea as success. If necessary, the venture capital funds lend managerial skills, experience, competence and supervise the implementation to achieve successful operation. High degree of risk is involved in start-up financing.
3. **Second Round Financing:** After the product has been launched in the market, further funds are needed because the business has not yet become profitable and hence new investors are difficult to attract. Venture capital funds provide finance at such stage, which is comparatively less risky than the first two stages. At this stage, finance is provided in the form of debt also, on which they earn a regular income.

**B). Later Stage Financing:** Even when the business of the entrepreneur is established, it requires additional finance, which cannot be secured by offering shares by way of the public issue. Venture capital funds prefer later stage financing as they anticipate income at a shorter duration and capital gains subsequently. Later stage financing may take the following forms:

1. **Expansion Finance:** Expansion finance may be needed by an enterprise for adding production capacity once it has successfully gained market share and expects growth in demand for its product. Expansion of an enterprise may take the form of an organic growth or by way of acquisition or takeover. In the case of organic growth the entrepreneur retains maximum equity holdings of the entrepreneur and the venture capitalist could be in much higher proportion depending upon factors such as the net worth of the acquired business, its purchase price and the amount already raised by the company from the venture capitalists.
2. **Replacement Finance:** In this form of financing, the venture capitalist purchases the shares from the existing shareholders of the company who are willing to exit from the company. Such a course is often adopted with the investors who want to exit from the investee company, and the promoters do not intend to list its shares in the secondary market, the venture capitalist perceives growth of the company over 3 to 5 years and expects to earn capital gain at a much shorter duration.
3. **Turn Around:** When a company is operating at a loss after crossing the early stage and entering into commercial production, it may plan to bring about a change in its operations by modernizing or expanding its operations, by addition to its existing products or deletion of the loss-making products, by reorganizing its staff or undertaking aggressive marketing of its products, etc. For undertaking the above steps for reviving the company, infusion of additional capital is needed.
4. The funds provided by the venture capitalist for this purpose are called turn around financing. In most of the cases, the venture capitalist which supported the project at an early stage may provide turnaround finance, as a new venture capitalist may not be interested to invest his funds at this stage. Turn around financing is more risky proposition. Hence the venture capitalist has to judge in greater depths the prospects of the enterprise to become viable and profitable. Generally substantial investment is required for this form of financing. Besides providing finance, the venture capitalist also provides management support to the entrepreneur by nominating its own directors on the Board of the company to effectively monitor the progress of recovery of the company and to ensure timely’ implementation of the necessary measures.
5. **Buyout Deals:** A venture capitalist may also provide finance for buyout deals. A management buyout means that the shares (and management) of one set of shareholders, who are passive shareholders, are purchased by another set of shareholders who are actively involved in the operations of the organization. The latter group of shareholders buyout the shares from the inactive shareholders so that they derive the full benefit from the efforts made by them towards managing the enterprise. Such shareholders may need funds for buying the shares, venture capitalist provide them with such funds. This form of financing is called buyout financing.

**Advantages and Disadvantages of Venture Capital**

According to Aboh (2017) Venture capital financing comes with its own advantages and disadvantages as highlighted below:

**5.8 Advantages of Venture Capital**

* 1. There is no pressure on the company to pay periodic fixed charges like will be the case with debt financing. The pressure on the firm’s cash flow is therefore minimal. The cash flows can therefore be used to finance aggressive growth and expansion.
  2. Venture capitalists do not require any form of security in the investee firm or the firm they are investing in. The investee firm does not need to provide collateral to the venture capitalist as would usually be requested for in the case of bank financing.
  3. The venture capitalist also bears part of the risk associated with the enterprise since the investment provided is equity in nature,
  4. Venture capitalists provide non-financial services that can usually add value to the business
  5. They also provide mentorship to management of the investee enterprise.
  6. The involvement of a venture capitalist in an enterprise can lead to improved corporate governance of the enterprise concerned.
  7. Using venture capital also provides credibility to a business. This is because other stakeholders such as customers will be happy to see a credible partner (venture capitalist) working with the firm.
  8. Venture capitalists contribute to the process of economic growth and job creation by providing finance to firms with high growth potential.
  9. Venture capital funding is a long-term investment

**5.9 Disadvantages of Venture Capital**

* 1. Raising venture capital can be very demanding and costly (high transaction costs)
  2. The entrepreneur will have to give up an equity interest in the firm to the venture capitalist and this will be a dilution of the entrepreneur’s interest in the firm.
  3. The enterprise will have to cede some control in terms of decision-making. This is because the venture capitalist will seek to influence major decisions such as finance and investment decisions.
  4. Venture capital financing involves complex and tedious process
  5. Raising finance from a venture capitalist requires the entrepreneur or initial owners to be more accountable to this new partner (i.e. the venture capital firm).
  6. The entrepreneur will have to try hard to meet targets and milestones to keep the venture capitalist interested in the business.

**Summary**

Venture capital is the provision of private equity to new and young firms with high growth potential. Venture capital firms invest equity capital in innovative businesses with high growth potential, which are at an early stage of their development. Venture capitalists (VCs) primarily invest in young, high-technology companies that have a capacity for rapid growth.

Venture capitalists consider an array of factors before ‘jumping head long’ into an investment. These factors include the quality of the enterprise’s management, the enterprise’s competitive edge, the financial projections of the enterprise, and what level of financing is required, the industry expertise of the venture capitalist, and the existence of a viable exit strategy

VCs are a type of financial intermediary that perform three main functions, which are

* + 1. Screening potential investments and deciding on companies to invest in,
    2. Monitoring these companies and providing value-added services for them, and
    3. Exiting their investments in these companies by selling their stake to public markets or to another buyer.

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**CHAPTER SIX**

**BUSINESS PLAN**

**6.0 Business Plan Defined**

A business plan is a written document that describes what a new business venture intends to accomplish and how it intends to accomplish it. It can also be defined as a written document prepared by the entrepreneur that describes all the internal and external factors involved in starting a new business or venture. It is sometimes referred to as the game plan or road map. It answers the questions, where am I now? Where am I going? And how will I get there? The entrepreneur has some control over the internal factors e.g. manufacturing, marketing, personnel in the new venture. But external factors are factor's basically uncontrollable by the entrepreneur e.g. government regulations, economy, new technology, consumer needs, social changes etc. For new venture, the business plan is a dual purpose documents used both inside and outside the firm. Inside the firm, the business plan helps the company develop a "road map" to follow to execute its strategies and plans. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue that business opportunity. Business plan is typically 25-35 pages long.

The business plan should be prepared by the entrepreneur; however, he or she may consult with many other sources for its preparation. Such other sources include professionals such as lawyers, accountants, economists, agriculturists, engineers, financial experts, and marketing consultants etc., who are useful in the preparation of business plan. The internet also provides a wealth of information as well as actual sample templates or outlines for business planning.

The business plan may be read by investors, bankers, venture capitalists, suppliers, customers, advisors, consultants and employees. Who is expected to read the plan can often affect its actual content and focus. Since each of these groups reads the business plan for different purposes, the entrepreneur must try to satisfy the needs of everyone.

The depth and detail in the business plan depends on the size and scope of the proposed new venture. The difference in the scope of business plan may depend whether the new venture is a service venture, or involves manufacturing or is a consumer good or industrial product. The size of the market, competition and potential growth may also affect the scope of the business plan.

The business plan is valuable to the entrepreneur, potential investors, or even new personnel, who are trying to familiarize themselves with the venture, its goal and objectives as well as the mission of the business owner(s) and the new venture itself.

**6.1 Reasons for writing a business plan**

1. It helps determine the viability of the biz venture in a designated market
2. It provides guidance to the entrepreneur in organizing his/her planning activities
3. It serves as an important tool in helping to obtain financing funding or capital
4. The thinking process that is required to complete the business plan is a valuable experience for the entrepreneur since it forces him/her to assess/evaluate such things as cash flow and cash requirements for the business
5. The thinking process takes the entrepreneur into the future, leading him/her to consider important issues and factors that could impede the road to the success of the business
6. The process also provides a self-assessment by the entrepreneur as the planning process forces the entrepreneur to bring objectivity to the idea and reflect on the success or otherwise of the new venture

**6.2 Why some business plans fail**

Reasons why some business plans fail could be due to one or more of the following factors:

1. Goals or objectives set by the entrepreneur are unreasonable
2. Goals or objectives set are not measurable
3. The entrepreneur has not made a total commitment to the business or even to the family
4. The entrepreneur has no experience in the planned business
5. The entrepreneur has no sense of potential threats or weaknesses to the business
6. No customer need was established for the proposed product or service embarked upon by the business.

**6.3 How potential lenders and investors or stakeholders evaluate business plan**

1. Suppliers as one of the stakeholders in the business may want to see a business plan before signing contract to produce either components or furnished products or even to supply large quantities of materials on consignment
2. Customers may also want to review the business plan before buying a product that may require significant long-term commitment
3. Potential suppliers of capital especially lenders or investors will also evaluate the business plan and this will likely vary in terms of their needs and requirements in the business plan. Lenders are primarily interested in the ability of the new venture to pay back the debt including interest within a designated period of time. Banks want facts with an objective analysis of the business opportunity and all potential risks inherent in the new venture. Typically, lenders focus on the six Cs of credit; Character, Capacity, Collateral, Cash flow, Conditions, Capital (equity contribution).
4. Investors, particularly venture capitalist have different needs since they are providing large sums of capital for ownership (equity) with the expectation of cashing out within 5-7years. Investors often place more emphasis on the entrepreneur’s character than lenders do. They often spend much time conducting background checks. This is important not only from financial perspective but also because venture capitalist will play an important role in the actual management of the business. Hence, the investors want to make sure that the entrepreneur is compliant and willing to accept this involvement. These investors will also demand high rate of return on investment and will thus focus on the market and financial projections during the five to seven years period. Within which they intend to cash out (recover their investment in the business).

**6.4 Types of business plan**

There are three types of business plan namely:

1. Summary Business Plan
2. Full Business Plan and
3. Operational Business Plan
4. **SUMMARY BUSINESS PLAN**
   1. A Summary Business Plan is 10-15 pages and works best for new ventures or companies in the early stages of development that want to see if investors are interested in their ideas.
   2. The entrepreneurs do not conduct the analysis needed to write a Full Business Plan. Ironically, Summary Business Plans are also used by very experienced entrepreneurs who may be thinking about a new venture but don’t want to take the time to write a Full Business Plan.
5. **FULL BUSINESS PLAN**

A Full Business Plan is typically 25-35 pages long and works best for new ventures that are at the point where they need funding or financing; it serves as a “blue print” for the company’ operations. This type of Business Plan spells out a company operations and plans in much more detail than a Summary Business Plan and it is the format that is usually used to prepare a business plan for an investor.

1. **OPERATIONAL BUSINESS PLAN**

An Operational Business Plan is 40-100 pages and written by some established businesses, which is meant primarily for an internal audience. It works best as a tool for creating a blueprint for a new venture’s operations and providing or obviously featuring a great amount of detail that provides guidance to operational Managers.

**6.5 Guideline for writing a business plan**

There are several important guidelines that should influence the writing of a business plan. It is, important to be sensitive to the structure, content and style of a business plan before sending it to an investor or stakeholders i.e. anyone else who may be involved with the new firm or venture.

1. **Structure of the Business Plan:** To make the best impression, a business plan should follow a conventional structure, such as outline to be given later in the course of this lecture. To depart from the basic structure of the conventional business plan format is usually a mistake
2. **Content of the Business Plan:** The business plan should give clear and precise information on all the important aspects of the proposed venture. The business plan must be long enough to provide sufficient information, yet short enough to maintain reader interest. For most business plans, 25-35 pages (and typically closer to 25 than 35 pages) are sufficient. How long and detailed a business plan should be depends on the type of business plan that is being written – whether a summary business plan, full business plan or operational business plan.
3. **Style or Format of the Business Plan:** The business plan’s appearance must be carefully thought out. It should be sharp but not give the impression that a lot of money was spent to produce it.
4. **Recognizing the Elements of Business Plan May Change:** Entrepreneurs should recognize that the business plan will usually change as it is being written and as the business evolves. While it is important for entrepreneurs to stay to their business plan and vision, at the same time, they should be quick enough to be able to read the environment and weigh options against each other and try to make the best decision.

**6.6 Information needed to write a business plan**

Useful information is needed by the entrepreneur to prepare a business plan. The information obtainable from many sources should focus on marketing, finance and production. Before commencing to write the business plan, the entrepreneur should clearly define the goals and objectives of the venture. The goals and objectives provide the framework for the business plan, marketing plan and financial plan. Goals and objectives should be reasonable and well clarified in all the functional and strategy segments of business plan. Goals and objectives should not be too general or feasible as they make business plan difficult to control and implement.

1. **Marketing information needs:** Information on the market potential for the product or service is needed. Size of market should be determined and the market to serve defined. A well-defined target market will make it easier to project market size and subsequent market goals for the new venture. Information on the industry and market is also required. There is need to evaluate general environmental trends e.g. population shift, household income trend. For international markets, population, economic and demographic information is needed and can be accessed at appropriate websites. Assess trends in the specific national industry, local specific industry and government regulations for establishing and operating the business. Information on competitive environment is also needed.
2. **Operations information needs:** The entrepreneur will need information on company’s location, its accessibility to stakeholders, basic machine equipment and assembly operations need to be identified, operations to be subcontracted, raw materials needed, their suppliers and cost. Equipment needed their costs and whether to be purchased or leased. Labour skills needed, the number of personnel required for each skill, pay rate and assessment of where and how these skill will be obtained should be determined. The total amount of space needed should be determined and whether it will be owned or leased. Overhead which include each item to support manufacturing e.g. tools, suppliers, utilities and salaries should be determined. Most of the preceding information should be incorporated directly into the business plan.
3. **Financial information needs:** List of all possible expenditures and a list of all revenue sources, including sales and any external available funds are needed and should be prepared. Capital expenditures, direct operating expenses and cash expenditures for non-expense items are also required. Entrepreneur has to identify the standards or benchmarks or norms in the industry that can be used in preparing final pro forma or forcast statement in the financial plan. The benchmarks establish reasonable assumptions regarding expenditures based on industry history and trends. In projecting the costs for operating the business, the entrepreneur might choose to consider the many secondary sources that provide percentage benchmarks for such costs in the areas such as products, services, equipment, personnel and licenses. Expenditures e.g. rent, utilities, insurance and personnel costs can also be ascertained in newspapers, advertisements or form phone conversations with real estate agents, insurance agents, equipment suppliers and utility companies in the area. Financial ratio needed to prepare financial statements can be found in such sources as industry norms and key business ratios (Dun and Bradstreet) etc. trade associations and Trade Magazines also may publish valuable data that can supplement the preceding sources to prepare the financial statements in the business plan.

**6.7 Writing or contents of the business plan – Contents**

The outline or content of a Business Plan is as follows:

1. **Introductory Page (Front cover and Table of Content)**

This is the title or cover page that provides a brief summary of the business plan’s contents. The introductory page should contain the following:

* The name and address of the company
* The name of the entrepreneurs, phone number, e-mail address etc
* A paragraph describing the company and the nature of the business
* The amount of financing needed
* A statement of the confidentiality or the report. This is for security purposes and is important for the entrepreneur
* This title page sets out the basic concept that the entrepreneur is attempting to develop
* Investors consider title page important because they can determine the amount or investment needed without having to read through the entire plan.

1. **Executive Summary**

This section of the business plan is prepared after the total plan is written. About 2-3 pages in length, the executive summary should stimulate the interest or the potential investor. This is a very important section of the business plan and should not be taken lightly by the entrepreneur since the investor uses the executive summary to determine if the entire business plan is worth reading. Thus, it should highlight in a concise and convincing manner the key points in the business plan and motivate the person holding the plan to read it in its entirety.

1. **Environmental And Industry Analysis**

Environmental analysis is the assessment of external uncontrollable variables that may impact the business plan and it is done to identify trends and changes occurring on a national and international levels e.g. economy, culture, technology, legal concerns. Industry analysis on the other hand is the review of industry trends and competitive strategies. Industry demand – demand as it relates to the industry, knowledge of whether the market is growing or declining, the number of new competitors and possible changes in consumer needs. Competition – most entrepreneurs generally face potential threats from larger firms. The entrepreneurs must be prepared for these threats and should be aware of who competitors are, their strengths and weaknesses, so that an effective marketing plan can be implemented. Most competitors can be easily identified from experience, trade journal articles, advertisement, websites or even the yellow pages.

1. **Description of Venture**

This section of the business plan provides complete overview of the product(s), services(s) and operations of a new venture. The description of the venture should be detailed to enable the investor to ascertain the size and scope of the business. This section should begin with the mission statement of the new venture which basically describes the nature of the business and what the entrepreneur hopes to achieve/accomplish with that business. The product(s), service(s), the location and size of the business, the personnel and office equipment that will be needed, the background of the entrepreneur(s), and the history of the venture should be discussed.

1. **Production Plan**

Production plan detail how the product(s) will be manufactured. For manufacturing firms, a production plan is necessary. If the new venture does not include manufacturing functions, production plan should be eliminated from the business plan. Production plan describes the complete manufacturing process. If some or all of the manufacturing process is to be subcontracted, the plan should describe the subcontractors, including location, reasons for selection, costs etc. if the manufacturing is to be carried out in whole or in part by the entrepreneur, there is need to describe the physical plan layout, machinery and equipment needed to perform the manufacturing operations, raw materials and suppliers names, addresses and terms, cost of manufacturing and any future capital equipment needs. In a manufacturing operation, the discussion of these items will be important to any potential investor in assessing financial needs.

1. **Operation Plan**

All businesses – manufacturing and non-manufacturing should include an operation plan as part of the business plan. Operations plan describes the flow of goods and services from production to the customer. It might include inventory or storage or manufactured products, shipping, inventory control procedures and customer support services. A non-manufacturing venture e.g. service provider would also need operations plan in the business plan to explain the chronological steps in completing a business transaction. In addition, operations plan would be a convenient place for the entrepreneur to discuss the role of technology in the business transaction process.

1. **Marketing Plan**

The marketing plan describes market conditions and strategy related to how the products(s), service(s) will be distributed, priced and promoted. Marketing research evidence to support any of the critical marketing decision strategies as well as for forecasting sales should be described in this section. Specific forecasts for a product(s) or service(s) are indicated to project the profitability of the venture. Potential investors regard marketing as critical to the success of any business ventures. Marketing planning will be an annual requirement (with careful monitoring and changes made on a weekly or monthly basis) for the entrepreneur and should be regarded as the road map for short term decision-making.

1. **Organizational Plan**

Organizational plan describes form of ownership and lines of authority and responsibility of members of new venture. Ownership form e.g. whether sole proprietorship, partnership or corporation. If the venture is partnership, the terms of partnership should be included. If the venture is a corporation, it is important to detail the shares of the stock authorized and share options, as well as the names, addresses and resumes of the directors and principal officers of the corporation. It is helpful to provide an organizational chart indicating the line of authority and the responsibilities of the members of the organization. All of the preceding information provides the potential investors with a clear understanding of who controls the organization and how other members will interact in performing their management functions.

1. **Assessment of Risk (Potential Hazards)**

Assessment of risk identifies potential hazards and alternative strategies to meet the business plan goals and objectives. Business ventures will be faced with some potential hazards, given its particular industry and competitive environment. If it is a new venture, the entrepreneur should indicate the potential risks to the new venture. Next, he or she should discuss what might happen if these risks become reality. Finally the entrepreneur should discuss the strategy that will be employed to prevent, minimize or respond to the risks should they occur. Major risks could result from a competitor’s reaction, weakness in the marketing production or management team, and new advances in technology that might render the new product or service obsolete.

1. **Financial Plan**

Financial plan deals with projections of key financial data that determine economic feasibility and necessary financial investment commitment. It is an important part of business plan. It determines the potential investment commitment needed for the venture and indicates whether the business plan is economically feasible. Generally, three financial areas are discussed in the financial plan. Forecasted sales and appropriate expenses should be summarized for at least for the first three years with the first year’s projections provided on monthly basis the appropriate expenses including cost of goods sold, general and administrative expenses. Net profit after taxes can then be projected by estimating income taxes. Next is the financial information needed which is cash flow figures for three years with the first year’s projections provided monthly? It is important to determine the demands on cash on a monthly basis, especially in the first year. The last financial item needed in the financial plan is the projected balance sheet. It shows the financial condition of the business at a specific time. It summarizes the assets of a business, its liabilities (what is owed), the investment o the entrepreneur and any partner(s) and retained earnings (or cumulative losses). Any assumption considered for the balance sheet or any other item in the financial plan should be listed for the benefit of the potential investor

1. **Appendix**

The appendix of the business plan generally contains any backup material that is not necessary in the text of the document. Reference to any of the documents in the appendix should be made in the business plan itself. Letters from customers, distributors, suppliers or subcontractors are examples of information that should be included in the appendix. Any documentation of information that is secondary data or primary research data used to support plan decisions e.g. market/marketing research data should also be included. Leases, contracts or any other types of agreements that have been initiated may also be included in the appendix. Finally, price lists from suppliers and competitors may be added.

**6.8 Differences between feasibility and business plan**

* A feasibility study is a fundamental document containing information on the feasibility and viability of starting and implementing a new venture or existing venture. A business pan on the other hand is a written narrative that describes what a new business or existing business intends to accomplish and how it intends to accomplish.
* A feasibility study is not the same as a business plan though both play important but separate roles in the business/venture start-up process. A feasibility study filters and screens out ideas that lack the potential for building a successful business before an entrepreneur commits the necessary resources to building a business plan. Feasibility study functions as an investigative tool. It is designed to give an entrepreneur a picture or the market, sales, profits, potential of a particular business idea. Business plan builds on the foundation of feasibility study, but provides a more comprehensive analysis than a feasibility study. Business plan functions primarily as a planning tool and its main or primary goals are to guide the entrepreneurs as they launch and operate their businesses and to help them acquire the financing needed to launch.

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**CHAPTER SEVEN**

**FINANCIAL ASPECTS OF ENTREPRENEURSHIP**

**7.0 Introduction**

The term "entrepreneur" is derived from the French verb "entreprendre." An entrepreneur is someone who starts their own business and takes full responsibility. This person is an entrepreneur. The terms founder and entrepreneur are commonly used interchangeably. Entrepreneurs add value by selling goods and services. They see a market opportunity and use their resources (land, labour, and capital) to challenge the status quo. Entrepreneurship, when combined with the Internet, democratizes and flattens the planet. Entrepreneurs develop game-changing technologies, goods, processes, and services, launching a second wave of businesses.

Academics and bankers' combined interests gave rise to the concept of entrepreneurial finance. Bankers feel that entrepreneurial settings provide unique characteristics that should guide decisions. Entrepreneurship is the process of creating new or revitalizing mature organizations, particularly new businesses in response to opportunities. This chapter defines, discusses, and lists different sources of entrepreneurial funding.

**7.1 Entrepreneurial finance: Definition**

Entrepreneurial finance is the process of raising funds and making financial decisions for a startup (Anwar, Tajeddini & Ullah, 2020). When starting a business, most entrepreneurs focus their efforts on raising capital. This includes approaching investors for cash in order to create activities and acquire resources. Friends, relatives, venture capitalists, angel investors, banks, and others provide funding. Entrepreneurial finance is concerned with startup funding. Corporate finance is concerned with long-term value creation and entrepreneurship.

Capital structure, dividends, investment decisions, budgeting, and balancing equity and debt are all aspects of corporate finance. Many of these approaches may be used in entrepreneurial finance, however its primary goal is to raise further capital and maximize profits, therefore certain corporate finance studies may not be applicable. Entrepreneurs frequently take on additional debt to enhance their finances, whereas larger corporations invest in smaller businesses to expand their product offerings or shareholder value (Bellavitis, Filatotchev, Kamuriwo & Vanacker, 2017). All entrepreneurial financing is often handled by the corporate finance departments of startups. Many people who specialize in entrepreneurial finance work for venture capitalists and investment funds, advising them on how to fund and grow their businesses. The pillars of entrepreneurial finance advocate that: having more cash is better than having less; and Early cash is preferred over late cash.

Entrepreneurs must be versatile, astute, and quick to obtain financing in order to scale operations, add staff, and grow their business. Growing a corporation requires credit, budgeting, effective spending, responsible borrowing, and investing. In other words, they must have strong financial skills in order to persuade investors to invest and transform that investment into growth. Understanding how a credit score influences loan eligibility is critical when starting a business because it may be one of the only sources of funding. To manage debt once growth begins, responsible borrowing and credit understanding are required. Any company in its early stages must find investors and convey its goal. Thus, wise budgeting and expenditure are critical to a company's short- and long-term success. Successful businesses find funding in novel ways. Business angels, venture capital, bank loans, buyouts, and bootstrapping are all options for entrepreneurs.

**7.2 Importance of getting financing or funding**

Each new business venture financial resources. A new business's financial requirements may vary depending on the industry in which it operates and the company's ambitions. Even new enterprises in the same industry will have different financial requirements in the beginning. The phrase "entrepreneurial finance" refers to the use of financial tools and procedures to the strategy, funding, operations, and valuation of a business run by entrepreneurs. Entrepreneurial finance is concerned with the financial management of a venture as it advances through its lifespan, beginning with the stages of creation and ending when the entrepreneur either departs the endeavor or reaps the benefits of the venture's efforts. It is practically unavoidable for an entrepreneurial company's initial few years to be distinguished by major operational and financial obstacles; as a result, efficient financial management and entrepreneurial funding are both critical to the business's long-term survival and prosperity.

The majority of entrepreneurial businesses will require at least one round of reorganization and restructuring to be successful. When a company's cash flow is insufficient to cover its current liability commitments, it is considered to be in financial difficulty. Resolving financial difficulties usually entails either redesigning business activities and assets or reorganizing loan interest and principles payments on a regular basis. One of the most essential reasons to learn and practice entrepreneurial finance is to be able to predict and avoid financial problems.

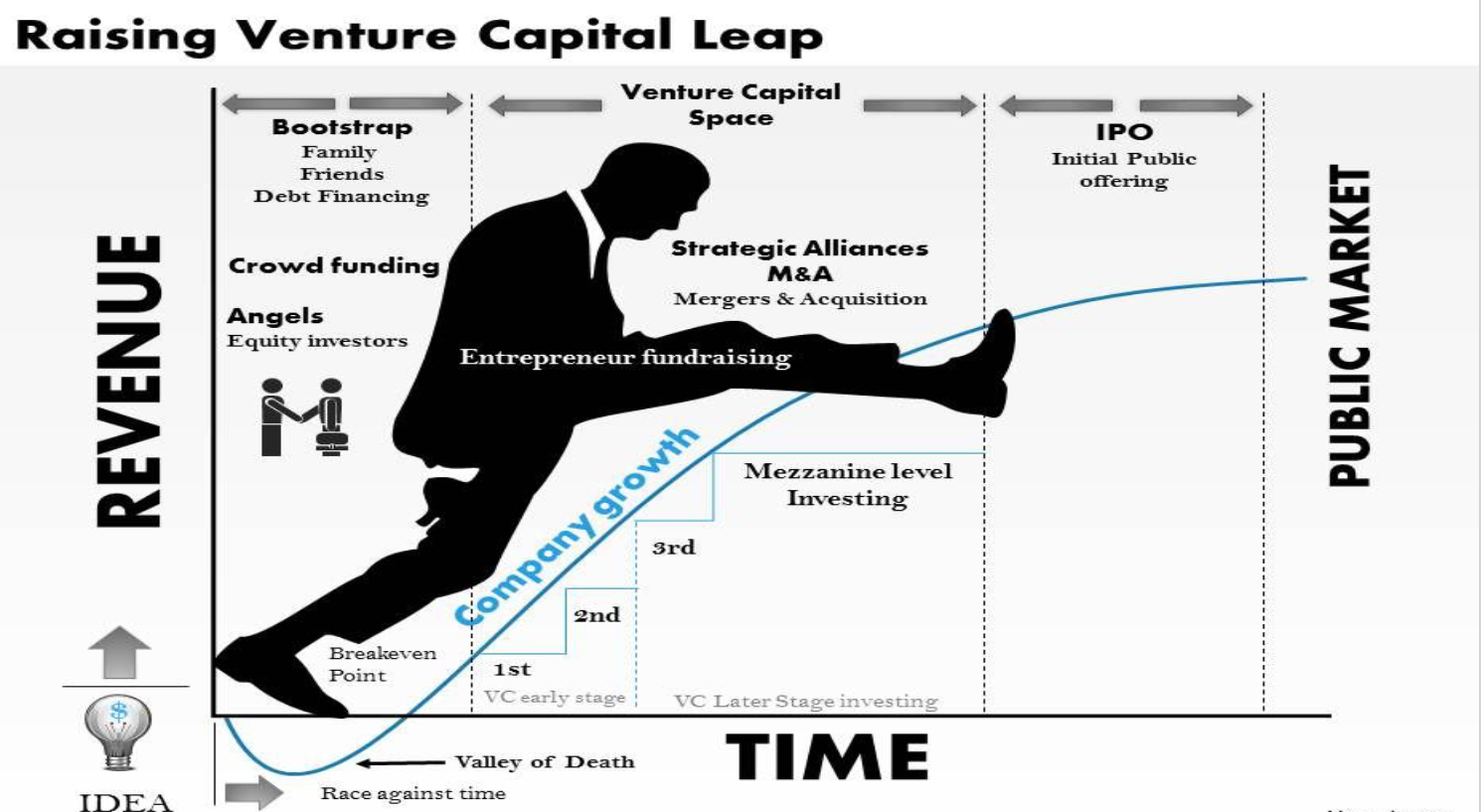
It is the responsibility of every department within the organization to generate cash flows, including marketing, production/engineering, research and development, distribution, human resources, and finance/accounting. The entrepreneur and the finance manager, on the other hand, are in charge of aiding the other members of the entrepreneurial team in tying their actions to the increase of cash flow and value. The primary task of the financial manager is to keep the venture's financial records and to compile the venture's financial statements for the next one to two years. Sufficient finance is required for the venture to be successful in the near run. The financial strategies of the company disclose whether or not it expects to have insufficient finances. If this is the case, the business owner must seek alternative sources of money to prevent falling short. The five-year projection of yearly statements is a fundamental component of long-term financial planning. Despite the fact that longer-term estimates may have a lower degree of reliability, it is critical to anticipate important financial demands as soon as possible. To meet those standards, additional rounds of investment may be required over the first few years of business operations.

The financial manager is responsible for tracking the company's financial performance over time and ensuring that its operations are as efficient as possible. Every successful business will generate operating profits as well as free cash flows at some point. Even while it is fairly uncommon for a new business to operate at a loss and exhaust all of its financial reserves in the early stages, this cannot be permitted to continue indefinitely. In a nutshell, financial management in an entrepreneurial effort includes the activities of record keeping, financial planning, monitoring the usage of the initiative's assets, and arranging for any necessary financing. The ultimate goal of all of these measures should be to increase the value of the venture.

It is critical to have a firm grasp on who you should approach for financial assistance. Initially, every entrepreneur considering starting a new firm would consider approaching friends and family, as well as his bank, venture capitalists, angel investors, and any other acceptable sources. The majority of entrepreneurs, however, face common challenges, such as a request for a large amount of equity, a lack of understanding of the business's potential, performance obstacles, the need to convince the client about the potential prospects, skepticism toward business plans, and a lack of confidence in the startup.

Many potential investors will look at a variety of factors before determining whether or not to invest in your firm, including the strength of your team, the size of the market, prospects, the degree of competition in your industry, and more. Knowledge of entrepreneurial finance is the greatest approach for entrepreneurs to react to all of these questions. The entrepreneur's dreams and goals will determine how much money is required to start a new business. He needs to identify investors who are willing to put money into his company, which requires him to persuade possible backers.

**Sources of financing**



When a new business is just getting off the ground, the best place to look for capital is within the company itself. The first funding comes from the funder, as well as from family, friends, and other acquaintances (3Fs), and the company also draws on its own resources and forms business connections. A business loan from a bank, government-sponsored programs or grants, professional investors (angel investors, venture capitalists, and corporate investors), initial public offering (IPO), and the equity markets will all be necessary for the company as it continues to expand and needs additional funding. The amount of money that is made available to a new business relies on how successful it will be in the long run. There are three categories of new businesses that are just getting off the ground: lifestyle, middle-market, and high-growth potential. The creators of lifestyle businesses typically make only enough money to cover their basic needs. This is the archetypal type of small business, and it accounts for approximately ninety percent of all new businesses. They are primarily sponsored by cash from within the company, as it is highly improbable that they will obtain equity capital from outside sources. Their forecasts for revenue over the next five years are less than $10 million or N4,218,801,290. Less than ten percent of all start-up companies are classified as middle-market corporations. They have a yearly growth rate of 20%, and their revenue estimates for the next five years range from $10 million (N4,218,801,290) to $50 million (N21,094,006,450) current exchange rate.

These companies tend to garner the interest of business angels and rely heavily on organic development for their early expansion. Less than one percent of all new businesses are considered to have high potential. They expand by more than fifty percent per year, and their estimates for the next five years total more than fifty million dollars. They anticipate multiple rounds of external funding from angel investors and venture capitalists and have plans to hire more than fifty people during the next five to ten years.

**7.3 Internal Sources of Funding**

Founder, Family, and Friends (3Fs), sometimes known as "love money," is made up of the founder's personal savings as well as funds from family and friends. The longer an entrepreneur can survive on personal money and sweat equity (sweat equity) and domestically generated funds, the lower the cost of external risk capital (the entrepreneur must surrender less equity to obtain the same amount of funds) and the larger the entrepreneur's sovereignty.

Bootstrapping is the very creative acquisition and use of resources without the use of conventional financing or borrowing money from a financial institution. There is a strong reliance on internally generated retained revenues, credit cards, home mortgages, and client advances. Waiting as long as possible to seek equity financing allows for better terms and the retention of more ownership share, greater authority, and overall control. The entrepreneur spends time and resources growing the business rather than courting investors, avoiding the problems associated with raising too much money. The disadvantages of bootstrapping include the possibility of not generating enough funds to grow the company at the desired rate, the firm's inability to compete effectively with financially well-off competitors, a limited potential grasp on sales, market share, and overall competitiveness, and limited support for high-growth prospects.

Business alliances: entail forming "cooperative arrangements" with another company in order to generate revenue and cut costs. Market penetration, accelerating time to market, utilizing sales and marketing channels, geographic expansion, access to customer lists, building product credibility, insufficient resources to go it alone, customer requests, product development, economies of scale, teaming up rather than competing, gaining business experience, and joint bidding on projects are some of the reasons for forming a business alliance. An active search for business alliance partners is conducted using industry knowledge, professional associations, industry networks and contacts, attorneys, trade shows, accountants, bankers, friends, and other resources. Effective business partnerships can be tremendously beneficial to a start-up or early-stage firm that has the means to flourish on its own, but these alliances do not always make sense once the company has grown, become healthy, and attained self-sufficiency.

**7.4 External Sources of Funding**

Business Angel: Successful business people who invest their own money are known as business angels or investors. The name "angel" derives from the tradition of affluent businessmen financing in Broadway musicals in the early 1900s. An angel investor, also known as a business angel or informal investor in Europe, is a wealthy individual who invests funds in a new business in exchange for ownership equity. Private investors on average are 47 years old. Angels frequently invest in technology or businesses in their areas of expertise. Most angel investors invest locally and rarely invest more than a few hundred thousand dollars. They are long-term investors who typically expect a return in 5 to 7 years. They want a return that is proportional to the risk and love advising and aiding entrepreneurs.

Angels typically support enterprises that require early stage high-risk capital to run a 10 to 20-employee firm that can expand to a "middle market" company with 50 to 100 workers and annual revenues of $10 to $20 million. Angel investors expect an average yearly return of 26% when they invest, and they believe that roughly one-third of their investments will result in a significant capital loss. They invest alone or through angel groups, and accept an average of three projects out of every ten considered. The following are the most prevalent grounds for rejecting a deal: insufficient growth potential, overvalued equity, insufficient management talent, and a lack of information about the entrepreneur or key individuals.

Small, established, privately held ventures with sales and profit growth of 10% to 20% per year, special situations such as very early financing of high-technology inventors who have not developed a prototype, and companies that project high levels of free cash flow within 3 to 5 years are all candidates for angel financing.

Entrepreneurs can find angels through other entrepreneurs (who have already been funded by angels and/or are looking to invest), organizations (formal matching services, angel alliances, venture capital clubs, internet services, private matchmakers), networks (personal: friends, family, colleagues, etc., professional: attorney, stockbroker, banker, etc.), and publications (mailing lists, newspaper leads and ads).

In the United States, an accredited investor is defined as an individual having a net worth of more than $1 million or an expected individual (family) yearly income of more than $200,000 ($300,000 with spouse) under Securities and Exchange Commission Rule 501 of Regulation D. According to the Federal Reserve's Survey of Consumer Finances, more than 6 million US households are authorized investors. According to many research, the number of active angel investors in the United States is between 250,000 and 400,000.

Angel investors form angel clubs or angel networks to share research and due diligence and to combine their investment capital. The Band of Angels, Silicon Valley's first angel organization, was founded in 1994. There were roughly ten angel groups in 1996, and there are now over 250 angel groups. Angel investors form angel clubs or angel networks to share research and due diligence and to combine their investment capital. Angel investing has become a movement, with angels in the United States investing between $20 and $40 billion every year. The rise of angel networks and angel syndicates allows for the pooling of funds to invest in larger deals, diversification across multiple investments, a consistent flow of quality deals, leveraging and sharing a network of contacts and expertise, the ability to conduct deeper and broader due diligence, the ability to add more investments to an existing portfolio, and the ability to add additional follow-on rounds to existing investments.

**7.5 Venture Capitalists (VCs)**

VCs take investors' money and invest it in portfolio companies. A venture capital business invests in private enterprises and monitors and helps them. Their investment funds internal company growth and they aim to maximize financial return through sale or IPO. In 1946, General George Doriot and Federal Reserve Bank of Boston President Ralph Flanders formed the American Research and Development Corporation (ARD), the first corporation to provide risk finance for innovative and fast-growing firms. In its 25 years as a public firm, ARD earned investors 15.8% annually. In 1979, VCs invested $460m in 375 startups. The 1980s saw structural developments in VC. The average fund size expanded; mega-funds of more than $500 million accounted for approximately 80% of all VCs. The typical investment size was significantly higher, however; $20 million, $40 million, even $80 million rounds during the dot-com boom. There was a specialization pattern toward information technology. In 2000, $107 billion was invested in 5,500 firms. NASDAQ fell 60% in March 2000 (Rajapathirana, & Hui, 2018).

VCs fund second round and development capital for later stage enterprises due to structural reasons: high overhead costs, high evaluation and monitoring costs compared to the amount of the investment, and a long payback period and substantial risks for early stage start-ups. Traditional VC investments have been in health care and IT (IT). Silicon Valley has 30% of US VC investments annually. Venture capital is particularly attractive to fledgling companies with minimal operating history that are too small to obtain funds in the public markets or secure a bank loan or debt issue. In exchange for investing in smaller, less mature companies, venture capitalists receive extensive power over company decisions and a large amount of the company's ownership (and consequently value). New emerging and middle-market private companies that will go public or merge within 4 to 7 years, have a complete management team with a competitive advantage, $5 million to $200 million in sales, a billion-dollar potential, 25% annual growth, gross margin 40% to 50% or more, and can return 10 times the original investment. Venture capital businesses are usually formed as partnerships, with general partners as managers and investment advisors. Limited partners invest in VC funds. This constituency includes high net worth individuals and institutions with huge quantities of capital, such as state and private pension funds, university endowments, foundations, insurance firms, and fund of funds or mutual funds.

**Corporate Investors:** Small businesses frequently view corporate investors not as a potential source of capital, but rather as a potential exit opportunity. By purchasing smaller companies, corporate investors can complement the products or services they now offer, while the acquired companies can use the newly acquired strategic finance to further grow their business operations. For instance, Microsoft paid $425 million to acquire Hotmail. This is just one example. The presence of corporate investors makes it impossible for small businesses to form alliances with their rivals or to engage in direct competition with the corporate investor. These days, a significant number of would-be business owners launch companies with the sole intention of having that company acquired by a major non-financial multinational enterprise.

**The Equity Markets**: Small businesses usually perceive corporate investors not as a potential source of funding, but rather as a potential exit opportunity. This is because corporate investors are more likely to have access to larger pools of funds. Corporate investors can enhance the products or services they already provide by purchasing smaller companies, and the companies that are bought can use the newly acquired strategic financing to further expand their business operations (Bruton, Khavul, Siegel, & Wright, 2015). This benefits both parties. For instance, Microsoft purchased Hotmail for a total of 425 million dollars. This is just one illustration among many. It is impossible for small enterprises to create alliances with their competitors or to engage in direct competition with the corporate investor while there are corporate investors present. At the present day, a sizeable portion of would-be business owners create companies with the primary objective of having their companies purchased by a huge non-financial multinational corporation. This trend is becoming increasingly common.

**Banks**: When it comes to lending money, banks would rather do business with companies that can provide some type of collateral. Once a small business has established themselves in their industry and proven that they are creditworthy, this type of external finance becomes a significant source for the company. For many small and medium-sized businesses and entrepreneurs, bank lending is the most prevalent source of external finance. These businesses and entrepreneurs are frequently severely dependent on direct debt to fulfill their start-up, cash flow, and investment requirements. Traditional bank financing, despite the fact that it is frequently utilized by small businesses, presents a number of obstacles to SME owners and may be inappropriate at certain periods of the life cycle of a company. A lack of a track record of reliable information on the entrepreneurs, the fact that start-ups are illiquid, the fact that they have an excessive amount of debt outstanding, the fact that their profit and cash flow measures are volatile, and the fact that if the placement is successful, the bank makes only 4-6% in interest, but if it loses the money, it can lose it all plus attorney's fees. These are the reasons why banks avoid working with early-stage companies.

**Government venture capital: In addition to private businesses, government-owned corporations have also established their own venture capital financing systems. They want to assist newly established firms in resolving their financial issues and narrowing the gap that exists between the company and its finances.**

**IP based investment funds: These investment funds make financial commitments related to intellectual property. They focus mostly on researching patents. They are able to make a profit off of their intellectual property investments and use those profits into the expansion of their business. Because of this, IP-based investment funds do not offer either debt or stock to their clients.**

**IP backed debt funding: Companies that derive economic value from their intellectual property and use it to their advantage can qualify for IP-backed loan funding. The major objective is to be granted loans from financial institutions. They approach financial institutions in which intellectual property rights can be pledged as collateral in an effort to get these. When it comes to the funding of startups, these instruments typically carry a very high structuring cost in addition to other essential components.**

**Mini-bonds: The public bonds that are issued as part of the special bonds market are denoted by this term. They are also a reflection of the company's intention to lessen their reliance on banks as a source of funding for their operations.**

**Social venture capital funds:** **They do this by providing seed money to social entrepreneurs whose primary motivation is financial gain. The funding might come either in the form of equity or debt, but the major goal of the investors is to make a profit while also having a positive social influence on the world.**

**7.6 Equity and Debt funding**

**For a business owner to be successful, they need to have access to a variety of different business sources. A person who owns a business has the option of supporting it with either debt financing or equity financing, each of which falls under the category of business financing. Borrowing money for a predetermined amount of time (either long-term or short-term) and agreeing to repay it with interest is an example of debt finance. On the other hand, equity financing refers to the practice of raising capital through the sale of ownership stakes in a business. Whether a businessperson should take out a loan and then pay it back or sell shares of the company to shareholders is a decision that depends on both the business and the businessperson.**

**One could get an understanding of debt and equity finance, as well as the benefits and drawbacks associated with each type as well as the key distinctions that exist between the two. On the basis of such information, you will be able to determine whether or not it will be beneficial for one to take out a loan or sell shares in the company.**

**What exactly does "debt finance" mean?**

**The vast majority of us are familiar with loans since the majority of us have taken out some kind of loan at some point, whether it was for education or for travel. Debt financing is very comparable to this method. When using debt financing, the borrower makes an agreement to receive a predetermined sum of money in exchange for a promise to repay the principal amount, as well as the interest amount, at a predetermined interest rate and after the predetermined amount of time. As a means of providing the money's provider with further peace of mind, the borrower is expected to put up some form of security in the form of assets such as a home, land, inventory, insurance policies, accounts receivable, or equipment, among other things.**

**In the event that the borrower is unable to repay the loan, the lender has the option of making use of the collateral. In addition to this, the borrower is responsible for making monthly payments that apply toward both the principal amount and the interest accrued on the loan. It encompasses conventional loans from financial institutions (From both public as well as private). The Small Business Administration (SBA) is a good option for financing for many different types of companies (SBA). Loans from the Small Business Administration (SBA) can be obtained at a very cheap interest rate and for a longer time period than traditional bank loans. However, due to the stringent standards that must be met in order to qualify for one of these loans, it can be rather challenging to get one of these loans granted.**

**Different forms of debt-based finance**

**The following is a list of the various forms of unsecured and secured debt financing that can be obtained from a variety of institutions.**

* 1. **Term loans: Term loans can be obtained from traditional lending institutions like banks or from nontraditional lenders like bond streets. These loans will give you access to the whole amount of capital up front in exchange for consistent payments over a predetermined amount of time.**
  2. **Credit lines that are secured by collateral: One can receive a secured line of credit from a financial organization, such as a bank or another financial institution, for a very low interest rate. This type of credit allows you to withdraw whatever amount of money that you require during any particular period of time. However, obtaining a loan of this type can be rather challenging due to the stringent standards that must be met.**
  3. **Financing based on invoices or other receivables: Financial institutions are eligible to provide this kind of loan to their customers. It is appropriate for situations in which a person requires cash on hand. When you use this method of financing, your money is advanced to you at a discount in exchange for income that the business person will receive at a later time.**
  4. **Charge and credit cards: Credit unions, banks, savings and loan associations, and several other types of financial institutions may be able to provide this kind of loan. Credit card loans are pretty comparable to regular loans. The only difference is that the interest rate on this form of loan is rather high, and the grace period is quite short. Other than that, the terms are exactly the same.**

**7.7 MCA firms that specialize in merchant loans**

**A firm or company that generates a significant portion of its revenue from credit card sales is an ideal candidate for this type of loan. Your standard credit card transaction will include a predetermined amount that must be paid back to the loan provider. Because of the nature of these loans, you need to be sure you understand everything that is involved with them before applying for one.**

**Advantages of Debt Financing**

1. **Debt financing will not have a significant impact on your company; all that is required of you is to make payments on loans that you hold.**
2. **One will have the ability to spend money in any way that one see fit. On the other hand, there are a few organizations that place limitations on the ways in which one can spend ones’ money.**
3. **Debt finance is adaptable in character due to its nature. You have the ability to choose how much money you wish to borrow as well as how you choose to pay it back.**

**Disadvantages of Debt financing**

1. **The process of obtaining a loan can be challenging, which is one of the primary disadvantages of debt in financing. If ones’ credit score is low and one doesn’t have any collateral, one might not get approved for a loan.**
2. **If one is unable to repay the debt, the lender of the loan has the right to take possession of your company as well as the property it is located on.**
3. **The interest rate that one pay may at times be so high that it actually results in a loss for one. As a result, you ought to prepare whatever that you borrow to ensure that you make the most possible profit.**

**7.8 Equity Financing**

**Equity financing refers to the process of selling parts of your company to investors or financiers in exchange for a future share of the profits that will be generated by that company. There are a variety of routes to take in order to acquire equity financing, including equity crowd-funding and working with venture capitalists. When using this approach to repay a loan, the owners of the business do not have to be concerned about the possibility of the interest rate increasing, nor are they forced to make regular payments toward the repayment of the debt.**

**People who put money into your company will get a cut of the profits it makes, and they might even be able to earn the right to take part in all of the company's decision-making processes if they have a large enough stake in the business. This is an alternative to giving investors equity in the company. There are organizations out there that proactively look for new businesses or startups that have a good potential of becoming successful in the future and that are in need of investment so that they can expand their operations.**

**People who invest in the businesses of others typically have extensive industry experience and a deep understanding of the market. They won't risk their money without first determining whether or not the market has untapped potential. To persuade investors to put money into your firm, you need to have the necessary abilities, as well as a sound financial strategy, products or services that are already functioning, and a skilled management team. To communicate with potential investors, you need to have a strong network of contacts in the market.**

**If you do not address this issue, even scheduling a meeting with them will be challenging for you. On the other hand, equity crowd-funding refers to the process of selling shares of a company to individuals around the state who have very limited investment budgets. In order to successfully raise funds through crowd-funding, you will need to put in a significant amount of effort into marketing and preparation work.**

**Firms that specialize in venture capital as a type of equity financing**

**Advantages of Equity Financing**

1. **In the event that your company is unsuccessful, you will not be responsible for making repayments to your investors.**
2. **One will not be responsible for paying interest on the money that your investors have contributed to your company. As a result, a significant portion of your profit can be set aside and invested in the expansion of your company.**
3. **In addition to receiving financial assistance, you may also benefit from the knowledge, industry connections, and expertise of ones’ investors. As a result, one has the opportunity to develop a sustainable business connection with them.**

**Disadvantages of Equity financing**

1. **There is a high barrier to entry when trying to secure equity financing, which makes it difficult to do so fast. To be successful in persuading investors to put money into ones’ company, one will need to put in a lot of groundwork.**
2. **You are relinquishing control of your company to third parties by doing so. They will also be entitled to intervene in the decisions that you make, and you will be required to always speak with them before making any changes to your company. In the worst possible scenarios, one can be compelled to give up ones’ firm.**

**Table 7.1: Difference between debt financing and equity financing**

|  |  |
| --- | --- |
| **Debt financing** | **Equity Financing** |
| Loans with interest can be used to start or finance a business. | Investors can help one starts or finance ones’ business if one share profits and decision-making rights. |
| There is no participation on the part of the lender in the business, and there is also no ownership sharing. | High degree of involvement on the part of investors because they are able to receive financial resources by sharing ownership of the company. |
| The Fixed cost of capital on loans | The variable cost of capital on investments. |
| Creditors do not receive any voting rights in this arrangement. | Investors receive a certain number of voting rights proportional to the amount of capital that they contribute. |
| No need to pay a dividend. | After the decision period of time has passed or after it has been decided by the corporation itself, a dividend must be paid out. |
| No profit is shared with the creditors. | According to their investment, investors receive profit. |
| The Borrower has to pay back the money borrowed no matter the business fails or not. | The Borrower is not required to pay back in case the business fails. |
| Money is paid first. | Money is paid last. |
| Create clear leverage. | No clear leverage on investments. |

**7.9 Conclusion**

New businesses founded by entrepreneurs both contribute to and are sustained by the expansion of existing economies. It is necessary, for the purpose of assuring sustainable growth, to have an understanding of the financing options available during the various stages of the venture's lifecycle. When looking for financial backing, business owners shouldn't simply accept the first offer they receive; rather, they should prioritize finding the investor that best fits the needs of their company.

On the other hand, investors want a return that is proportional to the amount of risk they are taking, and the risk and failure rates associated with new businesses are quite high. Business economies have the opportunity to create a platform with organized vehicles for funding start-up firms that enable detailed due diligence and provide post-investment resources through the use of business angel syndication. This platform has the potential to create a platform with organized vehicles for funding start-up firms.

When a venture is successful in reaching its exit, both the entrepreneur and the investors receive a return on the money they invested. A "capital cow" is a company that has a lot of cash and a lot of capital; an employee stock ownership plan is when the founders can realize some liquidity by selling some of their stock to the employee plan or to other employees; a management buyout is when the founder can realize liquidity by selling it to the other existing partners or to the management of the company; the company can merge with or be acquired by another company.

It would appear that the vast majority of very successful businesspeople are willing to take on the duty of maintaining and improving the system that has allowed them to achieve such great success. They give money to college endowments and scholarship funds, become active in events in the community, and invest in new businesses, which is essentially the same as reinvesting in the next generation of business people.

In conclusion, we are able to claim that debt financing and equity financing are both viable options for accumulating the capital necessary to launch a business. On the other hand, debt finance is a good option to consider if you need funds quickly. On the other hand, equity funding is useful when you have a sound idea for a firm, well-developed plans, and a high probability of being successful in the future. Obtaining finance through stock is a lot more challenging than obtaining financing through debt. Before obtaining any kind of funding, conduct an exhaustive research and start making the preparations in advance.

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