PRINCIPLES AND PRACTICE OF ENTREPRENEURSHIP DEVELOPMENT

BY

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FOREWARD

Entrepreneurship development studies is relatively a new academic programme in Nigeria's tertiary institutions. Both the NUC (National Universities Commission) and NBTE (National Board for Technical Education) appreciated the need to enhance academic curricular of tertiary institutions for the training of undergraduates who would eventually embrace job creation and self-employment on graduation, instead of seeking white-collar jobs; hence the introduction of Entrepreneurial Development Studies in our higher institutions.

The book, Principles and Practice of Entrepreneurship Development is designed to achieve the noble objective of both the NUC and NBTE in moulding students of tertiary institutions into becoming job-creators and self-employed persons, instead of job-seekers-after graduation. Topics covered in this well researched and packaged textbook are both theoretical and practical, which also meets the standards set out by the Institutional Supervisors of tertiary education in Nigeria. The book which is equally suitable for graduates and un-employed persons wishing to learn all about Entrepreneurship Development, could not have come at a more auspicious time when over 90% of school leavers are un-employed, or un-employable.

It is therefore noteworthy and commendable that Dr. Charles O. Ukemenam has been able to produce this inspiring book of fourteen chapters and five Appendices, which cover the whole gamut of Entrepreneurship Development at this period of mass un-employment and job losses in our country. The book, no doubt will be of immense benefit to students, administrators, businessmen (and women), NYSC graduates and everyone interested in becoming self-employed or employers of labour to enhance their efficiency and capability.

I therefore have no hesitation in recommending the book to researchers, scholars; the general public and those interested in Nigeria's economic development.

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Their support and encouragement enabled me to appreciate the vital role of education as an important tool for national development, and wealth creation early in life.

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CHAPTER ONE

1.1 BASIC CONCEPT OF ENTREPRENEURSHIP DEVELOPMENT

Entrepreneurship is a business concept, which had long existed since the dawn of civilization among the various peoples of the world. Around the world, growing numbers of people are daily continually realizing their dreams of owning and operating their private businesses. Entrepreneurship continues to thrive in one form or another, in nearly every corner of the world all the time.

According to a recent research conducted by Kaffman Foundation of USA, entrepreneurs in America alone launch 550,000 businesses each month. The research report indicated that, this entrepreneurial spirit is the most significant economic development in recent business history around the world.

For instance, in the United States of America and around the globe, these "heroes of the new economy", according to the Kaffman Foundation Research are reshaping the business environment and creating an improved global economy. With much vigour, their businesses have introduced innovative products and services. It has pushed back technological frontiers; created new jobs, opened foreign markets, and in the process, provided their founders with the opportunity to do what they enjoy doing most.

Entrepreneurial activities are very essential to national economies and also to strong global economy. It has become a common phenomenon that many of the world's largest companies continue to engage in massive retrenchment of staff for several reasons; government establishments are no exception to cutting down the number of employees. Many of those lay-offs are people who were well trained and were primed for life-long employment, but whose careers were suddenly cut short through retrenchments or down-sizing. Majority of those affected in this quagmire of 'premature retirements' often end up in the labour market, or become entrepreneurs as the last resort. According to ***Small Business Profile*** of the United States, Small Business Administration (2007 report), "during a recent one year period, the largest companies in USA shed 214,000 net jobs. During the same period small businesses with fewer than 20 employees created

1,625,000 net jobs". Statistics for Africa and Nigeria in particular are not available, but there is no doubt about the large number of small businesses being created all over the country by people who lost their jobs in recent times also. Note that "net jobs" refer to the ***net difference*** between people who lost their jobs, and those who were engaged to replace them (mostly professionally qualified persons). It is however observed in USA that the "younger generation" – ie those born between 1965/1981 and 1982 to 1995, no longer consider launching a business of their own as being a risky career path. This is largely because, having watched large companies (and government agencies) lay off their parents and grandparents after many years of service, these young people see entrepreneurship as the ideal way to create their own job security and success. They definitely prefer to control their own destinies by building their own businesses through entrepreneurship. This trend has no doubt spread to most parts of Africa in general, and Nigeria in particular if anyone cares to observe what goes on everywhere in most of our towns and villages presently.

At present, there are lots of young people who are engaged in one business enterprise or another, especially in the ICT (information and communications technology) sector. Jobs such as operation of Cyber cafes, GSM sales, Computer operations in Business centres, etc, are all handled by young men and women who took the path of self-employment or entrepreneurship. These young people definitely prefer to direct and control their own destinies, instead of leaving them in the hands of a callous employer who could lay them off at any movement without caring about the employees' welfare or their families.

1.2 What or Who is an Entrepreneur?

An entrepreneur is defined by the Oxford Advanced Learners' Dictionary (6^{th} Edition 2001), as "a person who makes money by starting or running business, especially when this involves taking financial and other risks". According to Norman M. Scarborough, an American Business Consultant, "an entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth, by identifying significant opportunities and assembling the necessary resources to capitalize on them”. Although many people come up with great or big business ideas, most of them never act on their ideas, but entrepreneurs do.

In his 1911 book titled, The Theory of Economic Development, an economist Joseph Schumpeter said that, “entrepreneurs are more than just business creators; they are change agents in society. The process of ‘creative destruction’ in which entrepreneurs create new ideas and businesses that make existing ones obsolete, is a sign of a vibrant economy”.

Schumpeter continues by stating that, “this constant churn of businesses – some rising, others sinking, new ones succeeding, and many failing – all concern some people. In reality, it is an indication of a healthy, growing economic system that is creating new and better ways of servicing people’s needs and improving their quality of life and standard of living”.

From the above-stated submissions, it is obvious that the definition of the word entrepreneur is becoming quite clear. Researchers have indeed invested a great deal of time and effort over the last ten years trying to paint a clear picture of “the entrepreneurial personality,” in an apparent attempt at discovering who or what an entrepreneur is. Although these studies (and researches) have identified several characteristics which entrepreneurs tend to exhibit, yet none of them has isolated a set of traits required for success as an entrepreneur. Consequently, it is quite appropriate now to look at a brief summary of the entrepreneurial profile, according to David McClelland in his book titled “The Achieving Society” (1961) page 16. They are as follows:

(i) **Desire for Responsibility:**
Entrepreneurs feel a deep sense of personal responsibility for the outcome of the venture which they start or initiate. They prefer, and are in control of their resources, and they use those resources to achieve their self-determined goals.

(ii) **Preference for Moderate Risk:**
Entrepreneurs are not wild risk-takers, but instead they are calculated risk takers. Their goals may sometimes appear to be high, or even impossible in others' eyes, but entrepreneurs see the situation from a different perspective. They usually believe that their goals are realistic and attainable. Most entrepreneurs often spot opportunities in areas that reflect their knowledge, backgrounds, and experiences, which increases their probability of success in their businesses. In other words, entrepreneurship is not the same thing as gambling and hoping for the best. It is all about planning and taking calculated risks based upon knowledge of the market; available resources or products, and a pre-determined measure of the potential for success.

(iii) **Confidence in their Ability to Succeed:**
Typically, entrepreneurs have an abundance of confidence in their ability to succeed, and are confident that they chose the correct career path. It is observed however by Business Consultants, that entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business – often more than once – before finally succeeding. This is a world-wide phenomenon; - it is not limited to Nigerian entrepreneurs alone. Many entrepreneurs (both big and small) had failed at one time or another, but they continued to persevere as a result of that confidence in their ability to succeed 'despite all odds.'

(iv) **Desire for Immediate Feedback and Accountability:**
Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing through constant feedback from their patrons and customers. Prompt accountability in their operations are also a hallmark of the typical entrepreneur. Some entrepreneurs frequently seek feedback as a way of improving their businesses and increasing profits. Complaints and 'bottlenecks' are immediately tackled to ensure smooth business operations.

(v) **High level of Energy:**

Entrepreneurs are usually more energetic and daring than the ordinary person. Energy is surely a critical factor given the incredible effort required to launch a start-up (or new) company from the scratch. Long hours and hardwork are the rule rather than the exception, and the pace of work could be very fast and grueling, sometimes. A cursory look around, reveals that most entrepreneurs work for 10 or more hours a day; and sometimes they work for 6 or 7 days in the week.

(vi) **Entrepreneurs are Future-Oriented:**

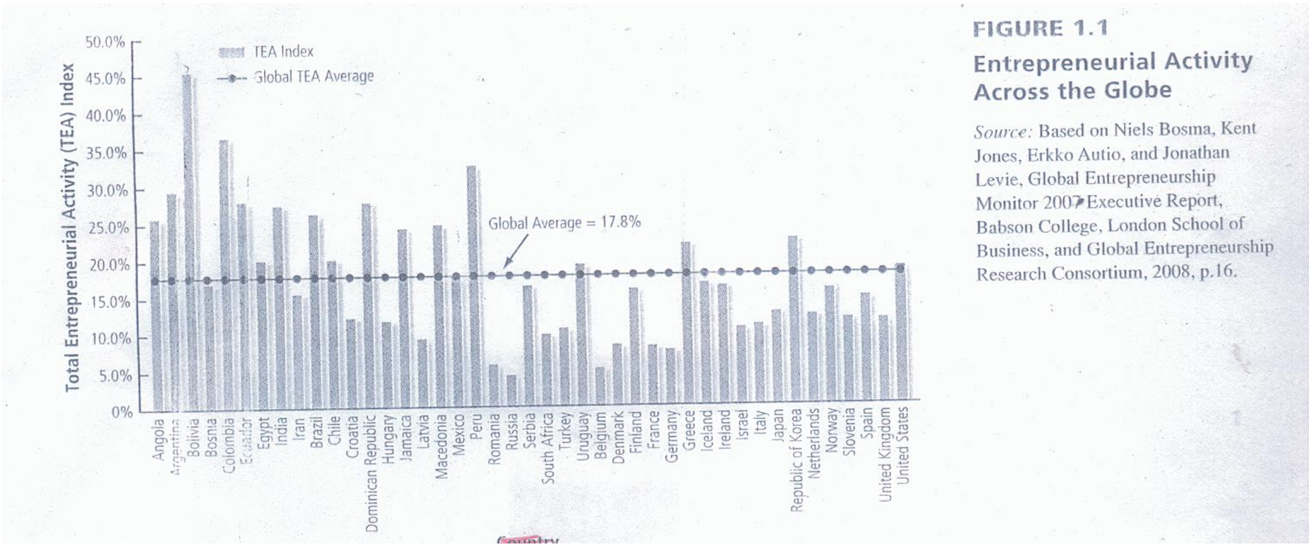
Entrepreneurs have a well-defined sense of searching for opportunities, by looking out for future trends in their businesses. They often look ahead, and are less concerned with what they did yesterday than with what they might do tomorrow. They are mostly innovators in business, who enjoy improving on what they are doing all the time. They are not satisfied to sit back and revel in their success because real entrepreneurs always stay focused on the future;– looking for ways of improving their businesses and profitability too.

Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the object of ridicule, (at least until their ideas become huge successes). It happened to most great inventors such as Henry Ford (the inventor of Ford Motors of USA). Sochiro Honda, etc, Bill Gates' dream of having personal computers (PCs) on every table several years ago was described by many people as "crazy", and "un-attainable" in his lifetime. But today we are all witnesses to what these entrepreneurs (and other inventors) achieved through dogged determination and hardwork. Whereas traditional managers are concerned with managing available <u>resources</u>, entrepreneurs are more interested in spotting and capitalizing on <u>opportunities</u>; hence the difference between an entrepreneur and a <u>business manager</u> (who is invariably an employee of the entrepreneur or company).

1.3 **Types of Entrepreneurs**

The United States of America(USA), some Asian and European countries are among the leading nations where entrepreneurship thrives a great deal. Unfortunately Nigeria and most parts of Africa are not yet there. Only Egypt, Angola and South Africa are listed in the Global entrepreneurship Monitor (GEM) study, which shows significant variation in the rate of new business formations among the nations of the world when measured by total entrepreneurial activity (TEA), see figure one. There are mainly three types of entrepreneurs, according to Stephanie Clifford in an article titled "They Just Can't Stop Themselves," published in Inc. Magazine of USA, March 2005, p104; they are as follows:

Figure



(i) **Opportunity Entrepreneurs**

These are entrepreneurs who start businesses because they spot an opportunity in the market place, or in the community. Some people who noticed an "opportunity-gap" seized the opportunity to establish a business. These people are described as "opportunity entrepreneurs". Also, some people who lost their jobs or were dismissed from service try to set up businesses based on one's work experience. They often turn out as opportunity entrepreneurs, because they found or identified a **need-gap**, and then filled it by setting up businesses to satisfy such needs in the community.

(i) **Necessity Entrepreneurs:**

These are entrepreneurs who start businesses mainly because they could not find anything else (or work) to do, hence they had to set up an enterprise for survival. Remember the saying that, "necessity is the mother of invention," hence such businesses are set up as a matter of necessity. It is reported authoritatively by Stephanie Clifford, mentioned earlier, that Denmark leads the world with 81% opportunity entrepreneurs, according to Global Enterprise Monitor, 2007 Executive Report.

(ii) **Serial Entrepreneurs:**

These are entrepreneurs who repeatedly start business and grow them to a sustainable size before striking out again, or going into other new businesses. The majority of serial entrepreneurs, according to American experts, are known as <u>leapfroggers</u>, - people who start a company, manage its growth until they get bored, and then sell it to start another one.

There are few others known as <u>jugglers (or) parallel entrepreneurs</u>; these are people who start and manage several companies at the same time. Examples of such businesses abound in Europe, America and other advanced countries of the world. Nigeria and Africans are not yet involved in this type of entrepreneurship, though there may be very few, if any.

According to Stephanie Clifford quoted earlier (under types of entrepreneurs), she stated as follows: ..."it is almost as if serial entrepreneurs are addicted to launching businesses. Starting a company is a very imaginative, innovative, energy-driven, fun process, says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina, USA. Serial entrepreneurs can't wait to do it again". This is a comment by one of the experts in Entrepreneurship Development in USA. It is surely a food for thought, especially for people studying to become entrepreneurs in future.

Other characteristics frequently exhibited by Entrepreneurs are:

(a) **Skill at Organizing**

Building company "from scratch" is much like piecing together a giant jigsaw puzzle, according to Norman M. Scarborough, an American Professor of Entrepreneurship Development. Entrepreneurs know how to put the right people together in order to accomplish a given task. Effectively combining people and jobs enable entrepreneurs to transform their visions into reality. It should be noted that successful entrepreneurs must have vision (or dream) about the enterprise or company they wish to set up, otherwise they cannot succeed.

(b) **Value of Achievement over Money**

One common misconception about entrepreneurs is that they are driven wholly by the desire to make money at the detriment of the people. Research has however revealed that on the contrary, the desire for **achievement** seems to be the entrepreneur's primary motivating force, rather than making money.

Money is simply a way of "keeping score" of accomplishments – a symbol of achievement, according to Norman M. Scarborough, earlier mentioned.

It is observed by experts that what drives entrepreneurs goes much deeper than just the desire to make money, or wealth accumulation. Economist, Joseph Schumpeter claimed that "entrepreneurs have the will to conquer; the impulse to fight, to prove oneself superior to others, to succeed for the sake; not of the fruits of success, but of success itself." Entrepreneurs experience "the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity," according to Joseph Schumpeter.

(c) **High Degree of Commitment**

Entrepreneurship is acknowledged as hard work, so launching a company successfully requires total commitment from an entrepreneur. Business founders all over the world often immerse themselves completely in their companies or businesses, (see Appendix I for stories of successful business founders).

Most entrepreneurs therefore have to overcome seemingly insurmountable barriers to launch a company or business outfit, and to keep it going. That requires serious commitment, dedication and foresight to succeed.

(d) **Tolerance for Ambiguity**

Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations, ie. the social and business environment in which they most often operate. Ability to handle uncertainty, according experts, is critical because these business builders constantly make decisions using new, and sometimes conflicting information gleaned from a variety of sources. Based on a research conducted by entrepreneurial expert, Amar Bhide, it says that "entrepreneurs exhibit a willingness to jump into things when it is hard to ever imagine what the possible set of outcomes will be."

(e) **Flexibility**

One hallmark of true entrepreneurs is their ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to business failures. So, as our society, its people and their tastes change, entrepreneurs must also be willing to adapt their businesses to meet those changes. And when their ideas fail to live up to their expectations, successful entrepreneurs quickly change them.

(f) **Tenacity of Purpose**

Most successful entrepreneurs have tenacity of purpose; ie they know where they are going, and work hard to achieve their goals and vision. Obstacles, obstructions and defeat do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that "success is a feat, not of intellect, but of will."

History of Entrepreneurship in Nigeria

As has already been stated earlier under the Basic Concept of Entrepreneurship, it was disclosed that this form of business activity had "long existed since the dawn of civilization among the various peoples of the world," Nigeria inclusive.

It could thus be seen that entrepreneurship is as old as civilization (and mankind) itself. Consequently, entrepreneurship had long existed side-by-side with humanity even in Nigeria also. As a matter of fact, the history of this subject in Nigeria is totally non-existent because entrepreneurship is even much older than the country itself. What is perhaps new about this subject is that it has "recently" been recognised by various school authorities as a course of study in tertiary institutions in the country.

Consequently, both the National Universities Commission (NUC), and NBTE (National Board for Technical Education) gave approval for the inclusion of Entrepreneurial Development Studies as approved courses in Nigeria's Polytechnics and universities. Approval for including this course in Academic Programmes for Nigeria's tertiary institutions was as a result of the urgent need to train students for self-employment and economic self empowerment after graduation, rather than looking for white collar jobs which are non-existent. This course is designed to prepare its graduands to become employers of labour, thus becoming self-reliant citizens, instead of depending on governments at all levels for employment.

Conclusion

From the submissions so far, and from volumes of research conducted by experts on the **entrepreneurial personality**, it is candidly observed that entrepreneurs are not of one mould. Not one set of characteristic can predict who will become entrepreneurs and whether or not they will succeed. Infact **diversity** seems to be a central characteristics of entrepreneurs. One astute observer of the entrepreneurial personality explains that …."Business owners are a culture unto themselves – strong, individualistic people who scorn convention – and nowadays, they are driving the global economy. Indeed, entrepreneurs tend to be non-conformists, a characteristic that seems to be central to their views of the world and to their success."

It should therefore be observed that there are no limitations on this form of economic expression, because entrepreneurship is not a mystery, it is a **practical discipline**. Entrepreneurship is not a genetic trait, it is a skill that most people can learn; it has become a very common vocation. Editors of American Inc. Magazine claim that, "entrepreneurship is more mundane than it is sometimes portrayed…. You don't need to be a person of mythical proportions to be very, very successful in building a company."[5] What a wonderful conclusion can we have than this!

Revision Questions

(1) What, or who is an entrepreneur?
Give a brief description of the entrepreneurial profile.

(2) Describe various types of entrepreneurs and the characteristics of people engaged in entrepreneurship.

(3) What are the benefits of entrepreneurship, and state the drawbacks of people engaged in it.

(4) Explain the forces that are driving the growth of entrepreneurs. Describe the important role small businesses play in our country's economy.

CHAPTER TWO
Role of Entrepreneurship in Personal and National Economic Development

Owning a business provides entrepreneurs the independence and opportunity of achieving their goals and rendering service. Entrepreneurs want to be "independent" and "call the shots" in their lives, hence they use their businesses to make that desire a reality. Research shows that owners of small businesses believe they work harder, earn more money and are more satisfied than if they work for someone else. However, before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership to each individual and the national economy. Some are **social entrepreneurs** – these are people who start businesses that seek innovative solutions to some of society's most vexing (or pressing) problems. Like Vivek Ranadive, a successful Indian Management author once said "entrepreneurs reap the intrinsic rewards and satisfaction of knowing they are the driving forces behind their businesses."

2.1 The following are some Benefits and Role of Entrepreneurs in Personal and National Economic Development:

(i) Opportunity to make a difference in Economic Development

Entrepreneurs are increasingly starting businesses because they see an opportunity to make a difference, (or contributing) in areas that is important to them and the nation. Known as **social entrepreneurs**, these business builders (or owners) seek innovative solutions to some pressing and very important problems of the society.

Their contributions are wide and varied:- for example, the provision of low-cost houses for families in parts of the country, or setting up cement production plants; GSM services etc. All these entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living through the services rendered by them.

(ii) **Opportunity to reach their full Potential**

A lot of people often find their work boring, unexciting, and un-challenging; but not entrepreneurs. To most of them, there is little difference between work and play; the two are synonymous with entrepreneurs. Their businesses become their instruments for self-expression and self-actualization as they usually put in a lot of time, energy and resources in all their endeavours. This is primarily because they know that the only boundaries on their success are those imposed by their own limitations, creativity, enthusiasm and vision. Thus, owning a business gives them a sense of economic empowerment, self-fulfilment and pride.

(iii) **Opportunity to Reap Impressive Profits**

Although money is not primarily the driving force for most entrepreneurs, the profits from their businesses are an important motivating factor in the decisions to float companies. Indeed, most entrepreneurs do not become super-rich, but many of them actually become wealthy persons. People who own their own businesses are usually more likely to become millionaires than those who are employed by others.

Infact, according to Forbes Magazine of America, nearly 75% of 400 Americans listed in this magazine are first generation entrepreneurs. These are people who simply became first-time entrepreneurs, without previous experience but became very wealthy in their businesses.

(iv) **Opportunity to Contribute to Society and become Recognised**

Often most business owners (and entrepreneurs) are among the most respected and trusted members of their communities and the nation at large. These owners enjoy the trust and recognition they receive from the customers and the communities they serve faithfully over the years. It is also a well known fact that business deals based on trust and mutual respect are the hallmark of established small companies, hence successful entrepreneurs are highly regarded in the community and the nation. This is the reason many successful business owners are recipients of national honours and other recognized awards from the governments and credible organizations.

Playing vital roles in their local business systems, and knowing that their work has very significant impact on how smoothly the nation's economy functions, is yet another reward for small business owners and entrepreneurs. A local survey by the "Business Times" issue of 25th October 2009 (page 10) reveals that what business owners enjoy most about being in business is their contribution to the economy, the local community and the nation at large.

(v) The Opportunity to do What you Enjoy Most

Most successful entrepreneurs often choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. According to Norman M. Scarborough, a renowned management expert, "they have made their avocations (hobbies), their vocations (work), and are glad they did." He admonished entrepreneurs … "find a job doing what you love, and you will never have to work a day in your life. The journey rather than the destination is the entrepreneur's greatest reward; starting a company is very hard to do, but the rewards are many".

Another business researcher, David Birch also said that … "the risks are enormous, the anxiety is enormous. The only business you should start is one in which you have a huge interest, or else you won't have the persistence to stick with it. Get into a business because you are fantastically interested in it." There could not have been a better advice than the words from the masters quoted above.

2.2 The Potential Drawbacks of Entrepreneurship

Although owning a business has many benefits and provides lots of opportunities, but anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Here are some of the disadvantages of entrepreneurship:-

(i) Uncertainty of Income

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. In the early days of a new (or start-up) company, a business often cannot provide the owner-manager an attractive salary to meet all his/her financial obligations. This means that the entrepreneur may have to live on past savings, since small businesses barely earn enough to provide the owner-manager with an adequate income at the initial stage of the business.

It is a well known fact that the steady income which comes with paid-employment is usually absent, because the business owner is always the last one to be paid. Hence, in the early stages of a business the entrepreneur may have to depend on previous savings, or rely on borrowed money from banks to survive till the business gains financial stability. However, financial institutions are usually very reluctant to assist new businesses for fear of failure.

(ii) **Risk of Losing One's entire Investment**

Business failure is one of the greatest dangers facing new entrepreneurs as it can lead to financial ruin for an entrepreneur. Research reveals that the small business failure is relatively high, though statistics of such failures are not readily available in Nigeria.

What normally happens in Nigeria is that when business failures occur, the entrepreneurs usually count their losses and try to venture into other areas until success is achieved. Investigations however reveal that some business entrepreneurs fail about two (or more) times before finally succeeding in a chosen field. One thing going for most Nigerian entrepreneurs is their enterprising and indomitable entrepreneurial spirit which often triumphs after business failure; but the risk of failure is really high and daunting not minding precautions taken to avoid failures.

According to a study conducted by the American National Federation of Independent Business (Washington DC) 2003, page 16, states that 35% of new businesses in USA fail within two years, and 54% shut down within four years; while 64% of new businesses will have folded up within six years. However, the study concludes by stating as follows:- …" before 'reaching golden ring' or success, entrepreneurs should ask themselves if they can cope **psychologically** with the consequences of business failure by dealing with the following questions:

- ❖ What is the worst that could happen if I open my business and it fails?
- ❖ How likely is the worst to happen? Am I truly prepared to launch my business?
- ❖ What can I do to lower the risk of my business failing?
- ❖ If my business were to fail, what is my contingency plan for coping with such failure."

These are some pertinent questions for budding entrepreneurs and those already engaged in it.

(iii) **Long Hours and Hard Work**

Businesses often require long hours from their owners especially at the earlier stages of development. The average small business owner usually works for not less than 52 hours a week, compared to 45 hours put in by the average Nigerian civil servant. In many new companies, workers spend between 6 to 7 days per week at the rate of about 9 to 12 hours each day and without yearly holidays for them.

The primary reason entrepreneurs do not take vacations is because they are just "too busy". The demands of owning a business make it virtually impossible to achieve work-life-balance which is very difficult especially for new entrepreneurs. This observation is widely held all over the world as a potential drawback of entrepreneurships.

(iv) **Lower Quality of Life until the Business gets Established**

Usually, the long hours and hard work needed to launch a company can take its toll on other aspects of an entrepreneur's life. For instance, business owners often find that their roles as parents sometimes take a back seat, because they spend more time nurturing their businesses to the family's detriment.

According to a business survey conducted by Rosa Alphonso of America Express Business in May 2007, under the title "Small Business Optimism," she wrote that "67% of American Entrepreneurs surveyed stated that owning a business requires them to make sacrifices, most often in the areas of family relationship and friendships. Half of the problem is that half of all entrepreneurs launch their businesses between the ages of 25 and 39, just when they start their families. As a result of this situation, marriages, families and friendships too often fall causalities of small business ownerships".

(v) **High Levels of Stress**

Starting and running a business can be a richly rewarding experience, but it can also be highly stressful. It is often observed that entrepreneurs usually make significant investments in their companies, having to forsake the safety and security of paid employment; they have also mortgaged everything they own in order to start a business. Consequently, failure in this venture means total financial ruin, and that creates intense levels of stress and anxiety for them. Very often, entrepreneurs unnecessarily bear the burden of managing the company alone because they do not wish to delegate authority and responsibility to others in the company, even though their employees are capable people. All these things are sources of stress for the business owner.

(vi) **Complete Responsibility**

As a consequence of issues mentioned in this section, the business owner has therefore no choice than to take complete and full responsibility for running his business outfit. It is indeed fulfilling to be the boss, but many entrepreneurs sometimes have to take decisions on issues about which they are not really knowledgeable, and they also have difficulty finding capable professionals to work for them. As a result of this problem, the business owner faces lots of problems which sometimes result in business failure with its devastating consequences on some entrepreneurs.

(vii) **Discouragement**

Starting a business venture is a substantial undertaking that requires a great deal of dedication, discipline and tenacity. Along the way towards building a successful business, entrepreneurs sometimes encounter different obstacles, some of which appear insurmountable. In the face of such difficulties and obstacles, business owners suffer from discouragement and disillusionment.

Many successful entrepreneurs know that every business encounters problems along the way especially at the early stages, but they wade through successfully with lots of hardwork, perseverance and an abundant reserve of energy.

However, despite the challenges that starting and running a business usually pose, entrepreneurs are usually very satisfied with their career choice of entrepreneurship. Most entrepreneurs are so happy with their work that they want to continue indefinitely, despite the challenges and un-predictability of business ventures.

2.3 Words of Inspiration for Budding and Existing Entrepreneurs

Introduction

In order to help the entrepreneur overcome some of the potential drawbacks listed under 2.2 above, we present here some Words of Inspiration to assist him/her in achieving their goals and aspirations.

Entrepreneurship generally refers to the practice of instituting new business enterprises (or ventures), or revitalizing already established ones as has been revealed in this book so far. It is also a well known fact that most entrepreneurs are driven by the existence of an opportunity – gap, which if ventured into, will result in profits. Entrepreneurship encompasses various multi-faceted tasks, and can be undertaken either by a small group of persons to a large group that involves, perhaps huge capital outlay.

That Nigeria is known to be greatly endowed with various rich mineral and human resources, is already a well known fact. All these resources form part of the country's economy. Job opportunities are indeed very few when compared to the number of job seekers and millions of school graduates turned out yearly from the school system. And this had led to massive unemployment of very many young people, hence the urgent need for our youths to embrace entrepreneurship as a means of creating jobs for themselves and the Nigerian economy as a whole.

There are many challenges facing budding and already existing entrepreneurs, such as non-availability of capital and other economic resources. These are mostly the constraints, which limit the performance of budding entrepreneurs, and others already in the field.

However, it is gratifying to observe that in recent times some state governments have come out with financial support – schemes, aimed at empowering young school leavers venturing out as entrepreneurs and into self – employment. Our candid advice is just for you to be on the look-out for financial opportunities which could enable you to start off as an entrepreneur, either from state governments, federal government agencies and banks, etc.

Finally, with financial support coming from any of the above-stated sources, for budding entrepreneurs (and others in the field), the sky shall no longer be the limit of their aspiration for success in business, but far beyond the horizon. Hence we now present Words of Inspiration to enable entrepreneurs achieve their objectives and goals.

1. **Code of Persistence**

This is a **code of persistence** for everyone who wishes to become successful as an entrepreneur or businessman. It has to be memorized and repeated daily, and as frequently as possible. It goes as follows:-

1. I do not give up easily, no matter the odds facing me.
2. I will never give up as long as I know that I am on the right track.
3. I believe that all things work out for me (by God's grace) if I hang on till the end.
4. I am courageous and un-dismayed in the face of odds.
5. I will never permit anyone to intimidate me, nor deter me from my goals no matter the odds.
6. I will fight to overcome all physical handicaps and setbacks facing my goal.
7. I will try again and again, yet again to accomplish whatever goals I desire in life.

8. I take new faith and resolution from the knowledge that all successful men and women had to fight defeat and adversity before they succeeded in life.
9. I will never surrender to discouragements or despair, no matter what seeming obstacles may confront me. Everyday is a comeback, a new day entirely.
10. I will always surpass my goal, no matter the circumstances or life's situation. ***So help me God***.

By Harold Sherman and Bill Newman of USA.

(2) **The Leader**

Leaders are people who have passion for what they are doing; they have vision for their goals too. The leader will learn to fight against the disease of **discouragement, depression and despondency, (the three D's of failure)**. If you want to be successful as a leader you must think, think and think. Very little can stand the pressure of sustained thought. Good thinking produces good results. Take time to think, for it is the source of power.

(3) **Dreams, Dreams, Dreams.**

Dream is key to unlock every door, even doors of things that seem impossible; dream is a child of tomorrow.

As light dispels darkness, so dreams make the impossible to become possible; then it moves the dreamer to his destiny. For instance, Rev. (Dr.) Martin Luther King's powerful speech titled… "I have a dream…" was delivered in USA in 1963.

The present American President, Mr. Barak Obama who was born in 1964 (a year after this powerful speech), was greatly inspired into realizing that dream by becoming the first black American President in Jan. 2009. The lesson for us is this:- we should always learn to believe God for the fulfillment of our dreams. The most important thing is to have a dream, and then pursue it vigorously until victory is achieved.

Take time to dream, for dreams do come true, if you dare to dream. If you don't have a dream, how are you gong to make a dream come true? God will surely bring your dream to fulfillment at the appropriate time if you persevere.

"If you are going to dream, why not make your dreams huge, outrageous and wonderful? Dream big dreams!. Bill Gate's dream of having a computer on every desk top was at the time described as unreasonable, outrageous and unrealistic, but it worked for him," according to Bill Newman, an Industrial Psychologist based in USA.

One secret of great success is to pursue your dream; whatever it is; you should make it a **life-long ambition**. Pursue your dream until you realize it, even if it takes a **whole lifetime** to realize it. This is the great secret of many successful men and women. They identified their goals early in life, and pursued them vigorously until they achieved victory in their respective endeavours. Some entrepreneurs made their goals a **life-long ambition** which they pursued relentlessly until their death, but most of them succeeded tremendously. Never forsake your dream, no matter the odds because it will surely pay off in the end.

(4) The Magic of Goals

The discipline of writing down your goal is the first step towards making it happen. There is something positive about putting your thoughts on paper that forces you to get down to specifics. That way, it is harder to deceive yourself or anybody else for that matter.

The act of writing down your goal(s) makes it concrete. A **precise goal** is the spring board for any concrete accomplishment. So, make your goal a magnificent obsession especially if you write it down in several places; so keep it well in sight always. Above all, **keep it constantly in mind**, and **work on it**.

A major principle ruling the mind is that energy goes wherever your thoughts go. By constantly thinking about your goals and making it become a **fixed idea**, all your energy will channel itself into helping you achieve that goal, and become successful. Thanks to the **mysterious work of the sub-conscious mind**, because circumstances and people will help you reach your goal in a new and surprising way.

A Goal is like a Magnifying Glass

It focuses your mind and energy on your target and goal. All rich people had a **fixed idea**, and this led them to success. Single-mindedness allows you to direct your professional and overall life much more precisely. Everything that helps you come closer to your goal must be encouraged if you desire to succeed in your endeavours.

(5) **Fixed Idea or Monoideism**

Fixed idea, also known as **monoideism** not only allows you to increase your energy and success co-efficient, but it also prevents a very serious mistake = that of scattering (or dissipation) of energy. All rich people had a **fixed idea**, and this goal led them to success.

The question now is:- how can you know if something brings you closer to your goal? **Answer:** A well programmed sub-conscious mind will tell you in its usual way. You will have a feeling of intuition, or you will be influenced by a book you might have read; a friend's or partner's advice. In some rare cases, persons with **high intuitive abilities** have "suddenly" met with strange figures who influenced one's plans or ideas, thus leading to breakthroughs, inventions or solution to some nagging inventions.

Finally, this fixed idea ensures that everything that distances you from attaining your goals (and plans) are securely and firmly removed from you, thus clearing the way for breakthroughs and success. But you should maintain a positive mental attitude (PMA), to be able to succeed.

(6) **Poem on My Goals**

When my goals are clear and vivid;
They act as a magnet drawing those goals unto me;
Goal-setting is the most important positive action of my life
So help me God to realize my goals.

- Anonymous

(7) **Success Nuggets**

Your level of success in any venture is determined by how important it is to you, and your ability to properly prepare for it. When you have a subject (or project) on hand, study it profoundly, keep abreast of all the facts. So, if you want to succeed in any venture, make sure you prepare thoroughly for it, because good preparation leads to success. The major principles of success are:-

(i) Keep doing what you **enjoy doing most**, all the time; stick solidly to it, inspite of frustrations and disappointments;

(ii) Apply stick-to-it-tiveness, determination and a never-say-die spirit or attitude to all your goals, plans and dreams;

(iii) Believe solidly in your ideas and keep working assiduously towards your goal no matter the odds.

(iv) Imbibe the **mentality of the rich**; they never accept '**no**' for an answer. This is because rich people know the value of patience, perseverance, persistence and determination which usually influence people to say 'yes' to their requests.

(8) **Tips for Success In Business**

Make friends in business, but avoid the followings:-

(i) avoid the losers and unlucky ones;

(ii) avoid manipulators and fraudsters;

(iii) avoid those who think small, also avoid infectors (people who infect you with their hard luck, or bad luck);

(iv) move along with happy and successful persons; spend more time with buoyant and successful people. They will positively influence your life. Also, spend more time with happy optimistic people for they shall bring sunshine into your life.

(9) **Power of Persistence**

Nothing in this world can take the place of **persistence**;

Talent will not, because nothing is more common than unsuccessful men (and women) with lots of talent;

Genius will not, because unrewarded genius is almost a proverb;

Education cannot also, because the world is full of educated derelicts;

Persistence and determination alone are omnipotent. For example, Watson's life was a practical demonstration of the power of persistence and determination, because he was an immensely successful inventor and businessman of repute world-wide.
(Poem by Thomas Watson, the found of IBM Computers), USA.

(10) **Basic Characteristics of Most Millionaires**

(i) **Tenacity of Purpose;** they are tenacious, persistent and determined to succeed in all their endeavours, no matter the odds against them.

(ii) **Enthusiastic disposition;** they usually demonstrate lots of enthusiasm and positive excitement in whatever they do.

(iii) **Energetic disposition;** they are full of energy for the job at hand and other engagements.

(iv) **They are bold, brave and confident of self in all they do**.

(v) **Intuitive ability**; they developed the ability of knowing things in advance through the senses, feelings, or intuition.

(vi) **Persuasive ability**; they developed the ability to easily convince or persuade people to work in their favour.

(vii) **They are authoritative**; they possess the ability to command respect and authority in their respective endeavours.

(viii) **They have ability to exhibit confidence in themselves,** and to overcome obstacles and challenges in life's struggles as a result of self confidence.

(ix) **They are imaginative;** they possess the ability to show new and existing ideas (or imagination) on the problems at hand.

(x) **They are diligent in their business endeavours;** ie. they have the ability of showing care and persistent effort in their work.

(xi) **They possess a confident** positive, and hopeful feeling, i.e. they usually demonstrate Positive Mental Attitude (PMA) at all times.

(xii) **Millionaires are very astute people;** i.e. they are very clever and quick at taking advantage of situations, always.

(xiii) **They are dependable,** reliable and trustworthy persons.

(xiv) **Millionaires are brave, daring and willing to do outstanding things** for their own progress and mission.

(Adapted from Bill Newman and Harold Sherman of USA).

(11) **Personal Motivation by Paul J. Meyer, SMI Founder**

Any person who wants to achieve permanent, sustaining success knows he must acquire vast reserves of inner strength, determination, and desire. He must have the ability to motivate himself. He must develop Personal Motivation, because a man cannot hope to motivate others unless he is, himself, motivated.

Personal Motivation begins with developing personal courage, enthusiasm, **know-how**, confidence, and belief. Supported by positive attitudes towards his own abilities, the individual is motivated to create, to produce and to achieve. He sets an example of Personal Motivation that is the first step toward motivating others.

This chapter which outlines a simple but highly effective plan for developing and sustaining Personal Motivation has been tested in the crucial and demanding world of practical experience. Personal Motivation has gained acceptance because it works! In this chapter you will find the nucleus of the principles that have made SMI the leading practical authority on both Personal Motivation and motivation generally in the world.

THE CLEAR MESSAGE

Contained in this chapter is the crystallization of the SMI (Success Motivation Institute) – Concept; the foundation and starting point of the ideas and programs which projected SMI into worldwide orbit.

That PAUL J. Meyer should have arrived at this conceptual crystallization at such an early age (in his early thirties), is clear testimony to his genius in this field. The utter simplicity of "Personal Motivation" belies its fundamental power and the wisdom inherent in it. It should not, therefore, be underestimated, but prized highly for the insight it reveals of the secret of actively realizing the dreams we all have of self-fulfillment.

To further aid us in the use of the Concept of "Personal Motivation", Mr. Meyer has capsuled it in the five-step "Million Dollar Personal Success Plan" found at the end of the chapter. There, in a one-page schematum, we have readily available at all times the essence of this concept which holds the key to changing our lives.

Michael Lombardi
President, SMI of FAR East and Africa.

It is a self-evident fact that some people seem to attract success, wealth, attainment, recognition and personal satisfaction apparently with very little effort. Others reach these goals with the greatest difficulty while still others never seem to reach them at all. What is the difference? It can't be physical and it is a proved fact that such ability isn't inherited.

Obviously, then the power, the capacity, the developed skill to achieve outstanding success must come from within the people themselves. It is the same quality that you possess to a greater or lesser degree right now, at this very moment. If you want to change your wishes into facts, your dreams into realities, your desires into solid achievement, the all-important answer is PERSONAL MOTIVATION.

Personal motivation is exactly what these two words indicate: the ability to motivate yourself to accomplishment. **Personal motivation means the development of inner strength, conscious will power, overwhelming desire, and the determination to reach any goal you, personally want to achieve**.

No matter who you are or what your age may be, if you want to achieve permanent sustaining success, the motivation that will drive you towards that goal must come from within. It must be personal, deep-rooted and a part of your innermost thoughts. All other motivation, the excitement of a crowd, the stimulation of a pep-talk, the exhilaration of a passing circumstance is external and temporary. It will not last.

Personal motivation is based on the scientific principle that each one of us is, in fact, the result of what we all think. The only practical world is that which is within ourselves, ie, the world in which we develop personal courage, enthusiasm, skills, confidence, and belief in our own abilities. It is here that we sharpen our intelligence to motivate ourselves and to make our goals tangible realities.

Scientific research attests to the fact that the average adult man or woman makes use of only twenty-five to thirty percent of his total mental capacity. Consequently, seventy to seventy-five per cent of the average person's brain remains idle and unproductive. Since all growth and progress comes from within, there is practically no limit to what a personally motivated man can accomplish.

How do you motivate yourself? Where do you begin? First begin by a frank and honest self-appraisal at this very moment. Ask yourself these questions:

Where do I stand now? Evaluate your strengths and your weaknesses, your assets – and liabilities. Put your answers down in black and white exactly where you stand now. Face yourself squarely, honest, realistically. Do a SWAL analysis.

SWAL ANALYSIS

Analyse the following: YOUR STRENGTHS
YOUR WEAKNESSES
YOUR ASSETS AND
YOUR LIABILITIES

1. **CRYSTALLIZE YOUR THINKING – SET GOALS**

Determine what specific goals you want to achieve – short – range, long-range, tangible and intangible goals. Then, write this information down in black and white. Writing crystallizes thought, and thought motivates action.

Be specific about your goals. Don't generalize or use vague terms. Use vivid imagining. Picturize. We must develop the faculty of seeing with our mind's eyes. Seeing concisely exactly what we imagine: what we want. There is a universal law-we tend to draw to ourselves that which we set out for ourselves. No man can attract to himself what his thought repels. We become precisely that which we imagine ourselves to be. Low aim is only low self-concept expressing itself.

When your goals are clear and vivid, they act as a magnet to draw you to them. Goal setting is the most important positive action of your life. When you have written this down, dedicate yourself to its attainment with honest zeal and singleness of purpose; with unswerving one – track manship.

When you set definite goals, you're forming your own Personal Plan of Action that will put theory into practice, turn knowledge into know-how, and thought into action. **A plan of Action discourages procrastination and creates within you an inspirational discontent. It will motivate you to great utilization of your full potential. A Plan of Action, when you personalize it, enables you to sense the limitless power of your talents, abilities, and capacity to change. It provides the means for you to emerge from hindering circumstances that have heretofore stopped you, and to establish a personal success direction**.

2. **DEVELOP A PLAN FOR ACHIEVING YOUR GOAL, AND A DEADLINE FOR ITS ATTAINMENT**

This detailed plan is the road map, the design, the time templet that will guide you to your goal. The plan must necessarily list the obstacles and roadblocks between where you are now and where you want to go, and also, how you intend to get around them, through them, or over them.

Be frank with yourself. Remember your strengths and your weaknesses, your assets and liabilities. Write them down just as you did with your goals. Also, you need to write down, very clearly, your way around the obstacles and roadblocks.

Another important point in this part of the plan is pinpointing the talents and skills you now possess, and how you intend to improve them. Also needed are a specific schedule of time-organization, and how you intend to improve them. Put down every step and move, day by day, week by week, month by month. You will need them to check on the progress you are making.

Develop a positive attitude of "I will not be denied". Determination will not eliminate all of your problems, but it will give you an attitude of stick-to-itiveness and perseverance. Thus you will create the success for which you are striving. With this kind of attitude, you will be thankful for problems because you can turn them into procedures, and proceed to the next step of your journey.

3. **DEVELOP A SINCERE DESIRE FOR THE THINGS YOU WANT IN LIFE**

A **burning desire is the greatest motivator** of every human action; unquestionably, the degree of success you achieve depends on the **amount of sincere desire** you have. True desire will strengthen your resolve to attain your specific goals in all six areas of your life, and not just those in which it is easy to make progress.

Desire is akin to thirst. When you visualize exactly what you want in each area of your life, desire will add strength to your purpose. It will improve your self-image. Also, at this point, you can determine the very real difference between "wish" and "desire". You can discover the difference easily by asking yourself these three questions:

(a) What are the **obstacles** and **roadblocks** I will personally have to overcome to achieve my goals?

(b) What are the **rewards** for me personally if I attain them?

(c) Is it **worth** it to me?

If your answer is "yes", you will know you have genuine desire.

4. **DEVELOP SUPREME CONFIDENCE IN YOURSELF AND YOUR OWN ABILITIES**

Confidence in yourself helps you to deal honestly with your shortcomings and compels you consistently to make corrections. **Confidence comes from experience. Experience comes from know-how. Know-how comes from having the courage to submit yourself to obstacles, situations, and circumstances where the average person shies away from**.

People, who **lack confidence** and are not goal directed or oriented, spend an entire lifetime standing on the sidelines as passive bystanders. Confidence stimulates your creative imagination. No matter what you undertake, you will never do it properly **until you think you can**. You will never master it until you have the confidence in yourself to do the deed first in your own mind. It must be mentally accomplished before it can be materially accomplished.

The primary element at the beginning of any enterprise, the one fact which will guarantee its success, is confidence in the beginning that it can be done. The major difference between high achievement and failure is confidence – your self image. This is what sells you and your ideas. It builds your success at failure, or succeed at success. Both of these results are outward expressions of the attitude you hold towards them. You can either "think rich" or "think poor", abundance or lack, poverty or plenty, the choice is yours.

We are all creatures of habit. When we consistently maintain success-attitudes toward every situation and circumstances, we rapidly develop success habits. We make fewer mistakes. We make small mistakes. We make faster corrections and adjustments, because we have a success-consciousness and a goal-directed attitude.

The degree of success which you attain is governed solely by the amount of habitual determination you expend. Every time you say to yourself, "I can do it and will do it," you are strengthening your determination. You are forming a habit of thinking which will manifest itself in action habits of success. You are constructing your determination and personally motivating yourself to success. You are forming the daily habit of sustained effort, controlled attention, and concentrated energy.

You can prove this very easily by observing any successful person you know. They succeed in everything they do, because they never give mental recognition to the possibility of failure.

5. **DEVELOP A DOGGED DETERMINATION TO FOLLOW THROUGH ON YOUR PLAN, REGARDLESS OF OBSTACLES, CRITICISMS OR CIRCUMSTANCES, OR WHAT OTHER PEOPLE SAY, THINK OR DO**

Determination is persistency. If you make a decision, plan a course of action or make a resolution and then ignore your intention, you will form a habit of failure. When you make up your mind to follow your plan of personal motivation, do it. Let nothing or no-one interfere. Do whatever you personally have to do to get the job done.

In point number three, when you asked yourself the question, "Is it worth it to me?" and you answered, "Yes", there can now be no circumstances that can prevent you from reaching your goals. **You can further develop your determination by reviewing your written plan often, by concentrating on the rewards. Thus, your desire and determination will stimulate a ceaseless flow of dynamic, powerful and positive direction to keep you on course until your aims are realized**.

If you actually know your present strengths and weaknesses, if you definitely know what you want in each of the six areas of your life, know the short-range and long-range goals, the tangibles and intangibles, why is it that you do not have them now? Obviously, it is because there are some obstacles and roadblocks in your way. What are they? What is it that stands between you and the achievement of your goal? What are the ways around these roadblocks? What are you doing about it? It is easy to generalize and hope. That is little more than wishful thinking. The power of personal motivation comes through a **definite personalized Plan of Action**, and the application of that plan every day of your life.

It is your attitude of mind that determines your reaction to everything you experience in life. **If you develop a successful attitude towards everything you do and say, you will create the success for which you are striving.** You will magnetize the condition you seek. A person who is success-minded has a success-consciousness and success-awareness. He lives with positive expectancy. He lives by the law of attraction. He magnetizes his condition.

6. **POSITIVE EXPECTANCY**

When you apply these five points in a plan for your own personal motivation; when you develop success attitudes, success habits, and have a Plan of Action, you will find yourself living with **positive expectancy**.

There is an irresistible Law of Force that governs every human action. It is called the Law of Attraction, and it operates with mathematical certainly. **We attract what we think. Every negative thought has a negative result. On the other hand, positive thoughts are the basis for success attitudes, and success habits which lead directly to positive expectancy in everything we do**. Positive expectation, of course, must come from a sincere, honest belief, a no limitations belief in yourself and your ability; a no limitations belief in everyone with whom you come in contact; a no limitations belief in conditions and circumstances; in other words, an attitude that refuses to accept limitation in any way, shape, form, or manner.

With positive expectancy, you will wake up in the morning figuring out ways things can be done instead of ways they can't be done. You will look to your strength instead of your weakness; your power instead of your problems. Your will enter each day without giving mental recognition to the possibility of defeat. **You will see potentials you couldn't see previously. You will withhold judgement. You will be a better listener. Your words, your tone and your actions will stop contradicting each other. You will be understood. You will stop being misunderstood. You will enter the arena of life with greater dignity, greater confidence and greater pride**.

Your decision-making faculties will be clearer. Your judgement will be both discerning and fair. There will be less margin for error and you will be sought after for advice. These are just a few of the many benefits you will receive with a Plan of Action based on personal motivation. **This is what personal motivation means –**

i.e the ability to live and work each day of your life in the brilliant sunshine of positive expectancy.

> *"Whatever you vividly imagine, ardently desire, sincerely believe, and enthusiastically act upon… must inevitably come to pass!"*

THE MILLION DOLLAR PERSONAL SUCCESS PLAN…

1. **Crystallize your Thinking**

…..determine what specific goal you want to achieve. Then dedicate yourself to its attainment with unswerving singleness of purpose, the trenchant zeal of a crusader.

2. **Develop a Plan for Achieving your Goal, and a Deadline for its Attainment**

Plan your progress carefully: hour-by-hour, day-by-day, month-by-month. Organized activity and maintained enthusiasm are the well-springs of your power.

3. **Develop a Sincere Desire for the Things you want in Life**

A burning desire is the greatest motivator of every human action. **The desire for success implants "success-consciousness:** which, in turn, creates a vigorous and ever-increasing "habit of success."

4. **Develop Supreme Confidence in yourself and your own Abilities**

Enter every activity without giving mental recognition to the possibility of defeat. **Concentrate on your strengths, instead of your weakness… on your powers, instead of your problems**.

5. **Develop a Dogged Determination to follow through on your Plan, Regardless of Obstacles, Criticism or Circumstances or What Other People Say, Think or Do.**

Construct your determination with sustained effort, controlled attention, and concentrated energy.

OPPORTUNITIES never come to those who wait… they are captured by those who dare to ATTACK.

Adapted from "Personal Motivation:
By Mr. Paul J. Meyer, Founder of SMI, USA.
The author is indeed grateful for this contribution by Mr. Paul J. Meyer.

Revision Questions

(1) What are the roles of entrepreneurs in both personal and National economic development. Give some examples.

(2) Enumerate some benefits of becoming an entrepreneur, the benefits for the individuals and the nation as a whole. Illustrate your answer with examples.

(3) Entrepreneurship has lots of drawbacks and its inherent difficulties. Enumerate some of them.

(4) Suggest ways and means of overcoming some drawbacks, difficulties and other obstacles militating against entrepreneurs in Nigeria.

CHAPTER THREE
Identification of Business Opportunities; How to Set Business Goals and Draw Simple Business Plans

3.1 Identification of Business Opportunities

Identification of Business Opportunities cannot be regarded as an easy task, no matter how we look at it, especially for the budding entrepreneur. Though it is a well known fact that business opportunities abound all over the place, only a properly trained mind could easily fish them out without much problems.

According to Norman M. Scarborough, a renowned American Management expert…. "Opportunities are positive external options that a firm can exploit to accomplish its mission, goals and objectives. The number of potential (business) **opportunities are limitless**, so entrepreneurs need to analyse only those that are most significant to the business, (probably two or three at most). The key is to focus on the most promising opportunities that fit most closely with the entrepreneurs' own abilities, strengths and area of core competencies. This same key is equally applicable to firms/companies wishing to identify business opportunities also."

Opportunities usually arise as a result of factors which are beyond the entrepreneur's control. Consequently, constantly scanning for those opportunities that best match their companies' (and individual) strengths and core competencies, and then pouncing on them ahead of their competitors.

3.2 Using SWOT Analysis to Identify Business Opportunities

Some experienced Management Experts/Consultants often advocate the use of SWOT Analysis to identify business opportunities (both for firms, companies and budding entrepreneurs).

SWOT is defined as: S - Strength
W – Weakness
O - Opportunities
T - Threats

(i) **Strengths**

The entrepreneur or company should first look inwards and examine its area of core competencies and abilities to be able to effectively identify an **opportunity–gap** in the business environment. After it has been properly identified the entrepreneur should waste no time in taking off his/her business in this area.

(ii) **Weaknesses**

The budding entrepreneur or company should equally identify **areas of weaknesses (or incompetences)** and tacitly avoid setting up a business in that area because of his/her shortcomings there.

(iii) **Opportunities**

An entrepreneur or company that thoroughly **scans its business environment** will definitely identify worthwhile opportunities easily, and without much ado. But someone who just rushes into a business, without thoroughly scanning the environment is doomed to failure at the quickest possible time.

(iv) **Threats**

In the process of trying to identify business opportunities, a budding entrepreneur or company should be able to identify **possible threats** to his/her business plans. This gives one an opportunity to avoid possible pitfalls and mistakes which had ruined promising entrepreneurs and companies in the past.

In conclusion therefore, we should realize that opportunities and threats are products of the interactions of forces, trends, and events outside the direct control of the business. These external forces have direct impact on the behaviour of the markets in which the business operates; the behaviour of competitors, and behaviour of customers. The number of potential threats facing a business is huge, but entrepreneurs and companies should focus more on the three or four most important and significant threats facing them.

The interactions of strengths and weaknesses, and opportunities and threats (SWOT), can be the most revealing aspect of using a SWOT Analysis as part of a "strategic business plan".

This analysis also requires entrepreneurs to take an **objective look** at their businesses and the operating environment as they address the multifarious issues fundamental to their personal and company success in the nearest future.

3.3 How To Set Business Goals and Draw Simple Business Plans

Before entrepreneurs can build a comprehensive set of strategies, they must first establish their **business goals and objectives**, which give them targets to aim for, and provide a basis for evaluating their companies' or personal performance. Without these, it is impossible to know where a business is going, or how well it is performing. It is important to note that if a small business (or entrepreneur) who does not care much where it wants to go, (ie. that is one that has no goals and objectives); it will find that it really does not matter which way it chooses to go (i.e its strategy is irrelevant).

Definition of Goals and Objectives

(a) **Goals**

In Management Science, **goals** are defined as broad, long range attributes that a business seeks to accomplish – they tend to be general and sometimes even abstract. Goals are not intended to be specific enough for a manager to act on, but simply states the general level of accomplishment sought to be achieved. The following are some of the relevant questions to be posed to the manager/ entrepreneur:

(i) Do you want to boost your market share?
(ii) Does your Cash Balance need strengthening?
(iii) Would you like to enter a new market or increase sales in a current one?
(iv) Do you want to develop new products or services?

American business researchers, Jim Collins and Jerry Porras studied a large group of businesses and discovered that one of the factors that set apart successful companies from un-successful ones was the **formulation of very ambitious, clear, and inspiring long-**

term goals. Collins and Porras called them BHAGs ("Big Hairy Audacious Goals" pronounced "bee-hags"). They say their main benefit is to inspire and focus a company on important actions that are consistent with the company's overall mission. Addressing these broad issues highlighted here will surely help one to focus on the next phase – i.e developing specific and realistic goals.

(b) **Objectives**

These are **more specific targets** of performance. Common objectives of the enterprise concern the following areas:- profitability, productivity, growth, efficiency, markets, financial resources, physical structure or facilities, organizational structure, employees' welfare and company's soical responsibility. Because some of these objectives might conflict with one another, it is very important to establish priorities, by asking the following questions:- which objectives are most important; which are least important? Arranging objectives in a hierarchy, according to their priority can help an entrepreneur or company resolve conflicts whenever they arise. Properly written objectives have the following characteristics:-

(1) **They are quite specific:**

Objectives should be very specific, quantifiable and precise. For example, "the company plans to achieve a healthy growth in sales," is not a meaningful objective. However, "to increase retail sales by 12% and wholesale by 10% in the next fiscal year" is very precise, and spells out exactly what management wants to achieve or accomplish.

(ii) **Objectives are measurable:**

Managers should be able to plot the organization's progress towards its objectives; and this requires a well-defined reference point from which to start and a scale for measuring progress.

(iii) **Objectives are assignable:**

Unless an entrepreneur assigns responsibility for an objective to an individual, it is unlikely that the company will ever achieve it. Creating objective without giving someone responsibility for its accomplishment is futile. Accountability for attaining the assigned objective is the key for its achievement.

(iv) **Objectives are realistic, yet challenging:**

Business objectives must be within the reach of the organization, or motivation for its attainment could disappear. In any case, managerial expectations must remain high; in other words, the more challenging an objective is (within realistic limits), the higher the performance will be. It is advisable to set business objectives which will challenge the business and its employees.

(v) **Objectives should be timely:**

Objectives must specify not only what is to be accomplished, but also when it is to be accomplished. A time-frame for achievement of objectives is very important.

(vi) **Objective require to be in writing:**

Writing down of objectives makes them more concrete and makes it easy to communicate them to everyone in the company. The process of setting and writing down objectives does not have to be complex or complicated. Infact, an entrepreneur should keep the number of objectives relatively small, preferably from five to ten.

Simple Business Plans

What has so far been discussed here are called "Strategic Management Process" by Management Experts, pointing out that entrepreneurs should have a clear picture of what their businesses do best, and what their competitive advantages are. At this stage, they should understand their firm's weaknesses and limitations, as well as its competitors. The next step is to evaluate the company's strategic options and then prepare a **game plan**, designed to achieve the stated mission, goals, and objectives which is equally called a Business Plan. There are three basic strategic options in this regard, namely:- cost leadership, differentiation and focus.

(i) A company pursuing **cost leadership strategy,** strives to be the **lowest–cost–producer**, relative to its competitors in the industry. This strategy that thus becomes part of the company's **business goal or business plan**.

(ii) A company following a **differentiation strategy** seeks to build customer loyalty by positioning its goods or services in a unique or different fashion. In other words, the company strives to be better than something that customers value. An example is the marketing strategy of Nigerian Breweries Plc, in which they market Heineken Beer through the production of European League Football Matches on Nigeria Television Authority Stations. Soft drink manufacturing companies like Coca-Cola and 7-Up, market their products by also bringing football and other interesting sporting activities which usually attract lots of customers to such brands. Other companies like GLO, MTN and GSM service providers also adopt this market strategy. There are several other examples around Nigeria. Students should look for them.

(iii) A **focus strategy** recognizes that not all markets are homogenous. The principal idea of this strategy is to select one or more segments, identify customers' special needs, wants and interests. They approach their customers with some goods and services designed to excel in meeting these needs, wants, and interests. Focus strategies build on **differences** among market segments.

Revision Questions

(1) What are the principal ways of identifying business opportunities? State reasons why it is important to identify business opportunities before a company's take-off.

(2) What do you understand by SWOT Analysis? Give detailed explanation of SWOT Analysis and elucidate on its importance to entrepreneurial development.

(3) Give a proper definition of goals and objectives as regards setting of business plans. State the characteristics of goals and objectives in entrepreneurial development.

(4) Why are goals and objectives considered very important ingredient in business planning?

CHAPTER FOUR
Levels of Aspiration, Perseverance and Efficacy of an Entrepreneur

4.1 Levels of Aspiration

Aspiration is a word which ordinarily comes from the word **aspire**. It connotes a strong desire to achieve something, or to become somebody. Aspiration, according to Oxford Advanced Learner's Dictionary, 6th Edition (2001), is defined as "a noun," and connotes a strong desire in someone to have, achieve or do something. It is a well known fact that a lot of people have ambition to aspire (or aim) at achieving one goal or another, either in academics, sports, business, etc. As a matter of fact there is no limit to people's aspiration for achievement in life, whatever the field of human endeavour it might be.

A management expert once admonished his students thus:- …"there is no limit to human aspiration to achieve anything; the only limitation that we have is in our own minds. The sky is no longer the limit of our aspirations, but far beyond it."

A lot of people aspire to achieve one goal or another in several spheres of human endeavour, but only very few actually succeed because it normally requires a lot of hardwork, determination and perseverance. Infact these qualities are greatly required in business (or entrepreneurship) than in any other field.

Level of Aspiration

There are primarily two levels of aspiration, namely:- low level and high level aspiration.

(i) Low Level Aspiration

This level is characterized by low aim, low ambition and low level of motivation which is mostly caused by low level of education. People plagued by low aspiration remain always perpetually at the lower level of the achievement ladder, thus making little or no progress from year-to-year primarily because of low motivation or low ambition. Their problem is mostly psychological or sociological, which requires expert psychiatric advice and treatment to enable an afflicted someone to come out of this syndrome.

(ii) **High Level Aspiration**

This level is usually characterized by high level enthusiastic aspiration to achieve goals without hindrance. Persons in this category are often described in different garbs; such as "high flyiers, go-gotters, and men with the midas touch," etc. These persons are never discouraged nor averse to taking risks, (well calculated risks) anyway. They also possess positive qualities of perseverance, hardwork and determination to succeed, no matter the odds. Most of the world's greatest achievers belong to this mould of persons.

4.2 Perseverance and Efficacy of an Entrepreneur

Perseverance is defined by the Oxford Advanced Learners' Dictionary, 6th Edition (2001) as follows:- "the quality of continuing to try to achieve a particular aim (or goal) in spite of difficulties".

Perseverance is one important quality which every entrepreneur must possess in great abundance, otherwise success may be slim, or non-existent. It is a positive mental attitude which every entrepreneur, and indeed anybody desirous of success in life must possess in abundance.

Perseverance and persistence are ingredients, which entrepreneurs know as the "one secret" to success in business. Entrepreneurs are also required to maintain a positive mental attitude which also is an important aspect of perseverance.

Maintaining a Positive Mental Attitude

Achieving success in business requires an entrepreneur to maintain a **positive metal attitude** (PMA) towards his business, and the discipline to stick with it. Successful entrepreneurs recognize than their most valuable resources is their **time**, and they learn to manage it effectively to make their company and themselves more productive. One business writer says that growing a successful business requires entrepreneurs to have great faith in themselves and their ideas.

Dr. Napoleon Hill, a renowned American Philosopher has this to say about Positive Mental Attitude …. "our mind is the only thing we can control. Either we control it, or we relinquish control and drift away. We can do something about any situation. We cannot NOT do anything. Being negative also means doing something; but to govern your life, you must learn to govern your attitudes. How we re-act to situations are determined by our habits of mind control and attitudes, hence positive metal attitude is a sine-qua-non for business success and efficacy of the entrepreneur."

Mr. Thomas Watson, founder of America's IBM Machines (and PCs) has this advice titled "Power of Persistence".

> Nothing in the world can take the place of **persistence,**
>
> **Talent** will not, because nothing is more common than lots of unsuccessful men with talent.
>
> **Genuis** will not, because un-rewarded genius is almost a proverb.
>
> **Education** will not, because the world is full of educated derelicts.
>
> **Persistence and determination alone** are omnipotent, so embrace them.

Mr. Watson also has Tips for Business Success:-

(i) Avoid the losers and unlucky ones;

(ii) Avoid manipulators and fraudsters;

(iii) Avoid those who think small; also avoid <u>infectors</u> (i.e people who infect you with their hard luck);

(iv) Move along with the happy and buoyant successful persons; they will positively influence your life. Spend more time with happy, optimistic people, they will positively affect your lives.

The above-stated words of wisdom are very essential for budding entrepreneurs and students generally.

Power of the Mastermind

As we earlier stated in this book under the title of "Science of Personal Achievement," The mastermind principle is defined as "an alliance of two or more persons working together in a **spirit of perfect harmony** to accomplish a definite purpose". The value of this **gathering together** of like-minded people becomes self-evident because it results in harmonious relationship which often results in greater achievement", according to Dr. Napoleon Hill, an American author of Think and Grow Rich.

The master-mind principle is a means through which one may use his experience, education, talent, influence and perhaps the finances of other people to assist one in achieving his major goal. Your mastermind alliance may begin with your association with one other person, (or persons) as the case may be. The number of alliances you will require depends entirely on the nature and the extent of the purposes of your alliance. However, a "meeting of the minds" must be regular; it must be mutually beneficial, and must be harmonious in the basic matters of sincerity and trust. This union leads to what we call the **Mastermind Alliance principle** which entrepreneurs need badly.

No man can accomplish enduring results of a far-reaching nature without the help and co-operation of others. When two or more persons ally themselves in any undertaking, in a spirit of harmony and understanding, each person in the alliance multiplies his power of achievement. Nowhere is the principle more successfully practiced than in an industry or business establishment in which there is perfect team work between the board of directors, employer and employees. Whenever you find teamwork, you find prosperity and goodwill on both sides. It is of extreme importance in entrepreneurs' development.

"Co-operation" is said to be the most important word in the English language. It plays a very important part in the affairs of the home, in the relationship of husband and wife, parents and children; and also in the state itself. So important is this **Principle of Co-operation** that no leader can become powerful, or last long who does not understand and apply it in his leadership. Lack of Co-operation has destroyed more business enterprises than have all other causes combined.

Examples of Successful Business Co-operation and Mastermind Alliance:

(1) **Bill Gates and Paul Allen**

Most people are perhaps aware of the legendary business relationship and co-operation which existed between Bill Gates and Paul Allen, his long time friend. This relationship resulted in the development of computer software known as MS-DOS by Microsoft Corporation of USA in the 1980s/1990s. We are reliably informed that the business was so successful that Bill Gates, Paul Allen and others in the company became multi-millionaires from this single product. They then decided to split up the business. While Bill Gates continued to run his company, Microsoft Corporation, his friend Paul Allen and others started their own firms. Their former colleagues in the original company also became multi-millionaires while still in their twenties and thirties.

According to an article in the July 24, 2010 edition of Time Magazine, dozens of Microsoft millionaires set up Charitable Foundations in the 1990s.

Even up till now, Bill Gates has remained one of the world's riches men for over a ten-year period. He is a multi-billionaire who has devoted most of his wealth to humanitarian aid across the whole world, fighting poverty, ignorance and disease, and he is surely succeeding. The value of his company's stock has daily continued to gain ground in the American Stock Exchange. Bill Gates' feat and success is as a result of perfect mastermind alliance and co-operation amongst him and his colleagues in Microsoft Corporation USA.

(2) **Dr. Napoleon Hill and Mr. W. Clement Stone**

Dr. Napoleon Hill is the author of a highly successful motivational and self-development book titled "**Think and Grow Rich**" which was first published in USA in 1937. Mr. W. Clement Stone, the publisher and editor of the inspirational magazine, **SUCCESS UNLIMITED** in USA, wrote; "more men and women have been motivated to achieve success because of reading Think and Grow Rich than by any other book ever written by a living author."

The publisher of the book, Think and Grow Rich also wrote in his book about W. Clement Stone under the following title, "He ran $100 into millions." He stated that: "with only $100.00 (one hundred) dollars, the desire to succeed and by employing the principles in Think and Grow Rich, Mr. W. Clement Stone was able to build an organization that produces a gross annual income of over $36 (thirty six million) US Dollars".

This assertion was made around the 1960s, when Napoleon Hill first became associated with Mr. Stone. In 1952, Mr. Stone's personal fortune was estimated (by Mr. Stone himself) at $3 million US Dollars. When the relationship ended ten years later, Mr. Stone's fortune was estimated at $160 million Dollars – an increase of approximately $15 million per year for the ten years of their personal association. During those ten years Mr. Stone's entire sales and managerial staff was indoctrinated with the Science of Personal Achievement.

Many of the salesmen increased their earnings through the application of this success philosophy, as much as three and four hundred per cent. Also, during the Napoleon Hill and W. Clement Stone association, they co-authored one highly motivational book entitled, **Success Through a Positive Mental Attitude,** (Prentice-Hall Inc), which became a best seller from the first day, and remained so far a very long time. The book has been translated into many foreign languages, and is still selling up till now in many parts of the world.

Note: Apart from the two examples of successful Mastermind Alliance Principle quoted above there are several others which cannot be reproduced here for lack of space. However, the import of the message is quite clear about the efficiency of this principle in the affairs of people in their business relationships. Everyone who handles this book should therefore realize the importance of Mastermind Alliance Principle, and endeavour to apply them judiciously in all their business relationships. Other important issues regarding the mastermind alliance principle are as follows:

(i) **Minds Demonstrate Attraction – and Repulsion**

It is a well known fact to both the layman and men of scientific investigation, that some minds clash with each other the moment they meet one another. Between the two extremes of natural antagonism, and natural affinity growing out of the meeting or contacting of minds, there is also a wide range of possibility for varying reactions of minds with the mind.

Some minds are so naturally adapted to each other that "love at first sight" is the inevitable outcome of such contact. In some other cases, minds are so antagonistic that violent mutual dislike shows itself at first meeting. These results occur without a word being spoken, and without the slightest sign of any of the usual causes of love and hate acting as a stimulus. While it is desirable, it is not essential to know the "cause" of this reaction of mind upon mind. That the reaction indeed takes place in every instance is a known fact, which gives us a starting point from which we may show what is meant by the term "Mastermind".

(ii) **Creation of the Mastermind Alliance**

A mastermind may be created through the bringing together, or blending of two or more minds in a **spirit of perfect harmony**. Out of this harmonious blending, the chemistry of the mind creates a third mind which may be appropriated and used by one, or all of the individual minds. This mastermind will remain available as long as the friendly, harmonious alliance between the individual minds exist. It will disintegrate, and all evidence of its existence disappears the moment of the friendly alliance is broken.

The term "Mastermind" is abstract, and has no counterpart in the field of known fact, expect to a small number of people who have made a careful study of the effect of one mind upon other minds.

The term first came to the attention of Dr. Napoleon Hill during an interview with Mr. Andrew Carnegie, the great steel magnate of the 1930s and 1940s. Mr. Carnegie attributed the accumulation of his great fortune in the Steel Industry to the utilization of the mastermind principle. He explained that his mastermind alliance was made up of about twenty men, and that they had given of their experience, education, and their background for one **definite objective**, and that was the assembled knowledge of everything relating to the Steel Industry at that time. Mr. Carnege's primary job was to keep this alliance moving in a spirit of perfect harmony for the common objective. This narrative perfectly introduces the origin of the mastermind alliance principle as we know it today.

(iii) **Espirit-de-Corps at work**

From our definition of a "Mastermind" we realize it is a mind which grows out of the blending and co-operation of two or more minds, in a spirit of **perfect harmony**. The word "harmony" is of utmost significance as it is used because two minds will not blend, nor can they be co-ordinated, unless the element of perfect harmony is present. This is the element that holds the secret of success or failure of practically all business and social partnerships.

Every sales manager, military commander, and leader perfectly understands the necessity of espirit-de-corps, **a spirit of common understanding and co-operation** for the attainment of a common goal. This "mass spirit of harmony", and of purpose is obtained through discipline, voluntary or forced, of such a nature that the individual minds are blended into a mastermind. This occurs when the chemistries of the individual minds blend, and they function as one.

The methods through which this blending process takes place are as numerous as the individuals that are engaged in various forms of leadership positions. Every leader has his own method of co-ordinating the minds of his followers. One may use force, another uses persuasion, and one may play upon the fear of penalties while another plays upon rewards. The really great leaders of the world however have been provided with a combination of mind chemistry that is favourable as a nucleus of attraction for other minds, hence there levels of success in various endeavours.

Any leader who understands this principle of mind chemistry can temporally blend the minds of practically any group of people, so that it will represent a **mass mind,** but the composition will disintegrate almost the very moment the leader's presence is removed from the group. For instance, the most successful life insurance sales organizations and other sales forces meet once a week, or more often, for the purpose of merging the individual minds into a Mastermind which will, for a limited number of days serve as a stimulus to the individual minds. It is probably true that the leaders of these groups may not understand what actually takes place in these meetings which are usually devoted to talks by the chairman and other members of the group. But meanwhile, the minds of the individuals are "contacting and re-charging" one another, regarding the issues at hand through the mastermind principle.

(iv) **Strength Comes From Unity**

It is a demonstrable fact that mind chemistry may be appropriately applied to everyday affairs of the economic and commercial world. Through the principle of mind chemistry, two or more minds may be blended in a spirit of perfect harmony, and may develop sufficient power to enable the individuals to perform seemingly superhuman feats. **Power** is the force with which people achieve success in any undertaking. And also, power in unlimited quantities may be enjoyed by any group of persons, who posses the wisdom with which to submerge their own individual personalities and their own immediate individual interests in the union of their minds for the attainment of the desired goal.

When two or more people harmonize their individual minds to produce a mastermind, each person in the group becomes vested with the power to "contact and gather knowledge" from the sub-conscious minds of all the other members of the group. This power becomes immediately noticeable, having the effect of stimulating the mind to a higher rate of vibration. And this takes the form of a more **vivid imagination**, and the consciousness of what appears to be a **sixth sense**.

It is through this "sixth sense" that new ideas will flash into the mind. These ideas take on the nature and form of the subject dominating the mind of the individual. The minds of those participating in the mastermind become like "magnets", attracting ideas and thought stimuli of the most highly organized and practical nature from where no-one knows.

The process of **mind blending** may be likened to the act of connecting many electric batteries to a single transmission wire, thereby stepping-up the power passing over that line by the amount of energy which the batteries carry. This system applies to the blending of the individual minds into a mastermind alliance. Each mind stimulates the other minds in the group, until the universal energy becomes so great that it connects with, and penetrates the universal energy known as **ether**; which in turn touches every atom of matter in the universe. All the so-called **geniuses** probably gained their reputations because they formed alliances with other minds which enabled them to amplify their vibrations, until they were able to contact the vast temple of knowledge recorded and filed in the ether of the universe. All of the great geniuses, as far as the author is able to gather the facts, were highly sexed people, though this tendency may not be too apparent to the public glare. The fact that sexual contact is the greatest known mind stimulant would seem to support this theory. However, deeply religious people may disagree with the above-stated theory, they are free to conduct independent enquires and research, to find out the mental make-up and behavioural tendencies of those who are known as **geniuses**. Such experiments or enquiries will no doubt confirm the veracity or otherwise of the author's assertion about genius.

The author nevertheless, believes that geniuses are people who possess **un-usual great intelligence**, and high levels of skill which "ordinary" people lack. Enquirers and researchers into the mental make-up of geniuses shall no doubt be contributing a lot to the overall knowledge of the mastermind alliance principle in general, and genius in particular.

Principles of Mind Chemistry

According to Dr. Napoleon Hill and Mr. Harold Keown, Industrial Philosophers and Consultants based in USA, during their experiment on the principles of mind chemistry, stated as follows: "wherever you find an outstanding success in business, finance, industry, or any of the professions, may be sure that behind the success is some individual who has applied the principle of mind chemistry to create a mastermind. This outstanding success may often appear to be the handiwork of just one person, but on closer observation, other individuals whose minds have co-ordinated with his own may be found. Typical examples of this mastermind alliance are:-

(i) Mr. Bill Gates and his co-workers in Microsoft Corporation.
(ii) Mr. Andrew Carnegie and his associates who pioneered large-scale steel production and marketing in the United States of America as stated earlier in this chapter.

Continuing, Dr. Napoleon Hill and Mr. Keown further stated that "power (manpower) is organized knowledge, expressed through intelligent action. No effort can be said to be organized unless the participating individuals fully co-ordinate their knowledge, experience, energy and expertise in a spirit of perfect harmony. Lack of such harmonious co-ordination of effort is the main cause of practically every business failure".

What were Henry Ford's Assets? The duo of Dr. Hill and Mr. Keown in collaboration with some student's of a renowned University in America conducted a research, and requested the students to write an essay on How and Why Henry Ford (of USA) became wealthy. Each student was required to make a research, and describe what he believed to be the nature of Mr. Ford's real assets, and what these assets consisted of. Majority of the students gathered financial statements and other relevant information on Mr. Ford's wealth. One student out of the entire group of several hundreds wrote: "Henry Ford's assets consist of, in the main, two items:-

(a) Working capital, cash, raw and finished materials.
(b) The knowledge gained from the experience and co-operation of well-trained organization, which understands how to apply this knowledge to the best advantage from Mr. Ford's view-point. It

is impossible to estimate with anything approximating correctness, the actual dollars and cent's value of these two groups of assets, but it is my opinion that their relative values are:

(i) Organized knowledge of the Ford Organization – 75%;

(ii) The value of cash and physical assets of every nature (including raw and finished materials) - 25%.

The authors, (Dr. Hill and Keown) were of the opinion that the above statements were not compiled by the young man whose name was signed to it, without the assistance of some very analytical and experienced mind or minds.

Unquestionable, Henry Ford's most valuable assets (like everyone's) were his own mind. Then next came the brains of his immediate circle of associates, for it was through the total co-operation of all these that the physical assets he controlled were accumulated.

Please note that Henry Ford was one of the early pioneers of motor cars in the world. He was born on 30th July 1863 in Dearborn Michigan USA. According to biographer, Mr. Charles Albert – Poisant, "the first things Henry remembered owning were odds and ends of metal which he always converted into tools. Ford's practical mechanical and engineering genius, and his vision of machines replacing manual work had united man and animal under a single yoke for millenniums: it was already beginning to blossom. His dream was to take shape a few years later, when between 1895 and 1896, Ford drove his first car no fewer than 1000 miles; constantly submitting it to all sorts of tests to enhance its performance. He finally sold it for a mere $200 (two hundred dollars). Ford had no intention of stopping after his first successful achievement, but continued to go further and much further, until the present time.

Continuing, Dr. Hill and Mr. Keown asserted:- "if every plant the Ford Motor Corporation owned had been destroyed, including every piece of machinery, every dollar on deposit, Ford would still have been one of the most economically powerful men in America during his life time (and even beyond this period). The brains which built the Ford business empire could still have duplicated it again in a short time. Capital is always available in un-limited quantities to such brains as Ford's (and others also").

Within a short period of time, Ford had mastered three of the most stubborn enemies of mankind and transformed them into assets. **These enemies of mankind are ignorance, illiteracy, poverty (and disease)**, especially in developing countries. The source of all power is organized effort. Knowledge, when general in nature and un-organized, is not power. It is only potential power and the material out of which real power may be developed.

NO POWER WITHOUT ORGANIZATION

The astute businessman (whether literate or illiterate), not only has recognized the importance of the law of organized effort, but has made this law the basis of his power. Without knowledge of the principles of mind chemistry, many persons have accumulated great wealth by merely organizing the knowledge they possess. The majority of those who have discovered the principle of mind chemistry, and developed that principle into a mastermind have stumbled upon this knowledge by accident; often failing to recognize the real nature of their discovery, or understanding the source of its power. "Power" and "success" are synonymous terms. One grows out of the other; therefore any person, who has the knowledge and ability to develop them, may be successful in any undertaking that permits successful implementation or execution. The human brain and nervous system constitute a piece of very intricate system or machinery which very few men, if any, fully understand. When controlled and properly directed, this piece of machinery can be made to perform wonders of achievement, but if not controlled, it will perform wonders, fantastic and phantom-like in nature as may be seen by observing the inmates of any mental institution.

HARMONY, THE ABSOLUTE "MUST"

Harmony is one of nature's laws and without it there could be no such thing as organized energy in life. Health of the body, as well as the mind, is literally built upon the principle of harmony. The life energy begins to disintegrate, and death approaches when the organs of the body stop working in harmony. The moment harmony ceases at the source of organized energy, the units of that energy are thrown into a chaotic state of disorder and the power is rendered neutral or passive.

This truth has been stated and re-stated, for unless one grasps this principle and learns to apply it, this chapter on the mastermind principle is useless. Success in life, no matter what one may call success is largely a matter of adaptation to environment in such a manner to produce harmony between the individual and his environment. If the reader feels that the author is putting him under stress on the importance of harmony let him remember that **lack of harmony** is the first, and often the last cause of failure, no matter the quality of leadership in the organization.

Every human being possesses at least two (or more) distinct personalities, and as many as six distinct powers may be discovered in one human being. One of man's most delicate tasks is that of harmonizing these forces so that they may be organized and directed towards the orderly attainment of a given objective or task. Without this element of harmony, no individual can become an accurate thinker.

LEADERSHIP

A leader cannot work effectively if there is lack of harmony in the organization, hence it is no wonder sometimes leaders find it difficult to organize groups of people to function without friction for the attainment of a given objective.

The leader who successfully develops and directs the energies of a mastermind group must possess tact, patience, persistence, self-confidence, intimate knowledge of mind chemistry, and the ability to adapt himself to quickly changing circumstances without showing the least sign of annoyance. The successful leader must possess the ability to change the colour of his mind, chameleon-like (if necessary), to fit every circumstance that arises in connection with the object of his leadership. Moreover, he must possess the ability to change from one mood to another without showing the slightest signs of anger, or lack of self-control. The successful leader must understand the Seventeen Principles of the Science of Personal Achievement, and be able to put into practice any combination of these laws whenever occasion demands. Without this ability, no leader can be powerful; and without power, no leader can long endure; because power grows out of organized knowledge. It grows out of it, through application and use.

A man may become a walking encyclopedia without possessing any power of value. This knowledge becomes power only to the extent that it is organized, classified, and put into tangible action. Some of the best educated men and women in the world possess less general knowledge than some who are known as fools. The difference between the two being that educated persons put the knowledge they possess into use, while fools make no such application of theirs.

The True Meaning of Education

An educated person could be defined as someone who knows how to acquire everything he needs in the attainment of his main purpose of life, without violating the rights of his fellowmen. The successful lawyer is not necessarily the one who best memories all the principles of law. On the contrary, the successful lawyer is the one who knows where to find a principle of law, plus a variety of legal opinions supporting that principle which fits the immediate need of a given case. In other words, the successful lawyer knows where to find the law he wants when he needs it. This principle also applies with equal force to the affairs of industry, business and other human economic activities.

Henry Ford and most wealthy men that we know, had very little elementary schooling, yet were highly educated men. This is because they acquired that ability to combine natural and economic laws, and the minds of men to achieve power to get anything of a material nature they wanted.

During the First World War, Mr. Henry Ford filed a suit against the Chicago Tribune Newspaper, charging it with libelous publication of statements concerning him. One of the statements was that Mr. Ford was an "ignoramus, an ignorant pacifist" and so on. When the suit came to trial, the lawyers for the newspaper undertook to prove that their statements were true, that he was ignorant. With this objective in mind, they cross-examined him on many subjects. One of the questions the newspaper's lawyer asked Ford was, "how many soldiers did the British send to subdue the rebellion in the colonies in 1776? With a smile on his face, Mr. Ford nonchalantly replied; "I do not know just how many, but I heard that it was a lot more than ever went back from battle." Of course, this reply brought loud laughter from the jury, court room spectators, and even from the frustrated lawyers who had asked the question. This line of interrogation was continued for an hour or more, on various issues with Ford remaining perfectly calm.

But at a stage, Mr. Ford pointed his finger at the questioning lawyer and replied …." If I should answer the foolish question you have just asked, or any of the others you have been asking, let me remind you that in my office I have lots of officers who could give me the correct answer to all the questions you have asked, or any that you have not the intelligence either to ask or answer, by merely pressing a row or electric push buttons. Now, will you tell me why I should bother about filling my head with a lot of useless details in order to answer any foolish question that anyone may ask, when I have able men about me who can supply me with all the facts when I call for them?"

There was silence in the court room as everyone looked at Mr. Ford with great amazement and wonder. Henry Ford's answer proved to all who had intelligence to accept the proof that **true education means mind development**, not merely the gathering and classifying of knowledge.

Mr. Henry Ford could not have gone into his chemical laboratory to conduct all the necessary tests and analysis for industrial use, but he knew how to surround himself with chemists who could do this for him. The man who can intelligently use the knowledge possessed by another person, is as much, or more, an educated man as the person who merely has the knowledge, but does not know what to do with it. With Mr. Ford's answer and address above-stated, the judges awarded him costs against the newspaper.

How to Form the Mastermind Alliance

The mastermind consists of an alliance of two or more minds working in perfect harmony for the attainment of a definite objective. To form a mastermind group you have to think about the qualities of a good employee or friend. The following are some of the qualities required: dependability, loyalty, ability, positive mental attitude, going the extra mile; and applied faith. The following qualities are also required in forming the mastermind alliance:

(i) Be sure that you are in complete harmony with the number two man, and the two of you agree on the number three man, and so on. This is very important, because you must take all the members into complete confidence. Each member should accept each other at "face value" and without any reservation.

(ii) Choose and **eliminate** if necessary until you have the right group working in perfect harmony.

(iii) Be sure you set up a motive strong enough to assure getting the job done. If you make a profit, be willing to share it with those who helped you in proportion to their contribution. Be sure that you go the extra mile in your dealings with the group.

(iv) Ensure that you have a definite time and place for regular meetings to discuss plans and actions to be taken. Any neglect here spells failure for the group.

(v) Keep perfect harmony; this is your job as a leader of the group. It will help here to remember Carnegie's major purpose, which was "to build men". Ensure that you create your own major purpose or motto, also.

(vi) Get into good terms with yourself. Do some masterminding with your "other self". It recognizes no such thing as **failure or defeat**. This is an alliance you cannot do without. When you use the mastermind principle to avail yourself of the minds of other people, be sure that you must begin by taking complete charge or control of your own mind. Do not try to be a lone-ranger or someone who prefers to work alone.

In conclusion, I wish to summarize mastering your own mind power, and the power of the mastermind by repeating a phrase which illustrates the sources from which the mastermind derives its potential for power:- "whatever the mind of man can conceive and believe, it can always achieve it." The **mind of man** stated here consist of the sum total of knowledge which has been recognized, organized, and recorded by man since the dawn of civilization. It is available to all who have the desire and intelligence to appropriate and use it. It is equally available to all who have taken possession of their own minds, who seek success through the mastermind power principle.

Culled from: Succeed and Grow Rich through Persuasion, by Dr. Napoleon Hill and E. Harold, Fawceth Publication Inc. USA.

Revision Questions

(2) Define aspiration. State and elucidate on the various levels of aspiration.

(3) What do you understand by perseverance. How do you relate the concept of perseverance to the entrepreneur in Nigeria.

(4) Positive mental attitude is a sine-qua-non for success and efficacy of the entrepreneur. Elucidate on this statement.

(5) Elucidate on Thomas Watson's business philosophy. What lessons can you draw from there?

CHAPTER FIVE

Various Existing Industry and Support Agencies in Nigeria; Commercial/Development Banks

The entrepreneur has to depend on a number of support agencies in order to survive and grow. Consequently, it is appropriate at this stage to look at some of these support agencies such as:- Corporate Affairs Commission (CAC), Banks – (Merchant/ Development), Insurance, NACCIMA, SMEs, etc. We shall examine their roles and contributions to the existence and success of the entrepreneur.

5.1 Corporate Affairs Commission (CAC)

The Companies and Allied Act, (CAMA) of 1990 established the Corporate Affairs Commission, which is charged with the responsibility of administering the Act, including incorporation, registration, management and winding-up of companies in Nigeria.

As a regulatory body of companies, the CAC has taken practical steps to enhance its operations and making business registration by Nigerians faster, cheaper and more efficient for entrepreneurs and others.

Categories of Companies for Registration by CAC

Any persons wishing to do business in Nigeria must first and foremost determine the vehicle through which the business would be carried out. This can be in any of the following ways:-

(a) Private Company Limited by shares;
(b) Public Company Limited by shares;
(c) Registration of Business Names;
(d) Registration of Trustees, etc.

The minimum membership of each of the above-listed companies (a) and (b) is two, and the maximum for private companies is fifty; while there is no limit for public companies (Plc).

On the requirement for Share Capital for private companies, a minimum of N10,000.00 is prescribed, and N500,000.00 for public companies. These are however subject to sectoral regulatory authorities, eg. banks, insurance companies, etc, shall require a minimum subscription of 25% of the Authorized Share Capital for Banks and Insurance Companies.

Effects of Registration

Registration confers in the company (or enterprise), a status of legal personality distinct from its members with power to sue, and be sued in its own name.

It also gives the company (or enterprise) power to own property, and also borrow; also it has perpetual succession and a common seal. The members are however obliged to contribute to the assets of the company in case of its being wound up.

The Corporate Affairs Commission now has branches in almost all state capitals and Abuja, FCT at Plot 565 Ndola Square, off Michael Okpara Street, Wuse Zone 5; Garki, Abuja;
E-mail: eservice@cac.gov.ng; website:http/www/cac.gov.ng; www.cacnigeri.org. Students should please visit CAC office everywhere in Nigeria to find out more about what they do.

5.2 Banks as Business Support Agencies

It is an acknowledged fact that banks of different kinds exist today, but it is imperative to attempt a definition of banks before delving fully into the issue.

A bank has been defined by Dr. J. B. Hart, a renowned British banking expert and author as, "a person or company carrying on the business of receiving moneys, and collecting bank drafts (and other instruments), for its customers subject to the obligation of honouring cheques drawn upon them from time-to-time by the customers to the extent of the amounts available on the current accounts."

Another definition of a bank has been given by statute (or law). In Paget's Law of Banking, 8th edition (1972), a bank is defined as "a person or corporation (or group of persons) who accept monies on current accounts, pay cheques drawn upon such account on demand, and collect cheques and other banking instruments for customers, that if such minimum services are afforded to all and sundry without restriction of any kind, the business is a banking business."

There are several definitions of a bank, and students are requested to search for those definitions so as to get better acquainted with this topic. At this stage we do not need to delve into the evolution or origin of banking because it is outside the scope of this book. We should rather concentrate on banks as business support agencies for entrepreneurs and other businesses.

Types of Banks

There are principally four types of banks, namely:-

(a) The Central Bank
(b) Commercial or Universal Banks
(c) Development Banks
(d) Micro – Finance Banks

The details of the various banks are as follows:-

(a) **Central Bank of Nigeria**

The Central Bank is the **apex bank** in a country. It is called by different names in different countries; for instance, it is called the Bank of England in England; the Federal Reserve System in USA, the Bank of France in France; the Reserve Bank of India in India and Central Bank of Nigeria, in Nigeria. They are also called different names in other parts of the world.

Differences between Central Bank and Commercial Banks

(i) The Central Bank is the **apex institution** of the monetary and banking structure of the country. Commercial banks are among the organs of the country's money market.

(ii) The Central Bank is a non-profit institution owned by the government and which implements the economic policies of government. Commercial banks are profit making institutions owned by shareholders.

(iii) The Central Bank is a **banker to the government**, and does not engage itself in ordinary banking activities; but commercial banks are regarded as banks to the general public.

(iv) The Central Bank has the monopoly of issuing the country's currency, (ie bank notes and coins) or legal tender, while commercial banks issue only cheques to their customers. These cheques are regarded as **near-money**.

(v) The Central Bank is the **bankers' bank**; as such, it grants credit facilities to other banks; keep their cash reserves and clears cheques on commercial banks' behalf. On the other hand, commercial banks give loans and overdrafts to their customers; they accept deposits from the public.

(vi) The Central Bank maintains credit control in accordance with the country's monetary policy, the needs of business and economy. Commercial banks create credit facilities to meet the requirements of business, subject to directives of the country's Central Bank.

(vii) The Central Bank is the country's custodian of foreign currency reserves, while commercial banks deal in foreign currencies which they sell to the public.

(viii) The Central Bank helps to establish financial institutions in order to strengthen money and capital markets in the country. On the other hand, commercial banks help industries and entrepreneurs by underwriting shares and debentures; they assist agriculture through co-operative movements and individuals, etc.

(ix) Every country has only one single Central Bank with offices at important centers of the country. On the other hand, there are many commercial banks (with hundreds of branches) within and outside the country.

(x) The chief executive of the Central Bank is designated as "Governor", whereas the chief executive of commercial banks are called "Chairman" or Managing Director. Students are strongly advised to read any standard textbook on Elements of Banking, or Practice of Banking for more information on this important topic. Such an exercise will surely be very beneficial to students, because it will properly enlighten them on the symobiotic and fruitful relationship between banks, entrepreneurs and business enterprises generally. Students need to know about the role of Central Bank in a developing economy and its credit control measures.

Conclusion

The Central Bank plays very important role in achieving economic growth of a developing country through various measures inherent in its functions. Primarily, it promotes economic growth with stability; helps in attaining full employment of resources, overcomes balance of payments disequilibrium and stabilizes exchange rates.

Credit control is the regulation of credit by the Central Bank for the purpose of achieving some definite objectives, namely:-

- price stability, economic stability, maximization of employment,
- economic growth; stabilization of money market and exchange rate stability. Other methods of credit control used by the Central Bank are the quantitative or general methods, and qualitative or selective methods.

For more elucidation on the Central Bank, its functions, roles, objectives and methods of Credit Control, please consult any standard textbook on Elements of Banking or Practice of Banking. These books are easily available in most standard bookshops across Nigeria. The authors do not deliberately recommend any particular textbook or appropriate materials to aid students in their studies, thereby encouraging them to become resourceful in their daily endeavours.

(b) **Commercial or Universal Banks**

Commercial or Universal Banks are those banks which perform all kinds of banking functions, such as:- accepting deposits, advancing loans and overdrafts, credit creation and agency functions, etc.

They are also called joint stock banks because they are organized in the same manner as joint stock companies (or present-day limited liability companies).

Banks usually advance short-term loans to their customers; they are also engaged in giving out medium-term and long-term loans to businessmen/entrepreneurs and companies. As a result of the re-capitalization policy of the Central Bank of Nigeria which took effect from 31st December 2005, commercial banks in Nigeria were pruned down to only 25 banks; each with a minimum Paid-Up Capital of ₦25 billion.

However, at present some of the banks have share capitals in excess of between ₦100 billion and ₦200 billion. Students are advised to frequently read copies of Business Newspapers, or Business Columns of Nigerian Newspapers for current information on banks' Share Capital and other business news items concerning banks and the economy as a whole.

Functions of Commercial Banks

Commercial banks perform a variety of functions which can be divided as follows:

(i) Accepting deposits
(ii) Advancing loans
(iii) Credit creation
(iv) Financing foreign trade
(v) Agency services
(vi) Miscellaneous services to customers.

These functions are discussed as follows:

(i) **Accepting Deposits**

This is the oldest function of a bank. The banker charges commission for money in its custody when banking was developing as an institution. Nowadays a bank accepts three kinds of deposits from its customers. The first is the **savings deposits** on which the bank pays small interest to the depositors who are usually small savers. They can withdraw their money by completing withdrawal slips up to a limited amount during a week or month. Businessmen keep their deposits in **current-accounts**. They can withdraw any amount standing to their credit in current deposits by cheques without notice. The bank does not pay interest on such accounts but instead charges a normal sum for services rendered to its customers. Current accounts are also known as **demand deposits**. Deposits are also accepted by a bank in fixed or time deposits. Savers who do not need money for a stipulated period from 6 months to longer periods ranging up to 10 years or more are encouraged to keep it in fixed deposit accounts. The bank pays a higher rate of interest on such deposit. But there is always the maximum limit of the interest rate which can be paid.

(ii) **Advancing Loans**

One of the primary functions of a commercial bank is to advance loans to customers. A bank lends a certain percentage of the cash lying in deposits on a higher interest rate than it pays on such deposits. This is how it earns profits and carries on its business. The bank advances loans in the following ways:

(a) **Cash Credit:**

The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current or loan account of the borrower. In case of a new customer a loan account for the sum is opened and the borrower can withdraw money through cheques or from savings account according to his requirements, but pays interest on the full amount.

(b) **Call Loans:**

These are very short-term loans advanced to bill brokers or to Commercial banks that require it overnight, for not more than fifteen days. They are advanced against first class bills or securities. Such loans can be recalled at a very short notice but in normal times they can also be renewed.

(c) **Overdraft:**

A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. This is done by providing the overdraft facility up to a specific amount to the businessman. But he is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft approved for him by the bank.

(d) **Discounting bills of Exchange:**
If a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. The bank deposits the amount of the bill in the current account of the bill-holder after deducting its rate of interest for the period of the loan which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill in the first instance.

(iii) **Credit Creation**

Credit creation is one of the most important functions of the commercial banks. Like other financial institutions, they aim at earning profits. For this purpose, they accept deposits and advance loans by keeping some cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account in the name of the customer and does not pay him in cash but allows him to draw the money by cheque according to his needs. By granting a loan, the bank creates credit or deposit, which then increase banks' portfolio of its Debtors – Balance in the Balance sheet..

(iv) **Financing Foreign Trade**

A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business and buys and sells foreign currency. Banks also open confirmed Letters of Credit for its customers wishing to import goods from abroad.

(v) **Agency Services**

A bank acts as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends, etc. It also buys and sells shares, securities, debentures, etc. for its customers. Further, it pays subscriptions, insurance premia, rent; electric and water bills, and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as an income tax consultant to its clients. For some of these services, the bank charges a nominal fee while it renders others free of charge.

(vi) **Miscellaneous Services**

Besides the above noted services, the commercial bank performs a number of other services. It acts as the custodian of the valuables of its customers by providing them lockers where they can keep their jewelry and valuable documents. It issues various forms of credit instruments, such as cheques, drafts, travellers' cheques, etc. which facilitate transactions; the bank also issues letters of credit and acts as a referee to its clients. It underwrites shares and debentures of companies and helps in the collection of funds from the public. Some commercial banks also publish journals, which provide statistical information about the money market and business trends of the economy.

Role of Commercial Banks in a Developing Country

Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture. There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development. The role of commercial banks in a developing country are discussed as under:-

1. **Mobilizing Savings for Capital Formation:** Commercial banks help in mobilizing savings through a network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilize idle savings of the few rich. By mobilizing savings, the banks channelize them into productive

investments. Thus they help in the capital formation of a developing country.

2. **Financing the Industrial Sector:** Commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India for example, they provide short-term loans and in some of the Latin American countries like Guatemala they advance medium-term loans for one to three years. Also in Korea, commercial banks advance long-term and medium-term loans to industry. In some developing nations, commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire-purchase finance. Besides, they underwrite the shares and debentures of large-scale industries. Thus they do not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

3. **Financing Trade:** Commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by approving all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing bank drafts etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

4. **Financing of Agriculture:** Commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities; they open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernization and mechnisation of their farms, for providing, irrigation facilities, for developing land, etc.

They also finance poultry farming, pisci-culture and horti-culture. The small and marginal farmers and landless agriculture workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These original rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people. (Note, this is the situation in India, a developing country like Nigeria).

5. **Financing of Consumer Activities:** People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as house, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

Functions of Merchant Banks

(a) **Corporate Finance Services:** These include management of public and private equity shares and debt securities issues, company floatation, mergers and reconstruction, financial planning and portfolio management.

(i) **Issuing House Services:** Merchant Banks undertake sales of shares to their clients. They act as Issuing Houses in the Capital Market by, among other things, offering financial services to corporate entities desiring to raise long-term finance for their operations, giving advice on type of capital structure, appropriate time of issues, and advise on relevant government regulations. Merchant Banks also give backing to share issue in the form of underwriting it.

(ii) **Project Financing:** This term is used to describe how Merchant Banks in particular finance new projects on the agreement that repayment is expected from the revenues or cash flow to be generated by the project.

(iii) **Advisory Services:** These include advice on project financing and joint ownership, arrangement of mergers and acquisitions, advices on corporate financial structure, reconstructions, etc.

(b) **Banking Services:** These services include loans and advances, deposits, acceptances, foreign exchange transactions, international trade services and equipment leasing.

i. **Loans and Advances:** These are provided by Merchant Banks mainly to industry and commerce. CBN stipulates the percentage of loans and advances of these type of Banks to be made to various sectors of the economy at the beginning of each financial year. Although Merchant Bank also do lend on short term for working capital requirement, plant expansion, agricultural development, trade finance, etc, they mainly champion the course of medium and long term loans disbursement.

ii. **Acceptance of Deposit:** Deposits in Merchant Banks are made in the form of fixed term, usually by corporate and non corporate customers, in large amounts.

iii. **Acceptance:** Acceptance business is mainly used for the finance of international trade. A customer or client can draw a bill of exchange on his merchant Bank. By accepting this bill, his Merchant Bank becomes responsible for its payment at due date.

iv. **Foreign Exchange Service:** Upon authorization by CBN for a Merchant Bank to provide foreign exchange services, the latter can act as a Correspondent Bank to assist in international trade settlement and to act as intermediary between CBN and its clients in obtaining foreign exchange.

(c) **Equipment Leasing:** Most Merchant Banks are members of the Equipment Leasing Association of Nigeria.

They execute leasing business in return for a fee. Leasing is the hiring of an asset for the duration of its economic life, or up to a specific time (Adekanye 1986).

(d) **Portfolio Management:** Merchant Banks manage their clients' portfolios through Investment Departments. Portfolio Management includes "arranging purchases and sales of securities and offering advice on when and what to buy and sell, as well as attending to rights or bonus issues and registrations" (Adekanye, 1986).

(e) **Money Market Services:** Merchant Banks mobilize deposits on time and call from commercial banks, large corporations, institutions, etc. at very attractive interest rates. They are also authorized dealers and users of Negotiable Certificates of deposit.

Development Banks

This category of banking institutions sprang up in response to the clamour for establishment of specialized financial institutions for the interest of investors in need of medium and long term finance for accelerated development of the Nigerian economy. Okigbo (1981:129) recognizes the need to create institutions that could undertake or promote investments where the private sector inspired by private gain, might for the moment be reluctant to go into. He finds the answer in the creation of development institutions to provide funds for direct investment on medium and long term basis, or for assisting private initiative or providing technical assistance and supporting services in any sector of the economy.

In Nigeria, a number of financial institutions have been set up based on these principles. We shall briefly examine some of them, notably NIDB, NBCI, and NACRDB.

Rationale or Basis for Establishing Development Banks

(a) To plug the gaps in the financial system owing to inadequacy of commercial banks' services that are rarely concerned with long term capital financing. It is also the determination and involvement of CBN to bridge this gap through establishment of Development Banks.

(b) As a recognition at the domestic level of the importance of International Development banks, such as World Bank and International Development Association, Development Banks at National level are therefore, established to investigate, undertake or finance projects, which require more local knowledge and patronage than internal finance.

(c) As catalysts for development by financing small, independent manufacturing and industrial enterprises, etc, in order to promote speedy industrial expansion (Nwankwo, 1980).

Development Banks are creatures of government, and do not emerge on their own. They are financed by government through CBN, but also do obtain loans from institutional lenders such as Banks and Insurance companies, and other external sources.

The Nigerian Industrial Development Bank (NIDB)

NIDB was established in 1964; the bank is fully owned by the Federal Government and the Central Bank of Nigeria (CBN).

FUNCTIONS

(a) It provides medium and long term finance to industrial establishments both in private and public sectors and to render technical, financial and managerial assistance to industry.
(b) Identifies investment bottlenecks in the economy with a view to determine investment priorities.

(c) Promotes project developments.
(d) Provides technical, financial and managerial advice to indigenous enterprises.
(e) Supervises the implementation of projects financed by it through requesting project reports and visiting sites.
(f) Nominates technical and managerial advisers to industrial organizations.
(g) Fosters the development of capital market in Nigeria by encouraging borrowers to list their shares in the stock exchange.
(h) Serves as channel for bringing into Nigeria investible funds from international organizations.

The Nigerian Bank for Commerce and Industry (NBCI)

The bank was set up partly in reaction to the criticism against NIDB for favouring foreign dominated enterprises in its loan policy. It is also partly to cater for needs of the newly indigenised businesses for medium and long term funds that the NBCI came on broad by Decree No 22 of 1973. Unlike the NIDB which started off with foreign and Nigerian equity interests, the NBCI took off as a wholly-owned Nigerian public sector organization to attend chiefly to the interests of Nigerian indigenous investors.

The principal functions and powers of the bank as defined by section 2 of the NIDB Decree are as follows:

i. To provide equity and funds by way of loans to indigenous persons, organizations, institutions, for medium and long term investment in industry and commerce at such rates and upon such terms as may be determined by the Board in accordance with the policy directed by the Federal Executive Council.
ii. To engage in all aspects of merchant banking, particularly confirmation of bills and obligation to third parties, acceptance and discounting bills.
iii. To underwrite stocks, shares and debentures issued in furtherance of the policy of the government.

iv. To purchase and sell stocks quoted on the Nigeria Stock Exchange and its branches nationwide.
v. To provide guarantees including letters of credit.
vi. To accept term deposits from the public, financial institutions, trust funds, post office and other bodies.
vii. To provide chequing facilities for its customers.

With time, the scope of the bank's functions were widened to take on in addition to those outlined above, the provision of venture capital and funds for acquisition and investment in basic development (shopping centers, warehouses, grain silos etc).

As with NIDB, to attract NBCI financing, there must be evidence of viability, sound management, good prospects for profit, among other criteria. However, both NIDB and NBCI were recently converted to Bank of Industry (BOI). It has been performing the duties of NIDB and NBCI very well since conversion. Students are advised to visit branches of BOI to find out more about their operations.

The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) Ltd.

The birth of the Nigeria Agricultural, Cooperative and Rural Agricultural Development Bank (NACRDB) Limited as the single largest development finance institution in Nigeria followed the successful merger of the former People's Bank of Nigeria (PBN), the defunct Nigeria Agricultural and Co-operative Bank (NACB) Ltd. and the risk assets of the Family Economic Advancement Programme (FEAP) in October, 2000. Thus, NACRDB is dedicated primarily to agricultural financing at both the micro and macro levels, as well as micro financing of small and medium scale enterprises. The Bank is a registered limited liability company that is wholly owned by the government of the Federal Republic of Nigeria with the share capital fully subscribed by the Federal Ministry of Finance Incorporated 60% and the Central Bank of Nigeria, 40%. The Bank's broad mandate encompasses savings mobilization and the timely delivery of affordable credit to meet the funding requirements of the teeming

Nigerian population in the agricultural sectors of the national economy.

FUNCTIONS OF NACRDB

- Providing all classes of agricultural loans for farming, livestock, poultry and fisheries etc;
- Developing the economic base of the low income groups through the provision of loans to small scale enterprises, such as bakers, hair dressers, petty traders etc;
- Accepting savings from individuals and co-operative societies and making repayments of such savings, together with appropriate interests;
- Encourage the formation of co-operatives;
- Engendering good banking habits amongst Nigerians, especially the target group;
- Encouraging capacity building through the training of beneficiaries on proper loan utilization, repayment, savings and the formulation of strategies for the profitable marketing of products.

CONCLUSION

We conclude that a Merchant Bank is a wholesale bank, accepting deposits in large amounts, and providing mainly medium and long-term loans to large companies, being its major customers. Development banks are established specifically to aid the development of some specific sectors of the economy, such as agriculture, industries etc.

Introduction of Universal Banking in Nigeria

Reforms in the banking and finance industry came to a climax on 31st December 2000, when the Governor of the Central Bank of Nigeria released guidelines for the practice of Universal Banking in the country. The guidelines introduced some radical changes which narrowed the gap between banking and insurance business.

In view of the guidelines, a single uniform licence was being issued to all conventional banks desirous of practicing, Universal

Banking without delineation as to 'commercial' or 'merchant' bank, after returning the licence to Central Bank of Nigeria (CBN) for cancellation. Consequently merchant banks officially ceased to operate as such; they now became Universal Banks. Non-conventional banks, like Development Bank, Micro-Finance Banks and other specialized financial institutions however continued to perform their traditional roles.

Nigeria Deposit Insurance Corporation (NDIC)

The NDIC is an autonomous body which acts as an additional supervisory authority over licensed banks. The corporation not only provides financial guarantee to depositors but also ensures that banks comply with regulations and practices that foster safety and soundness in the market place.

The corporation successfully commenced operation in March, 1998 after being guided and expertly advised by the United States Federal Deposit Insurance Corporation (FDIC), immediately before and after take off. The FDIC not only offered the corporation attachment training facilitates, but also paid an assessment mission to Nigeria to assess where the NDIC would need technical assistance without cost.

Its authorized share capital was One Hundred Million Naira (₦100m), out of which fifty million naira (₦50m) has already been called up and paid up by the subscribers. The CBN and Federal Government have their ownership of 60% and 40% respectively.

To further boost the activities of the corporation as well as its independence, the Government in its 1997 budget announced the independence of the NDIC from the CBN. To that effect, where the corporation recommends to the CBN the revocation of a license of a bank and no response is received within thirty (30) days from the date of recommendation, the NDIC can liquidate the bank (section 23c) (2) NDIC (amendment) Decree 1997).

However the relationship between the CBN and NDIC still remains that of a principal and its agent.

The Role of NDIC in the Banking Industry

Section 5 of the NDIC Decree No 22 of 1988 states its functions. These functions therefore, form the core of the role of NDIC and its activities in the Nigerian Financial System.

The major concerns of the NDIC are protection of depositors and the safety of the banking system. These derive from its core function of "insuring all deposit liabilities of licensed banks and such other financial institutions operating in Nigeria". The other functions of NDIC include "guaranteeing payment to depositors in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount of ₦50,000 as provided in the Act" and "assisting monetary authorities in the formulation and implementation of banking policy so as to ensure sound banking practice and fair competition among banks in the country."

It is important to observe that although the NDIC interacts with banks in one form or the other, it is difficult to state in strict terms that it is involved in the direct regulation of banks. Indeed, Umoh (1996:6) admits that "as an insurer, the administrator of a deposit insurance scheme necessary becomes a supervisor, but not a regulator as it does not directly stipulate rules guiding the operations of insured institutions."

Functions of NDIC

In the exercise of its functions, the NDIC implements the following measures against banks in accordance with statutory provisions.

i. **Insurance of Deposit Liabilities of all Licensed Banks in Nigeria.** In return for this insurance, all insured banks pay mandatory annual premium which is calculated as 15/16 of 1% of a bank's total deposit liabilities excluding, insider deposits, counter claims from persons who maintain both deposits as may be specified from time to time by the board of the NDIC.

ii. **Financial and Technical Assistance to Insured Banks:** The corporation is expected to render assistance in the interest of depositors of banks faced with actual financial difficulties, as liquidity deficiencies and accumulated loss, which has nearly or completely eroded the shareholders funds, may approach the NDIC for assistance. So NDIC can render any or all of the following as assistance to a failing bank.

(a) Grant Loans
(b) Give guarantee for loans taken by the bank
(c) Subject to the approval of the CBN, take over the management of a bank until its financial position improves, or
(d) Arrange merger with other banks, etc.

iii. **Guaranteeing Payment to Depositors:** It is the job of the NDIC to play the role of undertaker when a bank fails. Incidental to this job is the payment of insured amount up to a maximum of N50,000 to depositors. In any circumstance where the corporation is liable to make payment, it will require proof of claims from all depositors by the courts of competent jurisdiction before making any payment of such claims. If the corporation funds it advisable in the interest of the depositors or the public, it shall appoint another insured bank to assume the insured deposits of the failed bank not later than three months after failure.

iv. **Assisting Monetary Authorities:** This function is demonstrated through assisting monetary authorities in formulation and implementation of banking policies so as to ensure safe and sound banking practices and fair competition. In this respect, NDIC is required to ensure that the insured banks comply with the provisions of all banking laws and regulations.

v. **Bank Supervisory Activities:** Supervision of insured banks remain an integral part of the mechanism of reinsuring safe and sound banking practice. In this regard, the corporation carries out off-site surveillance and on-site examination both of which are mutually reinforcing. The on-site supervision or examination provides opportunity for the organization to appreciate the financial health of, and inherent risks it has undertaken in insuring a particular bank or the entire banking system. This is ascertained through an analysis and evaluation of the banks' adequacy, asset quality, management, earnings and liquidity (CAMEL). Indeed, it is through on-site examinations that the NDIC verifies the authenticity of data it received via Returns rendered by banks. The off-site supervision also monitors the soundness, (ie. financial condition and performance) of a bank through statutory and prudential returns rendered to the NDIC from time to time. Using the returns, the NDIC may be able to discover areas of potential problems and thus take immediate steps to cause the bank to remedy the situation. Both on site and off-site supervision examinations are geared towards ensuring bank's compliance with regulations and laws.

vi. **Bank Receivership and Liquidation:** In 1994 and 1995, the corporation, under the appointment of the CBN, liquidated five (5) distressed banks. The corporation also successfully undertook the closing of the twenty six (26) distressed banks pursuant to its appointment as a provisional liquidator by the Central Bank of Nigeria in 1998. This brings the total number of banks liquidated to 31.

vii. **Claims Settlement and Administration:** This involves the processing, verification and settlement of claims filed by the proven depositors of the failed banks. This function also involve payment of liquidation dividends to uninsured depositors as well as the creditors of the closed banks consistent with the provision of the NDIC Decree 22 of 1988 (as amended). The corporation only provides funds for the payment of insured depositors from the insurance fund, while the liquidation dividend is paid from the sales of fixed (net proceeds) assets of the failed banks.

Essentials of Banking Regulation

In virtually all countries of the world, the banking industry is regulated more than any other sector. Banking is regulated from the cradle to the grave; indeed from pre-cradle since regulation commence with the processing of application precedent to licensing. Why is this so? What makes banking different from other activities?

One explanation is the uniqueness of banking. A bank is a financial institution that differs from other financial institutions in two crucial product areas. It offers demand or transaction deposits with commercial lending rates. It is central to a nation's payments system and savings/investment process. This centrality in the economic system singles banking out for much heavier regulation than any other activity, (Johnson and Johnson, 1987).

In performing their traditional functions, banks are expected to ensure prudent management of assets and guarantee the safety of depositors' fund. They are expected to adhere strictly to safe and sound banking practices to prevent incidence of fraud, forgeries and other financial malpractices to ensure stability and public confidence in the system. Here lies the concern of the regulatory bodies and hence the need for bank regulation by the regulatory and supervisory authorities.

In brief, regulation of banking evolved to serve many goals which include the following:-

i. **Protection of Depositors**

The most basic reason for bank regulation is depositor's protection. Bank depositors have difficulties in protecting their interest when compared to bank creditors or investors. Given the increased number of banks in the system, the shift in government's bank support policy, and the bitter experience of prior bank failures in the country, the need for regulation to protect depositors thereby become rather imperative.

ii. **Monetary Stability**

Bank regulation promotes financial stability by encouraging a flexible banking system that can always meet the public's transaction needs and by discouraging banking practice whose stability could lessen or prevent the occurrence of banking panics and their disruptive effects on the economy, and thus be linked with goals of depositor protection.

iii. **Efficient and Competitive Financial System**

One aspect of good banking is that customers are provided with services at competitive prices. One of the purposes of banking regulation therefore is to create regulatory framework that encourages efficiency, and competition. Competition is a vehicle for achieving efficiency and since in a competitive banking system banks are forced to operate efficiently if they are to keep their customers and to remain in business.

iv. **Consumer Protection**

Another goal of regulation of banking is to protect consumer interests in certain aspects of banking relationship. Broadly interpreted, these objectives, could encompass most banking regulations as well as legal protection generally given to all customers. It could thus include regulations designed to protect depositors and any person who wishes to transact business with any bank, irrespective of being a banks' customer or not. In short, regulation of banking protects both customers and non-customers alike.

(c) ROLE OF MICRO-FINANCE BANKS (MFBS) IN ENTREPRENEURSHIP DEVELOPMENT

Micro-Finance Banking Potentialities for Poverty Reduction

Introduction

The growing awareness of the potential of Micro-Finance in poverty alleviation (or reduction), economic growth, national development and empowerment of the populace, has effectively put the issue of Micro-Finance Schemes on the political and economic agenda of most developing countries – Nigeria inclusive.

Access by the poor to financial services enables them to have control over factors of production; and so,

- it enables them to become self-reliant, and generate employment.
- it enhances household incomes; and wealth creation.

Micro-Finance is the provision of financial services to the poor (or active poor), and those who are traditionally not served by the conventional financial institutions, i.e. the banks.

According to a Central Bank of Nigeria's publication titled "Micro-Finance, Regulatory and Supervisory Framework for Nigeria," December 2005, it states that . . ."in Nigeria, the formal financial system provides services to about 35% of the economically active population, while 65% are served by the unregulated financial sector. Micro-Finance Institutions have not been able to adequately address the gap in terms of credit, deposit mobilization and other services."

It is thus quite clear that robust economic growth in Nigeria cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people, ie. the less privileged, active poor, widows, unemployed school-leavers, graduates, and retrenched people, etc. Economic empowerment could be achieved by increasing their access to factors of production, especially through availability of credit facilities for their subsistence and productive purposes.

ORIGIN AND JUSTIFICATION FOR ESTABLISHMENT OF MICRO-FINANCE BANKS

According to Central Bank of Nigeria's publication titled, "Micro-Finance Policy, Regulatory and Supervisory Framework (2005), "an appraisal by the Central Bank of Nigeria (CBN) of existing micro-finance oriented institutions in Nigeria revealed the following important disclosures:

(i) there is weak institutional capacity;

(ii) existence of weak capital base;
(iii) the existence of huge un-served markets;
(iv) economic empowerment of the poor, employment generation and poverty reduction are not properly addressed.;
(v) non utilization of 10% SMEEIS funds dedicated to Micro-Finance was equally observed;
(vi) it was in an effort to tackle the observed lapses highlighted above that led the Central Bank of Nigeria into issuing the Micro-Finance Policy, Regulatory and Supervisory Framework of 2005, which also heralded the emergence of Micro-Finance Banks in Nigeria.

THE SPECIFIC OBJECTIVES OF THE MICRO-FINANCE POLICY ARE AS FOLLOWS:

(i) To make financial services available to a large segment of the potentially productive Nigerian population;
(ii) To promote synergy and mainstreaming of the informal sub-sector into the national financial system;
(iii) To enhance service delivery by Micro-Finance Institutions to micro-small and medium entrepreneurs (MSMEs).
(iv) To contribute to rural transformation (into viable economic centers);
(v) Promote linkage programmes between Universal Development Banks, specialized institutions and Micro-Finance Banks.

TARGETS

Based on CBN's objectives, the targets of Micro-Finance Policy are as follows:

- To cover the majority of the poor-but economically active population by year 2020 (i.e it is keyed into Vision 2020 Economic Programme);
- To increase the share of micro-credit finance as a percentage of total credit to the economy;
- To promote participation of at **least two thirds** of the states, and local governments in micro-credit financing by 2015.
- To eliminate gender disparity by empowering women's access to financial services by 2015.

- To increase the number of linkages among Universal Banks, Development Banks, specialized financial institutions, and micro-finance institutions and Micro-Finance Banks by 10% annually.

Judging from the specific objectives of CBN's micro-finance policy, and the targets to be achieved, it could thus be observed that the policy guidance zeros into Vision 2020 Economic Programme of the Federal Government as demonstrated above. It will also be observed that both the states and local governments have definite roles to play in micro-credit finance delivery. Specifically, under **targets**, the CBN's Micro-Finance Policy stated categorically that it intends to "promote participation of at least two-thirds of the states and local governments in Micro-Credit Financing by 2015". The question now is – how can state and local governments participate effectively in micro-credit financing by 2015 if they fail to establish Micro-Finance Banks in their respective domains now? The answer to this important question, and the next about how "to cover the majority of the poor but economically active population by 2020" shall be provided in this chapter.

Note that at the moment there are only 850 (Micro-Finance Banks) MFBs operating in Nigeria, according to CBN's Micro-Finance Newsletter. How many MFBs were established by the states and local government councils as directed through CBN's directives under "objectives and targets of the micro-finance policy" quoted above, titled "targets?" The answer is that no Micro-Finance Bank (MFB) has been set up by either state governments or local government councils in Nigeria.

2. ORIGIN OF MICRO-FINANCE BANKS IN NIGERIA

By now, everyone must have caught a glimpse of the origin of Micro-Finance Banking system which is simply described as "the act of providing financial services to the active poor (or under – served), and less-priviledged people, who are traditionally not served by the conventional financial institutions or banks."

The idea of Micro-Finance Banking however originated as a result of government's desire to provide financial services to the poor, un-employed school leavers and graduates, retired and retrenched people, entrepreneurs, traders, women, etc.

Three major features distinguish Micro-Finance Schemes from other formal financial products, namely:-

(i) The smallness of loans obtained (or advanced), and savings collected.
(ii) Absence of assets-based collateral; and
(iii) Simplicity of its operations, etc.

The former Governor of Central Bank of Nigeria, Prof. Chukwuma Soludo, amply justified the establishment of Micro-Finance Banks in Nigeria when he launched Micro-Finance Banking System, by stating that …"the main aim of setting up Micro-Finance Banks is the economic empowerment of the poor, employment generation; and poverty alleviation of the less-priviledged people. Micro-Finance Banking is about providing financial services to people who are traditionally not served by the conventional banks."

Features of Micro-Finance Banks are as follows:

(i) The smallness of loans advanced are between ₦5,000.00 to ₦500,000.00 per person or Co-operative Society.
(ii) The absence of asset – based collateral; and
(iii) The simplicity of operations, and savings collected".

From the above-stated submission, it could thus be seen that the regulators of the Nigerian Financial System are tacitly behind the establishment of Micro-Finance Banks (MFBs), having realized its efficacy as an avenue for the country's rapid economic development. It thus behoves on all Nigerians to ensure the quick realization of this dream by setting up MFBs, and patronizing them accordingly.

3. NECESSITY AND INCENTIVES FOR SETTING UP MICRO-FINANCE BANKS

It is in a bid to alleviate (or reduce) poverty in the country, and for the provision of financial services to the poor, the under-served and less-privileged that prompted the Central Bank of Nigeria into approving the establishment of Micro-Finance Banks in Nigeria. The federal government of Nigeria actually borrowed the idea of Micro-Finance Banking system from some Asian countries, namely:- India, Indonesia, Thailand, Bangladesh, Malaysia etc. The Nigerian authorities observed that MFBs have been effectively used to reduce poverty, (or wiped it out completely in those countries), hence its introduction into the Nigerian Financial System as a panacea for economic development. Micro-Finance Banking has actually enhanced the economic boom being enjoyed by these Asian countries now known as "Asian Tigers", as a result of their respective countries' financial and economic muscle.

According to CBN's Micro-Finance Policy Framework for Nigeria (2005), the following advantages shall accrue to those who establish Micro-Finance Banks in Nigeria:-

- Access to the State and Local Governments' funds to be established with 1% of their annual budgets;
- Access to the National Micro-Finance Development Fund;
- Deposits of MFBs are to be insured by Nigeria Deposit Insurance Corporation (NDIC);
- Access to additional funding through linkage programmes with other banking institutions;
- Access to re-financing and re-discounting facility (RRF) of the Central Bank of Nigeria;
- Access to 10% portion of Small and Medium Enterprises Equity Investment (SMEEIS) funds, set aside for Micro-Finance Institutions;
- Access to the Agricultural Credit Guarantee Scheme Fund (ACGSF) of the Central Bank of Nigeria.

Regarding the proposed establishment of a Micro-Finance Sector Development Fund, CBN's Micro-Finance Policy Framework states as follows:-

*"In order to promote the development of the sub-sector, and to provide for the wholesale funding requirements of MFBs, **a Micro-Finance Sector Development Fund** shall be set up. The fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building and other promotional activities. The fund would be sourced from government and through soft loans and facilities from international development finance institutions, as well as multilateral and bilateral development institutions."*

Investigations however reveal that CBN is yet to actualize or implement any of the "incentives" promised operators of Micro-Finance Banks listed above. Perhaps, CBN needs to be reminded of its obligations and incentives to MFB operators, to enhance their operations and further stabilize the banking sector as it has observed in the case of the "Asian Tigers".

However, the present Governor of the Central Bank of Nigeria could actually write his name in **letters of gold**, by firmly ensuring the establishment of Micro-Finance Banks and applying CBN's Micro-Finance Policy Framework for Nigeria (2005), if the country ever hopes to achieve its goal in Micro-Credit Financing by 2015, and also Vision 2020 for Nigeria. More than 95% of CBN's Micro-Finance Policy Framework for Nigeria (2005) has not been implemented by CBN, hence MFBs collapse ever so often. The MFB operators should not be blamed but CBN for failure to play well its part.

LICENSING OF MICRO-FINANCE BANKS

(a) **Categories of MFBs**

According to CBN's Guidances, Micro-Finance Banks licensed to operate as **Unit Banks** shall be **Community-based**, and can open branches and/or Cash Centres in line with prescribed prudential guidelines and requirements. Minimum paid-up Capital shall be ₦20 million for each branch. Secondly, Micro-Finance Banks licensed to operate in a state (also known as **State Micro-Finance Banks)**, shall be authorized to operate in all parts of the state (or Abuja FCT) in line with prescribed prudential requirements. Its minimum Paid-Up Capital shall be ₦1 billion only.

(b) **Licensing Requirements**

Any promoter(s) seeking a license for a Micro-Finance Bank (MFB) business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria for either of the two categories of licences available for promoters. A copy of the application letter shall be presented to Corporate Affairs Commission Abuja before a Micro-Finance Bank shall be registered by CAC.

Application and Licensing Fees: The application and licensing fees, which may be varied at the instance of the CBN shall be as follows:-

Particulars	**Unit MFB**	**State MFB**
(a) Paid-up Capital	₦20 million	₦1, billion
(b) Non-Refundable Application Fee	₦100,000.00	₦250,000.00
(c) Change of Name fee (if desired)	₦20,000.00	₦50,000.00

A MFB requiring to convert its licensing status shall be required to pay the applicable non-refundable licensing fee. The same applies to change of name, if desired by a MFB at anytime.

CONCLUSION

Apart from the Corporate Affairs Commission, Banks etc the other establishments which provide support to entrepreneurs, are:

(i) **The NACCIMA (Nigerian Association for Chambers of Commerce, Industry, Mines and Agriculture)** which has branches in most state capitals in Nigeria. As the name implies, it is a body made up of entrepreneurs, manufacturers, businessmen and women who meet regularly to work towards the improvement of their businesses and the Nigerian economy. They meet regularly to discuss ways and means of improving Nigeria's economy, and also present these proposals to both the State and Federal Government. Entrepreneurs should find out about NACCIMA in major Nigerian state capitals for further information.

(ii) **NASSI (National Association of Small-Scale Industrialists)**

The association was founded in 1978 as an umbrella organization for micro and small-scale industries in Nigeria. The micro, small and medium enterprises sector has two major categories: manufacturing and services sector. NASSI represents the manufacturing segment of MSEs (Micro and Small Enterprise); it has branches in all 36 states and Abuja with chapters in virtually all 774 local governments in Nigeria.

Students and entrepreneurs should find out where NASSI has its offices in the country, but they exist in most state capitals and some local government areas. Business interactions with NACCIMA, NASSI and other industrial/trade groups will surely be of great benefit to budding and already established entrepreneurs in Nigeria.

Revision Questions

(1) What are the main functions of the Corporate Affairs Commission (CAC)? Why is the Commission an important organ in entrepreneurial development of Nigeria?

(2) Define what a bank means, and state its function in business activities in our country today.

(3) Enumerate the differences between the Central Bank of Nigeria and Commercial Banks.

(4) Distinguish between Development Banks and Micro-Finance Banks. Enumerate the roles being played by each of them in the Nigerian economy.

(5) What role does the NDIC play in the Nigerian banking industry? Enumerate the main functions of NDIC, and why are they important in the Nigerian economy?

CHAPTER SIX

Various Forms of Business Ownership and the Role of Management in Enterprise Development

6.1 Functions of Management in an enterprise

Before discussing the functions of management in an enterprise, it shall be appropriate to first discuss the various forms of business ownership open to the entrepreneur which are as follows:-

(a) Sole Proprietorship

This is the simplest form of business ownership. The sole proprietorship, as its name implies, is a business owned and managed by one individual. Sole proprietorships make up the largest number of all businesses in most parts of the world, Nigeria inclusive. This is because, the business and the owner are one and the same in the eyes of the law.

Advantages of Sole Proprietorship are as follows:

(i) Simple to Create

One of the most attractive features of a sole-proprietorship is how fast and simple it is to begin. If an entrepreneur wishes to operate a business under his/her own name, the person simply registers the <u>business name</u> at the Corporate Affairs Commission office nearest to him/her.

For most entrepreneurs, it is possible to start a sole proprietorship in a single day; though in Nigeria most of them fail to register with the Corporate Affairs Commission.

(ii) Least Costly form of Ownership to begin

Apart from being easy to begin, sole proprietorship is generally the least expensive form of business ownership to establish. There is usually no need to create and file legal documents such as are required for partnership and other forms of business ownership, which were referred to in chapter five.

(iii) **Absolute Decision-making Authority**

Because the sole proprietor is in total control of operations, he/she can respond quickly to changes, which is an asset in a rapidly shifting (or changing) market. He/she has absolute freedom to direct the company's course of action which is a motivational advantage. Also, the freedom of fast flexible decision making process is vital. Many sole proprietors thrive on the control they have over their personal financial futures, and the recognition they earn as owners of their businesses.

(iv) **No Special Legal Restrictions**

Sole proprietorship is the least regulated form of business ownership. At a time when government regulation appears endless, this feature has much merit.

(v) **Easy to Discontinue or Wind-up**

If an entrepreneur (or sole proprietor) decides to discontinue operations, he/she can terminate the business quickly even though he or she will be personally liable for any outstanding debts and obligations that the business cannot pay for. No legal processes are involved when winding up the business for whatever reasons.

Disadvantages of Sole Proprietorship

Entrepreneurs considering sole proprietorship as a form of business ownership must be aware of the following disadvantages.

(i) **Unlimited Personal Liability**

The greatest disadvantage of a sole proprietorship is the **unlimited personal liability** of the owner; this means that the sole proprietor is personally liable for all the business's debts. Remember that in a sole proprietorship, the owner is the business. He/she owns all of the business's assets, and if the business fails, creditors can force the sale of these assets to cover the debts. If unpaid business debts remain, creditors can also force the sale of the proprietor's **personal** assets to recover payment. In short, the company's debts are the owner's debts. Creditors may equally file legal action against the sole proprietor for recovery of the business debts.

(ii) **Limited Skills and Capabilities**

The sole proprietor has total decision-making authority, but it does not mean that he/she has the range of skills that running a successful business requires. Every individual has areas of core competence, but the sole proprietor is, more or less, a 'jack of all trades'.

Many business failures occur because the owners lack the skills, knowledge and experience in areas that are vital to business success. Business owners tend to push aside problems they do not understand, or do not feel comfortable with, in favour of those they can solve easily. Unfortunately, problems they set aside cannot solve themselves, and they inevitably lead to business failure.

(iii) **Feelings of Isolation**

Running a business alone gives an entrepreneur maximum flexibility, but it also creates feelings of isolation sometimes, because there is no one to turn to for help when solving problems, or in getting feed-back on a new idea. Most sole proprietors will admit that there are times when they feel pressure of being alone, and fully responsible for every major business decision. Infact, learning what one needs to know about running a business can be very challenging, especially in areas in which an entrepreneur may have had little or no previous experience.

(iv) **Limited Access to capital**

If a business is to grow and expand, a sole proprietor often needs additional financial resources. A sole proprietorship is limited to whatever capital the owner can contribute and whatever money he/she can borrow. In short, sole proprietors find it difficult to raise additional money and maintain sole proprietorship. Most banks and other lending institutions have strict borrowing regulations which sole proprietors find difficult to meet, because most of them lack adequate collaterals, etc.

(v) **Lack of Continuity of the Business**

Lack of continuity is inherent in a sole proprietorship. If the proprietor dies, retires, or becomes incapacitated, the business automatically terminates, unless a family member or employee can take over. This means that the person is now a sole proprietor, but the business is in great jeopardy. If nobody is ready or willing to step in to run the business after the founder's death, creditors can petition the courts to liquidate the assets of the dissolved business to pay outstanding debts. It is a known fact that because people look for secure employment and opportunity for advancement, sole proprietorships often have trouble recruiting and retaining good employees.

Some entrepreneurs have found that forming partnerships is one way of overcoming the disadvantages of sole proprietorship. For instance, when one person lacks specific managerial skills or has insufficient access to needed capital, he/she can compensate for these weaknesses by forming a partnership with someone who possesses complimentary management skills, or money to invest in the firm.

(b) **Partnership Business**

A partnership is an association of two or more persons who co-own a business for the purpose of making profits. In a partnership, the co-owners (or partners) share the business' assets, liabilities, and profits according to the terms of a previously established partnership agreement (if one exists).

The law does not require a partnership agreement between partners, but it is wise to get a lawyer to draw the exact status and responsibility of each partner (also known as articles of partnership).

A **partnership agreement** is a document that states in writing the terms under which the partners agree to operate the partnership and it protects each partner's interest in the business. Every partnership should be based on a written agreement to become effective.

One business writer once remarked as follows: "when two entrepreneurial personalities are combined, there is a tremendous amount of strength and energy or synergy, but it must be focused in the same direction, or it will tear the relationship apart. A good partnership agreement will guide you through the good times, provide you with a method for handling problems, and serve as the infrastructure for a successful operation", according to Jacquelyn Lynn, "Partnership Procedures", business Start-Ups, June, 1996, page 73. When no partnership agreement exists, the Revised Uniform Partnership Acts (RUPA) governs partnership, but its provisions may not be as favourable as a specific agreement hammered out among the partners. Creating a partnership agreement is not necessarily costly, in most cases the partners can discuss their preferences for each of the provisions in advance. Once they have reached an agreement, a lawyer can then draft the formal document. Generally, a partnership agreement can include any terms the partners want, (unless they are illegal). A standard partnership agreement will likely include the following:-

1. Name of the partnership (or firm).
2. Purpose of the business.
3. Domicile of the business (or its principal office).
4. Duration of the partnership (where it is necessary).
5. Names of the partners and their addresses.
6. Contributions of each partner to the business, at the creation of the partnership and later.
7. Agreement on how the profits or loses will be distributed.
8. Provision for expansion through the addition of new partners.
9. Agreement on the distribution of assets in case of voluntary dissolution of the partnership.
10. Sale of partnership interest; it includes terms on how a partner can sell his/her interest in the business.
11. Salaries or allowances and expense accounts for the partners.
12. Absence or disability of one of the partners. If a partner is absent or disabled for an extended time, should the partnership continue or be terminated? What about dormant partner(s), if any; what happens to such?

13. Dissolution of the partnership; under what circumstances will the partnership dissolve? How will the assets of the business be valued for dissolution?
14. Alterations or modifications of the partnership agreement. No document is written to last forever. Partnership agreements should contain provisions for alterations and modifications. For more information on partnerships and other forms of business ownerships, students are advised to look for a standard textbook on the General Principles of Law. It could be purchased from any standard bookshop or bookstores; also one may read it in a standard library.

Figure 2 shows the characteristics of the major forms of business ownership, ie. sole proprietorship, General Partnership, limited partnership, corporation, and limited liability company. Students are strongly advised to study the characteristics of major forms of business ownership on their own in order to better assimilate the topic. This is an assignment for students and readers of this book in their own interest however.

6.2 Roles of a Manager in an Enterprise

Before delving into the roles of a manager, it is imperative to state here, that there is no complete agreement as to what constitutes the job of a manager in an enterprise or establishment. In fact, the nature of managerial tasks has been studied from different perspectives. For instance, economist writers tend to focus mainly on the **entrepreneurial** aspect of managing. Their main concern is **profit maximization**, innovation, risk-taking, and similar activities. Yet another group of writers emphasize **decision-making**, especially the kinds of decisions that cannot be easily programmed. An additional view of the managerial job draws attention to **leadership**, with emphasis on particular traits and managerial styles. Closely related to this approach is the discussion about **power and influence**; that is the leader's control of the environment and subordinates. Other writers focus their attention on the **behaviour of leaders** by examining the content of the manager's job. Finally, the approach favoured by Henry Mintzbert is based on observing the **work activities** of managers. It is interesting to observe that the extensive research of the literature by Mintzberg resulted in a grouping of management styles discussed under the title of Managerial Roles Approach. Essentially, his approach is to observe **what managers actually do**, and from such observations came to the conclusions as to what managerial activities (or roles) are.

From Mintzberg's research, and the research of others, he came to the conclusion that "managers really fill a series of ten roles" as shown in what he calls the Perspective: The Ten Managerial Roles Identified by Mintzberg are:-

(a) **Interpersonal Roles**

1. The figure head role (performing the ceremonial and social duties as the organization's representative).
2. The leader role.
3. The liaison role (particularly with outsiders).

(b) **Information Roles**

1. The recipient role (receiving information about the operation of an enterprise).
2. The dissemination role (passing information to subordinates.
3. The spokesman role (transmitting information to those outside the organization).

(c) **Decision Roles**

1. The entrepreneurial role.
2. The disturbance-handler role.
3. The resource-allocator role.
4. The negotiator role (dealing with various persons and groups of persons).

Looking at what managers really do can have considerable value. In analyzing their activities, an effective manager might wish to ascertain how working activities (or jobs) fall into the various fields of knowledge reflected by the basic functions of managers. Management science recognizes the basic functions of managers to be as follows:- Planning, Organizing, Staffing, Leading and Controlling. Students and readers are hereby advised to study this topic – “Functions of Managers” by procuring any standard textbook on Management because the topic is very important in Entrepreneurship (and Small Business). This book cannot effectively cover the topic much more than we have already done so far. (See Bibliography at the end of this book for recommended textbooks).

Figure 2

Characteristics of the Major Forms of Ownership

Characteristic	**Sole Proprietorship**	**General Partnership**	**Limited Partnership**	**Corporation**	**Limited Liability Company**
Definition	A for profit business owned and operated by one person	A for profit business jointly owned and operated by two or more people	One general partner and one or more partners with limited liability and no rights of management	An artificial legal entity separate from its owners and formed under state and federal laws	A business entity that provides limited liability like a corporation but is taxed like a partnership. Owners are referred to as members
Ease of Formation	Easiest form of business to set up. If necessary, acquire licenses and permits, register name, and obtain taxpayer identification	Easy to set up and operate. A written partnership agreement is highly recommended. Must acquire an Employer ID number. If necessary, register fictitious name.	File a Certificate of Limited Partnership with the C.A.C,. Name must show that business is a limited partnership. Must have written agreement, and must keep certain records.	File articles of incorporation and other required reports with the CAC, prepare bylaws and follow corporate formalities	File Articles and Memorandum of Association with CAC. The name must show it is limited liability company
Owner's Personal Liability	Unlimited	Unlimited for general partners, limited for limited partners	Unlimited for general partners, Limited for limited partners	Limited	Limited
Number of Owners	One	2 or More	At least one general partner and any number of limited partners	Any number	Limited

Tax Liability	Single tax: Personal tax rate	Single Tax: Partners pay on their proportional shares at their individual rates	Same as General Partnership	Double tax: corporation pays tax and share-holders pay tax on dividends distributed	Single tax: members pay on their proportional shares at individual rates
Transferability of Ownership	Fully transferable through sale or transfer of company assets	May require consent of all partners	Same as General Partnership		Usually requires consent of all members
Continuity of Business	Ends on death or insanity of proprietor or upon termination by proprietor	Dissolves upon death, insanity, or retirement of a general partner (business may continue)	Same as General Partnership	Perpetual life	Perpetual life
Cost of Formation	Low	Moderate	Moderate	High	High
Liability of the Owner's Investment in the Business	Poor to Average	Poor to Average	Poor to Average	High	High
Ability to raise capital	Low	Moderate	Moderate to High	Very High	High
Formation Procedure	No special steps required other than buying necessary licenses	No written Partnership Agreement (but it is advisable)	Must comply with CAC Regulations	Must comply with CAC Regulations	Must meet formal requirements specified by state law

Revision Questions

1. State the factors, which an entrepreneur should consider before choosing a form of business ownership.
2. Why are sole proprietorship very popular as a form of business ownership? State the disadvantages of sole proprietorship.
3. Why are Articles of Partnership very important to a successful partnership business? What issues should a Partnership Agreement address?
4. Discuss the “ten managerial roles” identified by Henry Mintzberg in his research work. What are the basic functions of managers as recognized in Management Science?

CHAPTER SEVEN
Strategies for Consolidation and Expansion of Business Enterprises, E-Commerce and the Entrepreneur

7.1 Strategies for Consolidation and Expansion of Business Enterprises

Some of the important strategies for consolidation and expansion of business enterprises are known as mission, goals and objectives. It is however imperative for us to start by looking at the company's **mission statement**.

(i) **The Mission Statement** is an important part of the entrepreneur's business strategy, which seeks to establish the fundamental goals for the quality of business they are offering. Mission Statements often represent the opportunity to answer the questions - "what business are you into?" and "why does your business exist?"

This may include questions about the value you offer and the role your customers, employees, and the owners play in providing value, and benefiting from that value. A mission statement is a critical element in defining the business, and communicating this definition to key stakeholders including investors, partners, employees, and customers.

The Mission Statement addresses another basic question of any business venture:- "what business are we in? Establishing the **purpose of the business in writing** must come first in order to give the company a sense of direction. "If you don't reduce (your company's) purpose to paper, it just does not stick" says the owner of an architectural firm. Reducing it to paper really forces you to think about what you are doing." "As an **enduring declaration** of a company's purpose, a mission statement is the mechanism for making it clear to everyone who the company touches, "why we are here" and "where we are going," concludes Mr. Barrier Michael in The Nations Business, Sept., 1995, page 21.

Without a concise, meaningful statement, a small business risks <u>wandering aimlessly</u> in the market place, with no idea of where to go, or how to get there. A great mission statement sets the tone for the entire company and focuses its attention in the right direction.

Elements of a Mission Statement

A sound mission statement does not need to be lengthy in order to be effective. The three key issues which entrepreneurs and their employees should address as they develop a mission statement for their businesses include:-

(i) The **purpose** of the company: what are we in business to accomplish?
(ii) The **business** we are in: how are we going to accomplish that purpose?
(iii) The **values** of the company: what principles and beliefs form the foundation of the way we do business?

A mission statement is a very useful tool for getting everyone fired-up and heading for the same direction, but writing one is not an easy affair. Here are some tips for writing powerful mission statements:-

(i) **Keep it Short:** The best mission statements are just a few sentences long. If they are short, people tend to remember quicker.
(ii) **Keep it Simple:** Avoid using fancy jargon or slangs to impress outsiders – ie customers and suppliers. The first and most important use of a mission statement is inside a company.
(iii) **Know What makes your Company different from others:** Your competitors are trying to reach the same customers that you are trying to catch. So, a mission statement should address what is unique about your company and what sets it apart from the competition.
(iv) **Take a Broad view, but not too broad:** If a mission statement is too specific, it can limit a company's potential. Similarly, a mission statement is too broad if it can apply to any other company in the industry.

(v) **Get Everyone involved:** Although the entrepreneur has to be the driving force behind the mission statement, but everyone in the company needs to have the opportunity to have a voice in creating it. Expect to write several drafts before you arrive at a finished product. You may consult the experts for assistance in writing a worthwhile mission statement.

(vi) **Keep it Current:** Mission Statements can get stale over time. As business and competitive conditions change, so also should the company's mission statement. Make a habit of evaluating the mission of your company periodically so that it stays fresh.

Also, make sure that your mission statement reflects the values you hold dear in your business, because they are the foundation on which your company is built upon. Students are strongly advised to look out for the Mission Statements of many Nigerian companies, in order to appreciate what mission statements are all about.

7.2 Development of a Clear Vision for Consolidation and Expansion of Business Enterprises

A **vision** is the result of an entrepreneur's dream of something that does not yet exist, and ability to paint a compelling picture of that dream for everyone to see. It answers the question "where are we going", and "how do we get there".

Throughout history, the greatest political and business leaders have been **visionaries**. Whether the vision is as grand as Martin Luther King Jnr's "I have a dream" speech, or as simple as Ray Kroc's (of USA), the founder of Hilton Hotels world-wide and MacDonald's world famous fast food shops, etc. The purpose of these political and business leaders are just the same, ie. focus everyone's attention on the same target and to inspire them to reach it. Visions are future-oriented and touches everyone associated with the company, for instance, employees, investors, lenders, customers and the community. The vision is an expression of what an entrepreneur stands for, and believes in. Highly successful entrepreneurs are able to communicate their vision and their enthusiasm about that mission to those around them.

A clearly defined vision helps a company in four ways:

(i) **Vision Provides Direction:** Entrepreneurs who spelt out the vision for their company focus everyone's attention on the future, and determine the path the business will take to get there.

(ii) **Vision Determines Decisions:** The vision influences the decisions, no matter how big or how small, that owners, managers, and employees make every day in a business. This influence can be positive or negative, depending on how well defined the vision is.

(iii) **Vision Motivates People:** A clear vision excites and ignites people to action. People want to work for a company that sets its sights high, or one that is very progressive. Examples of such companies abound in Nigeria, please try to identify them.

(iv) **Vision allows for Perseverance in the face of Adversity**

Young companies, their founders, and their employees often face many hardships from a multitude of forces and sources. But, having a vision that serves as a company's "guiding star" enables people overcome some imposing obstacles.

Vision is based on an entrepreneurs values, according to Ken Blanchard, an author and consultant. He stated that "winning companies first emphasize values – the beliefs the business owner has about his employees, customers, quality, ethics, integrity, social responsibility, growth, stability, innovation, and flexibility. Managing by values – not by profits – is a powerful process".

Successful entrepreneurs build their businesses around a set of three to six core values, which might range from respect for the individual and innovation, to creating satisfied customers and making the world a better place. Indeed, truly visionary entrepreneurs see their companies' primary purpose as more than just "making money," but contributing to the growth and national development of the community, and Nigeria as a whole. This issue also brought the recent fad of Companies' Social Responsibility (CSR), especially where such companies operate. In conclusion, the best way to put the companies' values into action is to create a written mission statement that communicates those values to everyone that touches the company.

7.3 **E-Commerce and the Entrepreneur**

Electronic – Commerce (or E-Commerce) is relatively a new method of trading on goods and services through the Internet. It is an important development of the electronic age whereby people transact different kinds of businesses through the use of Internet Services, Cybercafe or the Web. This interesting new development is gradually gaining ground in Nigeria presently, with various examinations boards such as – WAEC, JAMB, Universities UMEs, and various examination bodies going on-line. Students and applicants for other examination now process their applications through the use of the Web or the Cyber-café which has become a visible sight in most Nigerian cities. This has offered new set of jobs to Nigerians in the ICT (Information and Communications Technology) sector of the economy. It is a very interesting and welcome development, because the Web or Internet has opened for Nigerians new job opportunities and fast reliable means of communicating with people within and outside Nigeria at high speed. However, despite this encouraging scenario, Nigeria is still at infant stage of E-Commerce as practised in some advanced countries.

For instance, in the United States of America, it is stated by experts that about 35% of Americans have never known a world without Internet access. For about 76.5 million of these Americans, going on-line is just as natural as turning on the television set or the micro-wave oven. But in Nigeria the awareness of the Internet and Usage of the Web is gradually catching on, especially among the people resident in urban centers.

The Web –a unique Medium for Entrepreneurs

Although the Web is a unique medium for creating a company, launching an e-business is not much more different from launching a traditional offline company. The basic drivers for a successful business set-up remain in place on the web, and the major business locations in town, especially for those who understand the method of using the Web. How a company integrates the Web into its overall business strategy determines how successful it will ultimately be. The following are some guidelines for building a successful e-commerce strategy for a small company:-

(i) **Focus on a Niche market:**

Rather than trying to compete head-on with the dominant players on the web, who have the resources and recognition to vanquish smaller competitors, many entrepreneurs find success serving market niches (or specific) market segments. Limited resources of smaller companies are usually better spent focusing on niche markets than trying to be "everything to everyone" ie. jack of all trade. The idea is to concentrate on serving a small corner of the market that 'giants' have overlooked.

Niches exist in every industry and can be highly profitable, given the right strategy for serving them. A niche could be defined in many ways, including geographical location, customer profile, product range, product usage, and many other sub-divisions of the market. Because of its pervasive reach and ability to tap large numbers of customers with a common interest, the Web provides an ideal mechanism for implementing a focus strategy suitable for e-commerce.

(ii) **Develop a Community of Loyal Customers**

On the Web, competitors are just a mouse click away. To attract customers and keep them coming back, E-companies have discovered the need to offer more than just quality products and excellent services. Many e-companies seek to develop a community of customers with similar interests, the nucleus (or central point) of which is their Web site.

Capitalizing on the internet or Web, these business owners are adding a **social component** to their web-sites, with the goal of increasing customers' loyalty by giving them the ability to interact with other like-minded visitors or experts to discuss and learn more about topics which they are passionate. E-mail lists, chat rooms, customer polls (like "what is your favourite sports drink")?; product ratings and reviews, blogs, guest books, and message boards are powerful tools for building a community of visitors at a site. This is because they give visitors the opportunity to have conversations about products, services and topics that interest then. Internet users frequently visit sites that embrace the social aspects of Web 2.0 and give them the opportunity to interact as part of a community with other customers and company employees.

Students and readers are strongly advised to pay frequent visits to Cybercafes, to acquaint themselves with proceedings in the Internet.

(iii) **Attract Customers by giving away free gifts or "freebees"**

One of the most important words on the Internet is "free". Many successful e-merchants have discovered the ability to attract visitors to their sites by **giving away something free**, and then selling them something else. One e-commerce consultant calls it "the cycle of giving away something, and then selling something," "the rhythm of the Web", according to Ralph F. Wilson, in "The Five Mutable Laws of Web marketing", in the magazine Web Marketing Today in USA, April 1st, 1999, pages 1 to 7.

(iv) **Make sure your Website says "Credibility"**

Online shoppers are very careful about businesses they patronize, especially with the prevalence of on-line fraud. In essence, many on-line shoppers do not trust websites because of the prevailing scare of on-line frauds. Unless a company can build visitors' trust in its Web-site, selling to them is virtually impossible.

Visitors begin to evaluate the credibility of a site as soon as they arrive on the site. The question on the minds of visitors are: does the site look professional? Are there misspelled words and typographical errors? Is the presentation of information fair and objective, or is it biased? There are many issues visitors look out for on a site before enjoying the sites credibility if any. Experience, they say, is the best teacher. So students are advised to visit Websites to have first-hand knowledge about the workings of a Web.

Revision Questions

(1) What do you understand by a company's mission statement? State reasons why companies need such statement to survive.

(2) Define the word Vision, and state reasons why vision is very essential in strategic management of organizations.

(3) E-Commerce is a bye-product of the ICT revolution. Elucidate on this statement.

(4) "The Web is a unique medium for the entrepreneur". Comment on this statement and give suggestions on guidelines for building a successful e-commerce strategy for a small company.

CHAPTER EIGHT
Feasibility Analysis, Pricing Strategies and Introducing a New Product

8.1 What is a Feasibility Analysis:

A feasibility analysis is the process of determining whether or not an entrepreneur's idea is a viable foundation for creating a successful business. Its purpose is to determine whether or not a business idea is worth pursuing. If the idea passes the feasibility analysis, the entrepreneur's next step is to build a solid business plan for capitalizing on the idea. If the idea fails to pass 'muster', the entrepreneur drops the move on to the next opportunity. He or she has so far not wasted valuable time, money, energy and other resources creating a full blown business plan; or worse, launching a business that would have failed because it was based on a flawed concept.

A feasibility study is not the same as a business plan; however, both play important but separate roles in the start-up process. A feasibility study answers the question:- should we proceed with this business idea? Its role is to serve as a filter, screening out ideas that lack the potential for building a successful business before an entrepreneur commits the necessary resources to building a business plan. A feasibility study is primarily an **investigative tool**. It is designed to give an entrepreneur a **picture of the market**, sales, and profit potential of a particular business idea. Questions such as the following should find answers in the entrepreneur's mind:- will a five-star hotel and recreational resort find adequate patronage in this locality? Will customers in this community adequately patronize a fast-food joint with a disco-club attached to it? Can we build the product at a reasonable cost and sell it at a price customers are willing and able to pay? Does this entrepreneurial team have the requisite ability to implement this business idea successfully? The questions are indeed endless in order to convince the entrepreneur on the viability of the proposed business venture.

It should be understood that a **business plan** is a planning tool for the transforming of an idea into reality. It builds on the foundation of the feasibility study, but provides a more comprehensive analysis than a feasibility study. It functions primarily as a planning tool by taking an idea that has passed feasibility analysis, and describing how to turn it into a successful business. Its primary goals are to guide entrepreneurs as they launch and operate their businesses, and also to help them acquire the finances needed to take-off the business.

Feasibility studies are particularly useful when entrepreneurs have generated **multiple ideas** for business concepts and must prune down their options to the "best choice". They enable entrepreneurs to explore quickly the practicality of each of several business ideas under consideration. Sometimes, the result of a feasibility study is the realization that an idea simply will not produce a viable business – no matter how it is organized. In other cases, a feasibility study shows an entrepreneur that the business idea is a sound one, but it must be organized in a different manner to become profitable.

8.2 Conducting a Feasibility Analysis

A feasibility analysis consists of three inter-related components, namely: (a) an industry and market feasibility analysis, (b) a product or feasibility analysis, and (c) a financial feasibility analysis. Note, the diagram below coincides with the circles drawn showing the elements of a feasibility analysis.

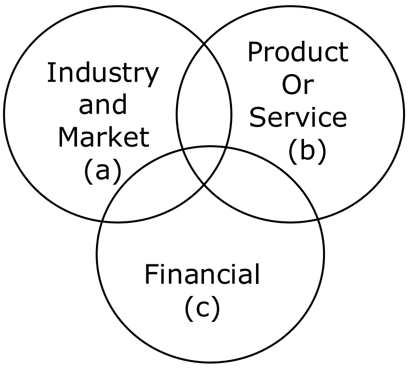


Fig. 3

(a) Industry and Market Feasibility Analysis

When evaluating the feasibility of a business idea, entrepreneurs find a basic analysis of the industry and targeted market segments to be a good starting point. The focus in this phase are two-fold, namely:- (i) to determine how attractive an industry is overall, for setting up a new business; and (ii) to identify possible niches (or particular groups) which this entrepreneur will serve. The first step in assessing industry attractiveness is to properly assess the industry from a "macro level", i.e taking a broad view of the industry itself by answering the following questions:-

(i) How large is the industry, and how fast is it growing?
(ii) Is the industry generally a profitable one?
(iii) Is the industry characterized by high profit margins, or razor-thin profit margin?
(iv) How essential are its products or services to customers?
(v) What trends are shaping the **industry's future**?
(vi) What **threats** does the industry face, and what **opportunities** abound in the industry?
(vii) How crowded is the industry, and intensity of competition?
(viii) Is the industry young, mature, or somewhere in-between?
(ix) What future prospects exist in the industry?

Addressing the above-stated questions help entrepreneurs determine whether or not the potential for sufficient demand for the products and services exist. A useful tool for analyzing an industry's attractiveness is the **five forces model** developed by Michael Porter of the Harvard Business School (see fig. 4). Five forces interact with one another to determine the setting in which companies compete and hence the attractiveness of the industry, as follows:-

(i) The rivalry among the companies competing in the industry;
(ii) The bargaining power of suppliers to the industry;
(iii) The bargaining power of buyers in the industry;
(iv) The threat of new entrants to the industry; and
(v) The threat of substitute products or services.

We now look at the issues one-after the other:-

(a) **Rivalry Among Companies Competing in the Industry**

Rivalry among industries, is the strongest of the five forces in most industries competing in a particular market. It is very much like horse-racing where several horses are racing at terrible speed, and each horse is jockeying for a better position in an attempt to gain a competitive advantage. Whenever a company creates an innovation or develops a unique strategy that transforms the market, competing companies must adapt, or run the risk of being forced out of the business. This force makes markets a dynamic and highly competitive place, but Management Consultants posit that an industry is more attractive when:-

(i) The number of competitors is large, or if they are quite smaller, (fewer than five)
(ii) Where competitors are not similar in size or capability.
(iii) Where the industry is growing at a fast pace.
(iv) Where opportunity to sell a differentiated product or service exist.

(b) **Bargaining Power of Suppliers to the Industry**

The greater the leverage that suppliers of key raw materials have, the less attractive is the industry. For instance, because they supply the chips that serve as "brains" of PCs (Personal computers) and because those chips make up a sizeable portion of the cost of a computer, chip makers such as Intel and Advanced Micro-Devices (AMD) exert a great deal of power over computer manufacturers such as Dell, Hewlett-Packard and Gateway. However, an industry is generally more attractive when:-

- Many suppliers sell a commodity or product to companies in it.
- Substitute products are available for the items that suppliers provide.
- Companies in the industry find it easy to switch from one supplier to another, or to substitute products (ie. assuming switching costs are low).
- When items supplied to the industry account for a relatively small portion of the industry's finished products.

(c) **Bargaining Power of Buyers**

Just as suppliers to an industry can be a source of pressure, buyers also have the potential of exerting significant power over an industry, thus making it less attractive. When the number of customers is small and the cost of switching to competitor's products is low, buyers' influence on companies is high. For instance, Wal-Mart, the largest company in the world which is famous for offering its customers low prices, is equally famous for applying relentless pressure to its 21,000 suppliers for price concessions which it always manages to get. Management Consultants in USA have averred that an industry tends to be more attractive under the following situations:-

(i) When industry customers' "switching costs" to competitors' products or to substitutes are relatively high.

(ii) The number of buyers in the industry is large.

(iii) When customers demand products that are differentiated, rather than purchase products that they can obtain from any supplier (thereby triggering fierce competition) among those producers which is capable of forcing down prices.

(iv) When customers find it difficult to gather information on suppliers' costs, prices, and product features – something that is becoming much easier for customers in many industries using the web.

(v) When the items which companies sell to the industry account for a relatively small portion of the cost of their customers' finished products.

(d) **Threat of New Entrants to the Industry**

New entrants to an industry can erode existing companies' share of the market profits. The larger the pool of potential new entrants to an industry, the greater is the threat to existing companies in it. This is particularly true in industries where entry barriers such as capital requirements, specialized knowledge, access to distribution channels, and other things are low. Generally speaking an industry is more attractive to new entrants when:-

(i) Advantages of economies of scale are absent. Economies of scale exist when companies in an industry achieve low average costs by producing high volumes of items, e.g (computers).
(ii) Capital requirements to enter the industry is low.
(iii) Cost advantages are not related to company size.
(iv) Buyers are not extremely brand-loyal, making it easier for new entrants to the industry to draw customers away from existing businesses.
(v) Government, through their regulatory and international trade policies, do not restrict new companies from entering the industry.

(e) **Threat of Substitute Products or Services**

Substitute products or services can turn an entire industry on its head. For example, many manufacturers of glass bottles have closed shops in recent years because their customers (soft drink makers) have switched to plastic containers, which are lighter, less expensive to ship abroad and less likely to break. Readership of printed newspapers has declined in developed countries because new generation of readers prefer on-line sources of news that are constantly being up-dated. Substitute products also impose an implicit price ceiling for existing products and services. However, an industry is generally more attractive when:-
(i) Quality substitute products are not readily available.
(ii) Prices of substitute products are not significantly lower than those of the industry's products.
(iii) Buyers' cost of switching over to substitute products is high.

Now, after surveying the power, which these five forces exert on an industry, entrepreneurs can then evaluate the potential for their companies to generate reasonable sales and profits in a particular industry before venturing into it. In others words, they can then answer the question, "is this industry a good home for my business?"

The next step in assessing an industry is to identify potentially attractive niches that exist in the industry. As already discussed earlier, many small businesses prosper by sticking to niches in a market that are too small to attract the attention of large (or big) competitors. Occupying an industry niche enables a business to shield itself to some extent from the power of the five forces mentioned above. The key question entrepreneurs address here is:- "can we identify a niche that is large enough to produce a profit; or can we position our company uniquely in the market to differentiate it from competition in a meaningful way?

Questions which entrepreneurs should address in this portion of the feasibility analysis include:-

(i) Which niche(s) in the market will we occupy?
(ii) How large is this market segment, and how fast is it growing?
(iii) What is the basis for differentiating our product or service from competitors?
(iv) Do we have a superior business model that will be difficult for competitors to reproduce?

In conclusion, it could be seen that companies and entrepreneurs can shield themselves from some negative impact of these five forces by finding a niche and occupying it in order to succeed.

8.3 **Pricing Strategies and Introducing a New Product**

There is a no limit to the number of variations in pricing strategies and tactics. This wide variety of options is exactly what allows the small business manager to be so creative. Pricing always plays a critical role in a firm's overall strategy; pricing policies must also be compatible with a company's total marketing plan and the image it plans to create in the market place.

Introducing a New Product

Most entrepreneurs approach the issue of setting the price of a new product with a great deal of apprehension because, they have no precedent on which to base their decisions. If the new product's prices is excessively high, it is in danger of failing because of low sales volume. Additionally, the company runs the risk of establishing the product's value at a low level. An American Management Consulting Firm, Mickinsey and Company claims that 80% to 90% of the pricing problem of new products are the result of companies setting prices that are too low. According to the Management Consulting firm, when pricing any new product, the owner or entrepreneur should try to satisfy the following three objectives:-

1. **Getting the Product Accepted**

No matter how un-usual a product way be, its price must be acceptable to a company's potential customers. The acceptable price range for a new product depends in part on the product's position in the market place. For instance, **revolutionary products** which are so new and unique require some investments by its producers in form of advertising and educating its users and consumers.

Evolutionary products offer upgrades and enhancements of existing products. The acceptable price range for such products should not be wide, as if it is for revolutionary products. Companies that introduce evolutionary products with many new features at prices that are too low, may initiate a price war.

Mee-too Products, as the name suggests, offer the same basic features as existing products in the market. The acceptable price range for these products is quite narrow, and many companies introducing them find themselves left with Mee-too pricing strategies that are the same or similar to those of their competitors. Examples abound in Nigeria, eg. detergents, noddles, soft drinks, beer, etc.

2. **Maintaining Market share as competition grows**

If a new product is successful, competitors will enter the market, and the small company must work to expand, or at least maintain its market share. Continuously re-appraising the products' price in conjunction with special advertising promotion techniques help to retain a satisfactory market share.

3. **Earning Profits**

A small business must establish a price for its new product that is higher than its cost. Entrepreneurs should not introduce a new product at a price below cost, because it is much easier to lower a price than to increase it once the product is on the market.

Pricing their prices too low is common and often a fatal mistake which new businesses usually make. Entrepreneurs are tempted to under-price their products and services when they enter a new market to ensure acceptance, or to gain market share quickly. However, doing so usually sets customers' value expectations at low levels as well, and that could become a difficult perception for the product to overcome in the market place. Management consultants insist that entrepreneurs have **three basic strategies** to choose from when establishing a new product's price, namely – a penetration pricing strategy, a skimming pricing strategy, and a life-cycle pricing strategy.

(a) **Market Penetration Pricing Strategy**

If a small business introduces a product into a highly competitive market in which a large number of similar products are competing for acceptance, the product must penetrate the market to be successful. To gain quick acceptance and extensive distribution in the mass market, entrepreneurs should consider introducing the product at a low price. In other words, it should set the price just **above total unit cost** to develop a wedge in the market and quickly achieve a high volume of sales. The resulting low profit margins tend to discourage competitors from entering the market with similar products. For instance in Nigeria, satchet or "pure-water" business has very little profit margin, so new entrants prefer to produce bottled or table water, which has comparatively higher profits. Few entrepreneurs now enter "pure water business" unlike previously as a result of low profit margins.

In most cases, a **penetration pricing strategy** is used to introduce relatively low-priced goods into a market where no elite segment and little opportunity for differentiation exists. And the introduction is usually accompanied by heavy advertising and promotion techniques, special sales and discounts. Students are however requested to be observant, especially when new products are coming into the market. It is interesting to observe the current advertising "war" going on in the noddles sub-market at present, as the new products strive to gain market penetration and acceptability. This trend is most likely to persist for sometime as the advertisement “battle” for market production intensifies.

(b) **Skimming Pricing Strategy**

This pricing strategy often is used when a company introduces a new product into a market with little or no competition, or to establish the company and its products/services as unique and superior to those of its competitors. Sometimes a business employs this tactic when introducing a product into a competitive market that contains an elite group that is able to pay a higher price than normal. Here, an entrepreneur uses a higher-than-normal price in an effort to quickly recover the initial development and promotional costs of the product.

Typical examples are Heineken and Gulder Beer, also called Gulder the Ultimate Beer which tie their beer to promotion of football. There are other products in this class, but these two are unique and worth specific mention. Even Star beer equally has its own marketing/advertising strategy, which revolve around young people, music and massive musical jamboree called “Star Jammz”. But the most interesting aspect is that the three brands of lager belong to Nigeria Breweries Plc; and they are not new in the market. Companies like Coca-Cola and Seven Up-Bottling Company are also into this marketing/advertising strategy. Students are advised to look out for other examples of what happens in the market place in order to bring home the realities of this course on entrepreneurship.

(c) **Life Cycle Pricing**

This is a variation of the skimming price strategy. Using this technique, the small company introduces a product into the market at a high price. Technological advances enable the firm to lower its costs quickly, and to reduce the product’s price before competition catches up with it. By beating other businesses in a price decline, the small company discourages competitors, and gradually over time, it becomes a high – volume producer. For instance, “high-definition – television” are a prime example of a product introduced at a high price that quickly went downwards. This is primarily because most television companies launched important technological advances and took advantage of economies of scale. When they were first introduced about eight years ago into Nigeria, they sold for about ₦100,000.00 each, but they now sell at much lower prices and through monthly subscriptions.

Also, MTN introduced GSM services. It sold GSM lines and handsets at exorbitant price when it first came to Nigeria ten years ago. But after a short while, MTN slashed its price to a low level when other GSM companies entered the Nigerian market with their products. With stiff competition GSM lines now cost less than ₦500.00 each, and variety of handsets equally sell cheaply.

Revision Questions

1. Describe the strategies a small business could use in setting the price of a new product. What objectives should the strategy seek to achieve?
2. What are the inter-related components of a feasibility analysis? What is the importance of feasibility analysis to an entrepreneur?
3. Define the "five forces model" developed by Michael Porter? What contribution did this model make to the small business enterprises?
4. What is a market niche? How are they identified and nurtured by the entrepreneur?

CHAPTER NINE

Activities of Different Industrial Associations in Relation to Entrepreneurs

Some industries and support agencies to entrepreneurs were already mentioned in Chapter Five, but now we need to touch on the activities of different Associations in relation to entrepreneurs, such as the following:-

(a) **SMEDAN**

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), was established by the SMEDAN Act of 2003 to promote the development of the MSME (Medium Small and Micro Enterprises) Sector of the Nigerian economy. SMEDAN remains committed to improving the lots of the Nigerian Small and Medium Enterprises/Entrepreneurs by efficiently performing its major statutory functions, which include the following:-

(i) **Information Provision:** The Agency knows that information is key to the success of any human endeavour, and thus provides most small-scale industrialists with the requisite information for their business growth, especially regarding the following – raw materials; modern and affordable technology and equipment; available markets (within and outside the country), and government regulations/legal requirements as they affect industrialists and entrepreneurs.

(ii) **Enterprise Development Services (EDS):** This encompasses training, which is a vital component of capacity building overlooked by industrialists, both for themselves and their personnel. The Agency also provides skills enhancement in vocational and entrepreneurship areas.

(iii) **Counselling and Mentoring:** The Agency equally gives one-on-one counseling to diagnose business challenges, and proffer possible appropriate solutions to issues facing entrepreneurs. With mentoring, fresh start-ups and existing small-scale entrepreneurs are linked to mentors in the same field to share motivational experiences and knowledge.

(iv) **Promotion of Networking and Clustering of Industries** are supported by SMEDAN to encourage competitiveness and sharing complimentary services by entrepreneurs.

(v) Advocacy and Improvement in Operating environment in partnership with others (i.e public-private, public-public). Policy development is aimed at ensuring a viable and supportive operating environment/climate for small business to thrive.

SMEDAN has continued through its various interventions to promote creativity and innovation within the MSME sub-sector to ensure that small-scale industries continue to leverage on existing opportunities and governments' pro-MSME stance, to enhance their performance.

(b) **RESEARCH AND DEVELOPMENT INSTITUTIONS**

Some of the R& D institutions and other governmental agencies and their mandates include:

S/N	Parastatals	Mandates
(i)	Raw Materials Research and Development Council (RMRDC)	To promote, support and expedite industrial development and self-reliance, through the optimal utilization of raw materials as inputs for the nations' industries.
(ii)	Federal Institute of Industrial Research (FIIRO), Oshodi, Lagos	Research and development into food processing, agro-allied, textiles, pulp and paper, design and fabrication of prototyped, micro-electrical and information services.
(iii)	Project Development Institute (PRODA), Enugu	Research into engineering design and fabrication, ceramic products, electrical and electronic products and

		energy including coal and scientific equipment.
(iv)	Sheda Science and Technology Complex (SHESTCO), Abuja.	To embark on research and development of advanced nuclear facilities for Nigeria as well as establish advanced research laboratories.
(v)	National Research Institute for Chemical Technology (NARICT) Zaria.	Carry out research and development work into processes for the conversion of solid minerals, petroleum and other agricultural raw materials into useful industrial chemicals, petrochemicals and polymers.
(vi)	Energy Commission of Nigeria (ECN), Abuja	To conduct research and to develop energy facilities for Nigeria, for ensuring adequate supply of energy at affordable costs and enhance our nations security.
(vii)	Nigerian Building and Road Research Institute (NBRRI)	Research into the use of local materials and methods in road and building construction.
(viii)	National Agency for Science and Engineering Infrastrcuture (NASENI), Abuja	To embark on the development of science and engineering material complexes for the production of basic tools and science and engineering materials.
(ix)	Small and Medium Enterprises Development Agency (SMEDAN)	To stimulate, monitor and coordinate the development of Micro, Small and Medium Enterprises (MSMEs) sector.
(x)	National Board for Technical Incubation (NBTI)	To provide institutional infrastructure and mechanisms for the development and commercialization of R&D outputs and innovations
(xi)	National Institute for	To coordinate research and

	Pharmaceutical Research Development, Idu (NIPRD)	development of all pharmaceutical natural products.

(c) **INFRASTRUCTURE AND SUPPORT SERVICES**

The government also encouraged the organization of SME Clusters Technology Business Incubators, Cooperatives and Industrial Estates as major industrial Policy tools.

SME Clusters

SME clusters are simply sectoral or geographic concentrations of enterprises producing related or complimentary products and are faced with common challenges. SMEs operating in clusters derive a clear advantage from:

- Proximity to sources of raw materials;
- Availability of business development services customized to their operations;
- The abundance of clients attracted by the cluster tradition in that industry;
- The presence of skilled labour force.

Once a cluster is established, there is ample opportunity for technology-related support to be streamlined in the state whenever it is established. There are industrial clusters and Business Incubators operating in Aba, Uyo and some other states of the Federation. Students should endeavour to find out locations of other SME clusters.

Revision Questions

1. Give a brief account of SMEDAN’s contribution to Nigeria’s entrepreneurial development.
2. What are the major functions being performed by SEMDAN to Nigeria’s SMES?

3. Elucidate on the functions of the following R and D institutions:- RMDC, FIIRO, PRODA and ECN.
4. What contributions are the following institutions making to Nigeria’s entrepreneurial development:- NASENI, NBTI and NIPRD.

CHAPTER TEN
BUILDING THE BUSINESS PLAN: MARKETING AND FINANCIAL CONSIDERATIONS

10.1 Building The Business Plan

As previously discussed in the book, creating a solid business plan improves an entrepreneur's chances of building a successful company. A <u>Business Plan</u> is a valuable document that defines:-

(i) what an entrepreneur plans to accomplish in both quantitative and qualitative terms;

(ii) how he or she plans to accomplish them. This plan consolidates many of the topics already discussed in preceding chapters, and together with this chapter it is meant to produce a concise statement of how an entrepreneur plans to achieve success in the market place.

This chapter now focuses on building two major components of every business plan, i.e the marketing plan and the financial plan.

(a) A Marketing Plan

Too often, business plans describe in great detail what the entrepreneur intends to accomplish (eg."the financials") and pay little, if any attention to the strategies for achieving those targets. Many entrepreneurs put too much effort and time into pulling capital together, people, and other resources to sell their products and services, but they fail to determine whether a profitable customer base even exist. It should be noted that a "marketing plan is a road map for doing marketing right", as espoused by Lucille Wesnofske, director of Small Business Development Centre in New York, as reported in Entrepreneur Magazine February 2008, pages 92-95.

To be effective, according to Lucille, "a solid business plan must contain **both a financial plan and a marketing plan**. Like the financial plan, a marketing plan projects numbers and analyzes them, but from a different perspective."

"Rather than focusing on **Cash Flow**, net income and owner's equity, a marketing plan concentrates rather **on the customer"**, concludes Lucille in the article quoted earlier.

This chapter is therefore devoted to creating an effective marketing plan, which is a sub-set of a total business plan. Before producing spreadsheets for financial projections, an entrepreneur must first determine the following important issues:

- what to sell, and to whom;
- how, and on what terms;
- at what price, and how to get the product or service to the customer.

In short, a marketing plan identifies a company's target customers and describes how the business will attract and keep them. Its primary focus is capturing and maintaining a competitive edge for a small business.

(b) **Building a Guerilla Marketing Plan**

Marketing, as we all know is the process of creating and delivering desired goods and services to customers, and involves all the activities associated with winning and retaining loyal customers. The "secret" to successful marketing is to understand your customers' demands and wants, before your competitors can; offer customers the products and services that will satisfy those needs, demands and wants. They also provide customers with service convenience, and value so that they will keep coming back.

Unfortunately however, there appears to be a sizeable gap between sound marketing principles and actual marketing practices among small businesses. A study of small company marketing practices by the National Federation of Independent Business of USA in 2008, reveal many serious weaknesses. For instance, the study reports that 55% of small business owners report that their companies do not need marketing because their products and services sell themselves. The unfortunate result is that most business owners devote little time, energy, and resources to marketing their companies. As a matter of fact, no product or service "sells itself", and insufficient marketing efforts are a common cause of small business failure all over the world.

The truth is that the marketing function cuts across the entire company, affecting every aspect of its operation – from finance and production to hiring and purchasing – as well as the company's ultimate success. As competition for customers become more intense, entrepreneurs must understand the importance of developing creative marketing strategies; their success and survival depend on it. A marketing plan is not just for mega (or big) corporations competing in international markets. Though they may be small, and cannot match their rivals' marketing budgets, entrepreneurial companies are not powerless when it comes to developing effective marketing strategies. By using what is called **"guerilla marketing strategies"**, i.e. – unconventional, low-cost, creative techniques, small companies can wring as much, or more "bang" from their marketing budget.

An effective marketing campaign does not require an entrepreneur to spend large amounts of money, but it does demand creativity, ingenuity, and an understanding of customers' **buying habits**. A Guerilla Marketing Expert, J. Conrad Levinson of USA, estimates that guerilla marketers spend between 4% and 8% of their sales on marketing, but they put their money into clear, creative marketing efforts that reach their target customers and raise the profile of their products, services, and companies.

(c) **A Seven-Sentence Guerilla Marketing Strategy**

Building a successful guerrilla marketing plan does not have to be complex. Guerrilla marketing expert J. Conrad Levinson says that entrepreneurs can create a guerrilla marketing plan by answering just seven sentences:

1. **What is the purpose of your marketing?** In other words, what action do you want customers or prospective customers to take as a result of your marketing efforts? Should they visit your store? Go to your company's Web site? Call a toll-free number for more information?

2. **What primary benefit can you offer customers?** In other words, what is your company's competitive advantage and what does it do for customers? Guerrilla marketers express their company's competitive advantage as a solution to a

customer’s problem, which is easier to market than just a positive benefit. Successful guerrilla marketing requires an entrepreneur to have a clear understanding of a company’s unique selling proposition (USP), a key customer benefit of a product or service that sets it apart from its competition.

3. **Who is your target market?** At whom are you aiming your marketing efforts? Answering this question often requires some basic research about your target customers, their characteristics, their habits, and their preferences. Guerrilla marketers know that broadcasting is old school; they realize that “narrow-casting” – focusing their marketing efforts on those people who are most interested in and are likely to purchase their goods and services - is much more efficient and effective. Most small companies have more than one target market; be sure to identify all of them.

4. **Which marketing tools will you use to reach your target audience?** This list should include only those tools that your company understands, knows how to use effectively, and can afford. The good news is that marketing tools do not have to be costly to be effective. In fact, guerrilla marketers are experts at using low-cost methods to market their companies.

5. **What is your company’s niche in the marketplace?** In other words, how do you intend to position your company against your competition? Guerrilla marketers understand that their markets are crowded with competitors, some of them much larger with gigantic marketing budgets that dwarf their own, and that finding a profitable niche to occupy can be highly profitable. Recall from Chapter 3 that many successful entrepreneurs position their companies in profitable niches. One insurance agent markets his agency as one that “specializes in serving the needs of small businesses.” SweetskinZ, launched in 1999, is a company that specialized in high –quality bicycle tires that feature full-color graphics

and patterns that are also reflective. The key is to carve out a position that allows your company to differentiate itself from all its competitors.

6. **What is your company's identity in the marketplace?** A company's identity is a reflection of its personality, its DNA. Small companies often have an advantage over large businesses when it comes to communicating their identities because of the interesting, unique stories behind their creation and the enthusiasm and passion of their founders. Customers enjoy doing business with small companies that have a clear, meaningful, and compelling identity in the marketplace. Southwest Airlines of USA built its businesses by attracting customers who were drawn to its fun-loving, somewhat irreverent culture and its reputation for taking care of its customers.

7. **How much money will you spend on your marketing; in other words, what is your marketing budget?** Entrepreneurs should decide how much they intend to invest in their marketing efforts, an amount that they usually express as a percentage of sales. The average company in the United States devotes four percent of its sales to marketing. Small companies should allocate a portion of their budgets to marketing; after all, it drives sales. The good news is that many of the guerrilla marketing techniques that small companies can use (and that are described in this chapter) are either low-cost or no-cost at all. When allocating their budgets, guerrilla marketers recognize the importance of putting their money where they will get the greatest "bang".

Answering these seven questions will give you an outline of your company's marketing plan. Implementing a guerrilla marketing plan boils down to two essentials:

1. Having a thorough understanding of your target market, including what customers want and expect from your company and its products and services.
2. Identifying the obstacles that stand in your way of satisfying customers (competitors, barriers to entry, processes, outside influences, budgets, knowledge, and others) and eliminating them.

Guerrilla Marketing Tactics

- Launch a loyalty program that gives customers a reason to return. Be sure to provide loyalty program members with benefits, such as special offers, discounts, shopping previews, and others.
- Reward existing customers for referring new customers to your company. When customers refer business to Choice Translating, a language translation company in Charlotte, North Carolina, they receive a special gift.
- Sell at every opportunity. One brewery includes a mini-catalogue advertising T-shirts and mugs in every six-pack it sells, orders for cataloging items are climbing fast.
- Develop a sales "script" that asks customers a series of questions to hone in on what they are looking for, and that will lead them to the conclusion that your product or service is IT!
- Sell gift certificates. They really boost your cash flow.
- Create samples of your product and give them to customers. You will increase sales later.
- Offer a 100 percent, money-back, no-hassles guarantee. By removing the customer's risk of buying, you increase your product's attractiveness.
- Create a "Frequent Buyer" Program. Remember how valuable existing customers are. Work hard to keep the customers you have! One coffee shop kept its customers coming back with a punch-card promotion that gave a free pound of coffee after a customer purchased nine pounds.

- Clip articles that feature your business and send reprints to customers and potential customers. Keep reminding them of who you are and why you're valuable to them.
- Test how well your ads "pull" with coded coupons that customers bring in. Focus your advert expenditures on those media that produce the best results for you.
- Create "tip sheets" to pass out to customers and potential customers – e.g. landscape tips on lawn maintenance.
- Find ways to make your product or service irresistible to your customers. One furniture company e-mails a digital photo of big-tick items customers are considering, and sales closing rates have climbed 25 percent.
- Create an award for your community – e.g landscape company presented a "best yard" award each season.
- Create a big event of your own: "January is Customer Appreciation Month. Buy one suit and get a second one at 50 percent off."
- Conduct a contest in the community – e.g a photographer sponsored a juried photo contest for different age groups. One restaurant that targeted the business crowd for lunch encouraged customers to leave their business cards (which gave the restauratuer the ability to e-mail them daily lunch specials) to enter a drawing for a free $50 iTunes gift card.
- Collect testimonials from satisfied customers and use them in ads, brochures, etc. Testimonials are one of the most effective forms of advertising!
- Purchase customized postage stamps that feature your company's logo (see PhotoStamps at http://photo.stamps.com) and use them on business correspondence.
- Get a former journalist to help you write a story "pitch" for local media.
- Show an interest in your customers' needs. If you spot a seminar that would be of interest to them, tell them! Become a valuable resource for them.
- Find unique ways to thank customers (especially first-time buyers) for their business – a note, a lunch, a gift basket…

- Give loyal customers a “freebie” of freegift occasionally. You might be surprised at how long they will remember it.
- Create a newsletter that features your customers or clients and their businesses – e.g, a photo of client using your product in his business.
- Cooperate with other businesses selling complementary products and services in marketing efforts and campaigns, a process called **fusion marketing**. Share mailing lists and advertising time or space, or work together on a special promotion.
- Use major competitors’ coupons against them. The owner of an independent sandwich shop routinely pulled business from a nearby national chain by advertising that he would accept its coupons.
- Market your company’s uniqueness. Many customers enjoy buying from small companies that are different and unique. The owners of the only tea plantation in the United States used that fact to their advantage in establishing a customer base.

Guerrilla Marketing Principles

The following twelve principles can help business owners to create powerful, effective guerrilla marketing strategies.

FIND A NICHE AND FILL IT

As you learned in Chapter 6, Strategic Management and the Entrepreneur, many successful small companies choose their niches carefully and defend them fiercely, rather than compete head-to-head with larger rivals. A niche strategy allows a small company to maximize the advantages of its size and to compete effectively even in industries dominated by giants by serving its target customers better than its competitors. Focusing on niches that are too small to be attractive to large companies is a common recipe for success among thriving small companies. “Finding unserved niches is an excellent way to begin **‘whipping’** the big guys, if not in their own back yard, at least on the same street,” says one marketing expert.

USE THE POWER OF PUBLICITY

Publicity is any commercial news covered by the media that boosts sales but for which a small company does not pay. Publicity has power; because it is from an unbiased source. A news feature about a company or a product that appears in a newspaper or magazine has more impact on people's buying decisions than an advertisement does. Exposure in any medium raises a company's visibility and boosts sales, and best of all, publicity is free! It does require some creativity and effort, however.

The following tactics can help entrepreneurs stimulate publicity for their companies.

(i) *Write an article that will interest your customers or potential customers*. One investment advisor writes a monthly column for the local newspaper on timely topics such as "Retirement Planning", "Minimizing Your Tax Bill," and "How to Pay for College." Not only do the articles help build her credibility as an expert, but they also have attracted new customers to her business.

(ii) *Sponsor an event designed to attract attention*. In 1982, Bob Bisbee, owner of a small fuel clock and fishing store in Newport Beach, California, USA, created a fishing tournament, "Bisbee's Black and Blue Tournament", (the focus was on marlin and blue marlin), in an attempt to boost sales for his business. Before long, the event was picked up by major media outlets. The public relation strategy was so successful that the fishing tournament, now one of the world's richest and best-known fishing events, has replaced Bisbee's original business! This is creativity in action.

(iii) Involve celebrates "on the cheap." Few small businesses can afford to hire celebrities as spokespersons for their companies. Some companies have discovered other ways to get celebrities to promote their products, however. For instance, when Karen Neuburger, owner of Karen Neuburger's Sleepwear of USA, learned that Oprah Winfrey is a "pyjama connoisseur," she sent the talk show host a pair of her pyjamas. The move paid off: Neuburger has appeared on Oprah's popular television

show on three separate occasions. This is also a smart business move.

(iv) *Contact local TV and radio stations and offer to be interviewed*. Many local news or talk shows are looking for guests to talk about topics of interest to their audience, (especially in January and February). Even local shows can reach new customers.

(v) *Publish a newsletter.* With a personal computer desktop publishing software, any entrepreneur can publish a professional-looking newsletter. Freelancers can offer design and editing advice. Use the newsletter to reach present and potential customers.

(vi) *Contact local business and civic organizations and offer to speak to them*. A powerful, informative presentation can win new business. (Be sure your public speaking skills are up to par first! If not, consider joining Toastmasters).

(vii) *Offer, or sponsor a seminar*. Teaching people about a subject you know a great deal about builds confidence and goodwill among potential customers. The owner of a landscaping service and nursery offers a short course in landscape architecture and always sees sales climb afterwards!

(viii) *Write news release and fax or e-mail them to the media.* The key to having a news release picked up and printed is finding a unique angle on your business or industry that would interest an editor. Keep it short, simple, and interesting. E-mail press releases should be shorter than printed ones – typically four or five paragraphs rather than one or two pages– and they should include a link to the company's Web site.

(ix) *Volunteer to serve on community and industry boards and committees*. You can make your town a better place to live in and work and raise your company's visibility at the same time.

(x) *Sponsor a community project or support a nonprofit organization or charity*. Not only will you be giving something back to the community, but you will also gain recognition and goodwill.

(d) **The Value of Market Research**

The changing nature of Nigeria's population, or any country's population for that matter, is usually a potent force altering the business landscape everywhere. Shifting patterns in age, incomes, education, race, religion, and other population characteristics (which are the subject of demographics), will have a major impact on companies, their customers, and the way companies do business with those customers. Businesses that ignore demographic trends and fail to adjust their strategies accordingly, run the risk of becoming **competitively obsolete**. On the contrary however, small companies that spot demographic trends early, and act on them, can gain a distinctive edge in the marketplace.

Basic Marketing Research

By performing some basic market research, some small business owners are able to detect key demographic and market trends. This is because every business can indeed benefit from a **better understanding** of its market, customers, and competitors. According to Roberta Maynard, A US-based Marketing Consultant, writing in "New Directions in Marketing" US Nations' Business issue of July 1995, page 26, she stated that, **"Market Research** is the vehicle for gathering the information that serves as the foundation for the marketing plan. Market information is just as much a business asset, and just as important as your inventory or the machine you use in your daily operations. It involves systematically collecting, analyzing, and interpreting data pertaining to a company's market, customers, and competitors. The objective of market research is to learn how to improve the level of satisfaction for existing customers and to find ways to attract new customers."

"It therefore follows that small companies cannot afford to make marketing mistakes, because there is little margin for error when funds are scarce and budgets tight. Small businesses simply cannot afford to miss their target markets, and market research can help them to zero-in on the **bull's-eye,"** according to Roberta Maynard.

How to Conduct Market Research

The goal of market research is to reduce the risks associated with making business decisions. It can replace misinformation and assumptions with facts. Opinions and hear-say are not viable foundations on which to build a solid marketing strategy. Successful market research consists of four definite steps as follows:- define the objective, collect the data, analyze and interpret the data, and draw conclusions.

Step One: Define the Objective

The first and most crucial step in market research is to define the research objective clearly and concisely. A common error at this stage is to confuse a symptom with the actual problem. For example, dwindling or falling sales is not a problem, but a symptom. To get to the heart of the problem, entrepreneurs must list all the possible factors that could have caused it. The entrepreneur should ask the following questions:

- Do we face new competition?
- Are salesmen impolite or not knowledgeable?
- Have customers' tastes changed?
- Is our product line too narrow?
- Do customers have trouble finding what they want?
- Is our web site giving customers what they want?
- Is it easy to navigate?

These are some relevant questions for the director to answer.

Step Two: Collect the Data

The marketing approach that dominates today is **individualized (or one-on-one) marketing**. This involves gathering data on individual customers and then developing a marketing programme designed specifically to appeal to their needs, tastes, and preferences. Companies following this approach know their customers, understand how to give them the value they want, and also know how to make tem feel special and important. The whole idea is to treat each customer as an individual, and the goal is to transform a company's best and most profitable customers into loyal, lifetime customers. Individualized marketing requires business owners to gather and assimilate detailed information about their customers. Big hoteliers adopt his method to woo big-time executives to their hotels.

Step 3: Analyse and Interpret the Data

The results of market research done do not provide a solution to the problem. Business owners must attach some meaning to them and ask the following questions:-

- What do the facts mean?
- Is there a common thread running through the responses?
- Do the result suggest any changes needed in the way the business operates?
- Are there new opportunities the owner can take advantage of?

There are no hard-and-fast rules of interpreting market research results; entrepreneurs must use judgement and common-sense to determine what the results of their research mean.

Step 4: Draw Conclusions and take Action

The market research process is not complete until the business owner acts upon the information collected. In many cases, the conclusion is obvious once a small business owner interprets the result of the market research. Based on an understanding of what the facts really mean, the owner must then decide how to use the information in the business.

For example, the owner of a retail shop discovered from a survey that his customers preferred evening shopping hours over early morning hours. So he made appropriate schedule adjustment, and sales began to rise higher than before as he paid serious attention to evening shopping.

10.2 **Pricing Strategies**

Pricing decisions cut across every aspect of a small company, influencing everything from its marketing and sales efforts to its operations and strategy. Price is defined as "the monetary value of a product or service in the market place; it is a measure of what the customer must give up to obtain various goods and services." Price is also a signal of a product's or service's value to an individual, and different customers assign different values to the same goods and services. From an entrepreneur's point-of-view, price must be compatible with customers' perceptions.

"Pricing is not just a maths problem, it is a psychology test," says Howard Scott, a Business Writer in "Nations Business Magazine" of USA, under an article titled "The Tricky Art of Raising Prices," February 1999, page 32. According to Scott, the psychology of pricing is an art, much more than it is science; because it focuses on creating value in the customer's mind but recognizes that value is what the customer perceives it to be. Entrepreneurs must determine prices for their goods and services that will draw customers and product profits.

Pricing Conveys Three Potent Forces: Image, Competition and Value

Because pricing decisions have such a pervasive influence on all aspects of a small company, one of the most important considerations for entrepreneurs is to **take a strategic** rather than a piecemeal approach to pricing their companies' products and services. A company's pricing strategy is a major determinant of **its image** in the marketplace. It is influenced by the pricing strategy of its competitors, and is an important element in the value that customers perceive its products or services to provide. The details are as follows:-

(i) **Price Conveys Image**

A company's pricing policies communicate important information about its **overall image** to customers. According to Per Sjofors, a pricing consultant, "pricing tells a story. For example, the prices charged by a posh men's clothing shop reflect a completely different image from those charged by a factory outlet, or store located inside a ghetto".

Customers look at prices to determine the type of store they are dealing with. High prices frequently convey the idea of quality, prestige, and uniqueness to customers. "People bring a whole set of equations with them when they make a purchase, and one of the values for most people is that high price equals quality," says Rob Docters, a pricing expert in his article titled, "Name Your Price," The Entrepreneur Magazine, September 2005, page 6.

Accordingly, when developing a marketing approach to pricing, entrepreneurs must establish prices that are compatible with what customers expect and are willing to pay. Sometimes, small business owners **underprice** their goods and services, believing that low prices are the only way they can achieve a competitive advantage. However, a study carried out by Copernicus of USA (a Consulting firm) found that only 15% to 35% of customers surveyed consider price to be the "chief criterion" when selecting a product or service. This assertion no doubt has a universal acknowledgement as experience has shown in the marketplace.

(ii) **Competition and Prices**

Small businesses face competition from local, foreign, and Web-based businesses. So, when setting prices, entrepreneurs should take into account their competitors' prices, but they should not automatically match or beat them. However, unless a small company can differentiate itself by creating a distinctive image in customers' minds or by offering superior service, quality, design, convenience, or speed, it must match its competitor's prices or risk losing sales. Before matching any competitor's prices, however, a small business owner should consider a rival's motive.

A competitor may establish its price structure on a unique set of criteria and a totally different strategy. However, blindly matching competitors' prices can lead a company to financial ruin, and companies that set prices this way typically do so because they perceive themselves in a position of strategic weakness. It could however be recalled that companies that execute a successful differentiation strategy can charge higher prices than those of their competitors.

Focus on Value

Ultimately, the "right price" for a product or service depends on one factor – ie the value that it provides for a customer. There are two aspects of value, however – (i) entrepreneurs may recognize the **objective value** of their products and services, which is the price customers are willing to pay for it if they understood perfectly the benefits that a product or service delivers to them.

Unfortunately however, few, if any customers can see a product's or services true objective value; instead, they see only its **perceived value**, which determines the price they are willing to pay for it. Research into purchasing decisions has revealed a fundamental problem that adds to the complexity of a business owner's pricing decision; ie. people faced with pricing decisions often act irrationally. Please note that value does not necessarily equate to low price. Businesses that under price their products and services, or run special discount price promotions may be short-circuiting the value proposition they are trying to build and communicate to their customers.

10.3 **Total Quality Management (TQM)**

Whatever the nature of the services under consideration, let us restate and remind ourselves that the major objective of most organizations is to remain profitable and survive.

In the fact of competition, only those organizations that retain their customers will stay afloat. Retention of customers again will assume that customers are satisfied. What is implied is that customer satisfaction is a central must, for all organizations whether they are profit – oriented or not. Total Quality Management (TQM) is a management concept that directs the effort of all employees and managers of an organization towards customer satisfaction by continuous improvement of operations and management processes.

Total implies that everyone in the organization (driver, cook, clerk, supervisor, manager, director, managing director) must be involved in producing the final product or services for the customer.

Quality means that the product or service to be delivered must meet the minimum acceptable standard (or exceed it through operations management).

Management suggests that TQM will not evolve by accident. Planned TQM is a **carefully planned and managed process** that involves the entire staff of an organization and its system.

In today's modern business environment, quality teaching can be traced to W. Edward Deming. In the 1940's, Deming was preaching quality of American firms but nobody seemed to listen to him. At the end of the Second World War, he was invited to Japan to help them improve quality. Today, the Japanese products are world class in quality.

Deming in his teachings listed 14 points which can improve total quality. These are:

1. Management commitment to total quality management (TQM).
2. Learn the new philosophy – **be customer driven**.
3. Understand the purpose of inspection – for improvement of processes and cost reduction.
4. End price tag decision – don't buy inferior products and also use few suppliers.
5. Improve constantly.
6. Institute training – proper tools and knowledge.
7. Institute leadership.
8. Drive out fear and punishment.
9. Optimize team efforts.
10. Eliminate exhortations – motivate staff.
11. Eliminate quotas and MBO (management by objectives)
12. Remove barriers to pride in workmanship.
13. Institute education – self development.
14. Take action always.

Dimension of Service Quality

For most of the time, the attention of operations managers must be directed towards the maintenance and improvement of service quality. It is for this reason that we seek to examine the various dimensions of service quality, such as the following:

(i) **Time**

How long does it take the customer, for instance, to cash a cheque in the bank, or buy an insurance policy.

(ii) **Completeness**

You sell draft to a customer but forget to write the amount of the draft in figures. This leads to the draft being dishonored at the paying branch of a bank.

(iii) **Courtesy**

Are your staff rude to your customers?

(iv) **Consistency**

Is your quality consistent? Or do you serve well today, and badly the next day?

(v) **Accuracy**

(a) Instead of debiting your customer with N100, you debit him/her with N1000.

(b) A customer pays for a comprehensive car policy. But you carelessly write a third-party policy for the customer.

(vi) **Mistakes**

(a) Your customer traveling to London requests for a telegraphic transfer to enable her spend her holidays. She leaves the bank and travels to London. You prepare a **mail transfer** which will take 2 weeks for the money to get to her account in London.

(b) A seven months pregnant woman is booked **Hernia Surgery**. The doctor now goes ahead to perform a **caesarian section** thinking it to be a case of foetal distress.

CONCLUSION

In this unit, we discussed managing service based on operations. We discussed operations management system and also the role of operations managers. We also discussed managing services through Total Quality Management (TQM) which is a carefully planned and managed process.

BUILDING THE WINNING TEAM

A. **Hiring great people**

Building the winning team requires more than just hiring a bunch of talented people. It means hiring people who will work well together.

i. It means developing a shared vision and commitment;
ii. It means physically bringing people together in formal group meetings for open discussion of broad – based issues;
iii. It means encouraging positive, informal interactions between group members;
iv. It means instilling a **"winning attitude"** throughout the organization;
v. It means watching out for, and quickly trying to reverse team-building problems such as jealousy, cynicism, and defensive behaviours.

To build the winning team, you not only need to show people what direction the company is going to, but you need to get them "buy into" this direction. Otherwise, you can not expect people to support a group if they do not agree with where it is headed or, worse, when they do not agree with where it is headed, or worse, when they do not know where it is headed.

B. **Specifically, you need to show people the followings:-**

i. Your vision for the future;
ii. Your strategy for getting there, and why it is the best strategy;
iii. Every achievement that indicates the team is winning.

This is not a one time discussion or announcement; you need to **constantly remind people** what the organization stands for; and that it does indeed hold a bright future for them.

C. **Meetings Build Teams**

Part of building the winning team is having some group meetings. Meetings, or even parties or celebrations, with as many people as possible from the entire organization, helps build a feeling of solidarity throughout the organization. But it is also important to have everyone participate in smaller group meetings where some work is done, or decisions are made. This makes people feel that they are not just part of some big group, but that they are an active, and important part of a team.

For key managers, or people in your work group, you should have an interactive meeting once a week. It is not a meeting where you just make announcements, and summarize the work that has been done, and needs to be done. But rather, it is a meeting where everyone has an opportunity to give feedback on substantive issues.

D. **Getting People to Work Together**

Perhaps the most difficult part of building a winning team is encouraging positive, informal interaction between team members when you are not present. Here are some thoughts on this:-

i. Allow team members to take part in the hiring process of new team members;
ii. Assign specific projects to two team members to work on together;
iii. Try to arrange for close proximity of offices for your staff;
iv. Create an incentive-pay-plan based on common goals, such as profitability.
v. Have a specific part of the salary review to be dependent upon "interaction with others."
vi. Take your team off-site for formal meetings as well as casual get – togethers to build a sense of bonding.

E. **Watch Out for Team Destroyers**

Here are some of the problems that can rip apart the team – building process:-

Jealousy: Be on guard for jealousy whenever a new member is hired into the group. Go out of your way to tell other team members how much their work is appreciated.

Cynicism: Some people are just negative persons by nature. Others might feel your organization cannot possibly prosper, or they do not just like small companies, big companies, or whatever. Be sure you are emphasizing the company’s positive achievements to the group as a whole. Do not hesitate to confront any openly cynical individual, and demand their behavioour change at once.

Lack of Confidence: Some people lack confidence themselves, and view attacks on their opinion as attacks on themselves. They respond with statements like …. “Are you telling me that my fifteen years of experience does not matter?” Stop any discussions like this immediately, and in a private one-on-one meeting, patiently point out the defensive behaviour which must not be allowed to linger on for the organization’s overall benefit.

Source: Business Town. Com. of USA

Revision Questions

1. Discuss the principles of building a guerilla marketing plan and explain the benefits of preparing one.
2. What is market research and how does it help an entrepreneur in building his/her business.
   Discuss the processes of conducting market research.
3. Discuss the role of market research in building a guerrilla marketing plan, and outline the market research process.
4. What do you understand by TQM?
   How does TQM philosophy assist entrepreneurs in their business?

CHAPTER ELEVEN

Creating a Successful Financial Plan

11.1 Importance of Preparing a Financial Plan

The act of fashioning a well-designed and logical financial plan is one of the most important steps to launching a new business venture. Entrepreneurs who fail to develop workable strategies for earning profits from the on-set, eventually will suffer the ultimate business penalty, i.e failure. Potential lenders and investors demand a realistic financial plan before putting their money into a start-up company. More importantly, a financial plan is a vital tool that helps entrepreneurs to manage their businesses more efficiently, thereby steering their way around the pitfalls that cause failures.

A proper **financial management** requires putting in place a system that provides entrepreneurs with relevant financial information in an easy-to-read format on a timely basis. It also allows entrepreneurs to know not only **how** their businesses are doing financially but also **why** their companies are performing that way. The information in a small company's financial records is one resource to which competitors have access, so, smart entrepreneurs recognize this and work very hard to utilize this resource and become more successful.

Unfortunately however, failure to collect and analyze basic financial data is a common mistake among entrepreneurs and businessmen. Both research and practical evidence suggest that a significant percentage of entrepreneurs run their businesses without any kind of financial plan. One classic study carried out in USA recently by Richard Mac Mahon and Scott Holmens reported that only 11% of small business owners analyzed their financial statements as part of the management planning and decision-making process. To reach profit objectives, entrepreneurs must be aware of their companies' overall financial position and the changes in financial status that occur over time. Most accounting experts advice entrepreneurs to use one of the popular computerized small business accounting programmes such as:- Quickbooks, Peachtree Accounting, and others to manage routine record-keeping tasks. Working with an Accountant to set-up the system at the on-set, and then having an employee or a bookkeeping service to enter the transaction is most efficient for most businesses. The Accounting programmes mentioned above, make analyzing a company's financial statements, preparing reports, and summaring data a very simple task.

This chapter focuses on some very practical tools that will help entrepreneurs develop a workable financial plan, keep them aware of their company's financial plan and enable them to plan for profit. They can use these tools to help them anticipate changes, and plot an appropriate profit strategy to meet them head-on. The profit planning techniques are not difficult to master, nor are they time-consuming; we shall discuss the techniques involved in preparing projected (or pro-forma) financial statements, conducting ratio analysis and performing break-even analysis.

11.2 **Basic Financial Statements**

Before going into building projected financial statements, it would be helpful to review the **basic financial reports** that measure a company's financial position: ie – the balance sheet, the income statement (or Profit and Loss Statement), and the statement of cash flows. The level of financial sophistication among small business owners may not be high, but the extent of financial reporting among small business is. It should be noted that most small businesses regularly produce summary financial information, almost all of it in the form of these traditional financial statements.

Balance Sheet of Sam Obiora's Supermarket
for the Year Ended 31st December, 2010

	ASSETS		
Current Assets			
	₦		₦
Cash			49,855.00
Accounts Recevicable	179,225.00		
Less: Allowance for Doubtful Debts	6,000.00		173,225.00
Inventory (Stocks)			455,455.00
Prepaid Expenses			8,450.00
Total Current Assets		(a)	**₦686,985.00**

Fixed Assets			
Land			59,150.00
Buildings	74,650.00		
Less: Accumulated Depreciation	7,050.00		67,600.00
Equipment	22,375.00		
Less: Depreciation	1,250.00		21,125.00
Furniture and Fittings	10,295.00		
Less: Depreciation	1,000.00		9,295.00
	Total Fixed Assets	(b)	**₦157,170.00**
Intangibles (Goodwill)			3,500.00
Total Assets (a + b)			₦847,655.00
Current Liabilities			
Accounts Payable			152,580.00
Bills Payable			83,920.00
Accrued Wages/Salaries Payable			38,150.00
Accrued Interest Payable			42,380.00
Accured Taxes Payable			50,820.00
Total Current Liabilities		(c)	**367,850.00**
Long-Term Liabilities			
Mortgage			127,150.00
Notes Payable			85,000.00
Long-Term Liabilities		(d)	**212,150.00**
Owner's Equity			
Sam Obiora Capital		(e)	267,655.00
Total Liabilities and Owner's Equity			**₦847,655.00**

(i) The Balance Sheet

The **Balance Sheet** is a financial statement which takes a "snapshot" of a business's financial position, by providing the owners with an estimate of its worth at a given date. Its two major sections show the **assets** the business owns, and the claims which creditors and owners have against those assets. The balance sheet is usually prepared at the last day of every month, and at end of year as a summary of the company's assets and liabilities - see specimen of the balance sheet of Sam Obiora's supermarket shown above.

The balance sheet is built on the fundamental accounting equation which states that: Assets = Liabilities pus Owner's Equity. Any increase or decrease on one side of the equation must be offset by an increase or decrease on the other side; hence the name **balance sheet**. It provides a baseline from which to measure future changes in assets, liabilities, and equity.

The first section of the balance sheet lists the company's assets (valued at cost, not actual market value) and shows the total value of everything the business owns. **Current Assets** consist of cash, and items to be converted into cash within one year, or within the normal operating cycle of the company, whichever is longer; such as Accounts Receviable (or Debtors), Stocks (and or Work-in-Progress). **Fixed Assets** are tangible things acquired for long-term use in the business. Intangible assets include items such as goodwill, copyrights, and patents that, although valuable, are not tangible.

The second section shows the business's **liabilities** – the creditors' claims against the company's assets. **Current liabilities** are those debts that must be paid within one year, or within the normal operating cycle of the company, which ever is longer; **long term liabilities** are those that become due after one year. This section of the balance sheet also shows the **owner's equity**, i.e the value of the owner's investment in the business. It is the balancing factor on the balance sheet, because it represents all of the owner's contributions to the business plus all accumulated (or retained earnings not distributed to the owner(s).

(ii) **The Income Statement (or Profit and Loss Account).**

The **income statement (profit and loss statement or "P&L")** compares expenses against revenue (or income) over a certain period of time to show the firm's **net profit (or loss)**. The income statement could be described as a "moving picture" of a firm's profitability over a period of time. The annual Profit and Loss Statement reports the bottom line of the business over the fiscal or calendar year. See the Income Statement of Sam Obiora's Supermarket for the year ended 31st December, 2010.

To calculate Net Profit or Loss, an entrepreneur records sales revenues for the year, which includes all income that flows into the business from sales of goods and services (if any). Income from other sources, eg. rents, investments, interest, etc) also must be included in the revenue section of the Income Statement. To determine Net Sales Revenue, business owners must subtract the value of returned items (if any) and refunds from Gross Revenue. **Cost of Gods sold** represents the total cost, (including shipping costs) of the merchandise sold during the accounting period. Manufactures, wholesalers, and retailers calculate cost of goods sold by adding purchases to stocks-at-beginning/start and subtracting stock-at-end, (also called Ending Inventory). Service providing companies typically have no cost of goods sold because they do not carry inventory (or stocks).

Net Sales Revenue, minus Cost of Goods Sold results in a company's Gross Profit, and dividing Gross Profit by Net Sales Revenue produces the **Gross Profit Margin** a ratio that every small business owner should watch closely. If a company's gross profit margin gets too low, it is likely that it will operate at a loss (or negative income) because a company must pay all of its operating expenses out of its Gross Profit. For instance, a company that operates a gross profit margin of say 50% must generate N2.00 in sales, out of every N1.00 of operating expenses just to break even. However, a company with a 10% Gross Profit margin must generate N10.00 in sales for every N1.00 of operating expenses to reach its break-even point.

Many business owners whose companies are losing money erroneously believe that their problem is inadequate sales volume. Therefore they focus on pumping up sales at any cost. And in many cases, the losses being incurred by the companies are the result of an inadequate Gross Profit margin, but pumping up sales only deepens their losses. It should be noted that repairing a poor gross profit margin requires a company to raise prices of its products, cut manufacturing or purchasing costs; refuse to execute sales orders with low profit margins, sack unprofitable customers or add new products with more attractive profit margins. Note that increasing the volume of sales will not solve the problem when a company is losing money. Monitoring the Gross Profit margin over a period and comparing it to those of other companies in the same industry are the important steps towards maintaining a company's long-term profitability.

Profit and Loss Account (or Income Statement) of Sam Obiora Supermarket as at 31/12/2010

	₦		₦
Credit Sales	1,309,589.00		
Cash Sales	561,252.00		
Net Sales Revenue			1,870,841.00
Opening Stock	805,745.00		
Add: Purchases	939,827.00		
	1,745,572.00		
Less: Closing Stock	455,455.00		
Cost of Goods Sold			1,290,117.00
Gross Profit		(a)	580,724.00
	<u>Operating Expenses</u>		
Advertising	139,670.00		
Insurance	46,125.00		
Deprecation: Building	18,700.00		
Equipment	9,000.00		
Salaries	224,500.00		
Travels	4,000.00		
Entertainment	2,500.00		
Total Operating Expenses			444,495.00
General Expenses			34,000.00
Interest Expenses			41,600.00
Total Expenses		(b)	520,095.00
Net Income		(c)	60,629.00

Please note that **Operating Expenses** include those costs that contribute directly to the manufacture and distribution of goods. General Expenses are indirect costs incurred in operating the business. Other expenses is an all-inclusive category covering all other expenditures that do not fit into the two categories. Total revenue, minus total expenses gives the Net Income for the accounting period. Reducing expenses increases a company's Net Income, and even small reductions in expenses can make big savings.

Note: (a) Gross Profit (b) Total Expenses (c) Net Income or Net Profit

(iii) **Statement of Cash Flows**

The statement of cash flows show the changes in the firm's Working Capital from the beginning of the year by listing both the **Sources of Funds** and the **Uses** of those funds. Many small businesses never need to prepare such a statement, but in some cases creditors, investors, new owners, or the IRS (Inland Revenue Service) may require this information.

To prepare the statement, the owner must assemble the Balance Sheets and Income Statement (or Profit and Loss Account Statement) summarizing the current year's operations. He/she begins with the company's Net Income for the period (from the Income Statement); then adds the sources of the company's funds – such as:- borrowed funds, owner's contributions, decreases in Accounts Receivables, Increases in Accounts Payable, Decreases in Inventory (or Stock), Depreciation, and any others. Depreciation is listed as a source of funds because it is a non-cash expense that has already been deducted as a cost of doing business. And because the owner has already paid for the item being depreciated, its depreciation is thus a source of funds. Next, the owner subtracts the **Uses of these funds** – ie. – plant and equipment purchases, Increases in Accounts Receivable, Dividends to Owners, Repayment of debts, Decreases in Accounts Payable, Increases in Inventory (or stocks), and so on. The difference between the Total Sources of Funds, and Total Uses of Funds is called:- Increase or Decrease In Working Capital. By investigating the changes in their companies' Working capital and the reasons for them, business owners can create a more practical **financial action plan** for the future of the enterprise.

These financial statements are more than just complex documents used only by Accountants and Financial Officers of firms. However, when used in conjunction with the analytical tools described in this chapter, they can help entrepreneurs to map out a firm's financial future and to actively plan for profits. It should be noted that merely preparing these documents is not enough; however, owners and employees must **understand and use** the information contained in them to make the business more effective, efficient and successful.

(iv) **Projected Financial Statement for Small Businesses**

One of the most important tasks confronting the entrepreneur launching a new business enterprise is to determine the amount of funding required to begin operation. He should also ascertain the amount required to keep the company going through its initial growth period until it can generate positive cash flow. The amount of money needed to commence a business depends on the type of business, method of operation, its location, inventory requirements, sales volume, and many other factors. However, every new business ought to have enough capital to cover all start-up costs, including funds to rent an office, buy plant (if necessary), equipment, tools, and other essentials. In addition, entrepreneurs must maintain a reserve capital to carry the company until it begins to generate positive cash flow.

Too often, entrepreneurs are overtly optimistic in their financial plans, and they sometimes fail to recognize that expenses initially exceed income, and cash outflow exceeds cash inflow for most small firms. This period of Net Losses (and Negative Cash Flow) is normal, and may last for some months or several years before normalizing. During this period, entrepreneurs must be able to pay the company's regular bills, pay staff salaries, purchase stocks, take advantage of Cash Discounts, grant credit facilities to customers, and meet their personal financial obligations.

(iv) **Projected Income Statement**

Although, they are called "projections", Financial Forecasts must be based on reality, otherwise the resulting financial plan is nothing more than a hopeless dream. When preparing a Projected Income Statement, an entrepreneur has two options to develop a Sales Forecast and **work down**, or set a profit target and **work up**. Developing a realistic sales forecast for a business start-up is not always easy, but with creativity and research it is possible. During discussions with business owners in the industry they usually provide meaningful insights into the sales levels, which a company can expect to generate during its early years.

Many entrepreneurs prefer creating a Projected Income Statement, targeting a Profit Figure and then "Working-up" to determine the sales level they must achieve to reach it. Of course, it is important to compare this sales target against the results of the marketing plan (or projected figure), to determine whether it is realistic or not. The next step is to estimate the expenses which the business will incur in securing those sales. In any small business, the profit generated should be large enough to produce a reasonable return on the owners' investment in the business.

Surely, an entrepreneur who earns less in his own business than he could have earned working for someone else, must weight carefully the advantages and disadvantages of choosing the path of entrepreneurship. He/she should consider the rationale of exposing oneself to all the risks, sacrifices, and hard work of entrepreneurship if the rewards are less than those of remaining in a secure employment of another. Although, there are many non-financial benefits of owning a business, the Net Profit After Tax which a company generates should be at least as much as an entrepreneur could earn by working for someone else.

An adequate profit must also include a reasonable return on the Owner's Total Investment in the business. Owner's total investment is the amount contributed to the company at inception, plus any retained earnings, and profit from previous years which were channeled back or invested into the business. In other words, an entrepreneur's **target income** is the sum of a reasonable salary for the time spent running the business, and a normal return on the amount invested in the business or company. Ability to determine this amount is the first step in creating the Projected Income Statement. An entrepreneur then must translate this target profit into a Net Sales figure for the forecasted period. Students are strongly advised to study or revise their Principles of Accounting textbook, or procure a good Accounting textbook for easy assimilation of this chapter. There is no doubt that a sound knowledge of Accountancy or Accounting is very essential for anyone studying this course. Such knowledge shall indeed be very beneficial for budding entrepreneurs.

An Example

Suppose an entrepreneur wants to launch a small bookshop and had determined that his target net income for first year shall be N30,000.00 (at the end of first year). Research shows that average Bookshop's Net Profit margin (net profit ÷ net sales) is 7.3%. Using this information therefore, he can compute the sales level required to produce a Net Profit of ₦30,000.

$$Net\ Profit\ Margin \quad \frac{Net\ Profit}{Net\ Sales\ (Annual)}$$

$$7.3\% = \frac{N30{,}000.00}{Net\ Sales\ (Annual)}$$

$$Net\ Sales = \frac{N30{,}000.00}{0.073} = N410{,}959.00$$

Now this entrepreneur knows that to make a Net Profit of N30,000.00 (before tax), he must achieve an annual sales of N410,959.00. However, this is only an example. If a Net Profit of say N3, million is desired, just multiply ₦30,000.00 by 100, and apply Net Profit margin of 7.3%. The Net Sales figure shall now become ₦41,095,900.00 or approximately N41 million. The issue then will be, what is the possibility of a new bookshop generating a Net Sales of ₦41 million in its first year of operation with such a sales target? The obvious answer is to tred softly as a beginner in business. Avoid over ambitious sales forecast as a beginner in business, it is better to attempt to set a modest sales target which could be improved upon as the business progresses. Afterall, "Rome was not built in a single day," or Abuja FCT was not equally built in a single day!

(vi) **Projected Balance Sheet**

In addition to projecting a small business's Net Profit or Loss, an entrepreneur must develop a Pro-Forma Balance Sheet, outlining the fledging firm's Assets and Liabilities. Most entrepreneur's primary concern is profitability because, on the surface, the importance of a business's assets is less obvious. However, in many cases, small companies begin their lives on a weak footing because entrepreneurs fail to determine their firm's total asset requirements. To prevent this major oversight, entrepreneurs should prepare a Projected Balance Sheet listing every assets their businesses will need, and all the claims against these assets.

Assets

Cash is one of the most useful assets the company owns; it is highly liquid and can be easily converted into other tangible assets. The question now is: - how much cash should a small business have at inception? Obviously, there is no amount of money that fits the needs of every small firm. However, one practical role of thumb suggests that a company's Cash Balance should cover its operating expenses (less depreciation, a non-expense) for at least one inventory (or stock turnover) period.

Projected Balance Sheet for a small Bookshop

Current Liabilities	
Accounts Payable (or creditors)	N48,796.00
Amounts Due Payable	3,750.00
Total Current Liabilities	**52,546.00**
Long-Term Liabilities	
Medium Term Loan	40,000.00
Total Liabilities	92,546.00
Owner's Equity	58,653.00
Total Liability and Owner's Equity	**N151,199.00**
Assets	
Current Assets	
Cash	N34,132.00
Stocks (or Inventory)	70,092.00

Other Assets		1,800.00
Total Current Assets		**N106,024.00**
Fixed Assets		
Fixtures and Fittings	N27,500.00	
Office Equipment	4,850.00	
Motor Vehicles	5,125.00	
Miscellaneous	7,700.00	
Total Fixed Assets		45,175.00
Total Assets		**N151,199.00**

Revision Questions

(1) Define what is meant by Financial Plan in a business. Why is Financial Plan an important element in business?

(2) Describe how to prepare the basic financial statements in firms.

(3) Define the following terms:

(i) Balance sheet

(ii) Income Statement or "P &L" Account

(4) Define Owner's Equity, and explain its importance in business undertakings.

CHAPTER TWELVE
Ratio Analysis for Small Businesses and Entrepreneurs.

12.1 Introduction

Ratio is defined in Accounting circles as a method of expressing the relationships between any two **accounting elements** that allows business owners to analyse their companies' performances. Speaking on importance of ratio analysis to entrepreneurs, Mr. Norm Brodsky, a business professor in the United States of America, stated that … "to be successful in any business, you need to develop a feel for the numbers. You need to get a sense of the relationship between them, see the connections, figure out which ones are critical and have to be monitored. Why? Because these numbers run businesses. They tell you how you can make the most money, in the least time and with the least effort. You can give it all away if you want to, but first you have to earn it; and the numbers can tell you how to do that as efficiently as possible, provided that you understand their language…"

From the above-stated report, the importance of Accounting Ratios in business cannot be over-emphasised. "How is my company doing?" This is a question that most entrepreneurs kept asking their Accountants or External Auditor, if one exists in the firm. However, most smart entrepreneurs know that once their businesses are up and running with the help of a solid financial plan, the next step is to keep their companies moving in the right direction with the help of **proper financial controls**. Establishing these controls and using them consistently, is one of the keys to keeping a business vibrant and healthy. Also, a sound system of financial controls serve as an early warning device for underlying problems that could destroy a young business. The key is simply in hearing and focusing on the signals when revealed through knowledge of Accounting Ratios and its analysis, hence the importance of this chapter.

Richard Maturi, in his article titled "Take your pulse" in the Business start-ups magazine issue of January 1996, page 72, stated as follows:- "Ratio analysis as a method of expressing the relationship between two elements on financial statements, provides a convenient technique for performing financial analysis. When analysed properly ratios serve as barometres of a company's financial health. You owe it to yourself to understand each ratio and what it means to your business. Ratio analysis allows entrepreneurs to determine whether their companies are carrying excessive stocks (or inventory), experiencing heavy operating expenses, overextending credit, taking on too much debt, and managing to pay their bills on time, and to answer other questions relating to the efficient and effective operation of the overall business. Ratios point out potential trouble areas, so you can correct them before they multiply. Unfortunately however, studies show that few business owners actually compute financial ratios and use them to manage their businesses".

12.2 **Twelve Key Ratios**

Going by our idea of simplicity, we shall describe twelve key ratios that enable business owners to monitor their companies' financial positions without becoming bogged down in financial details. This chapter shall present explanations of these ratios and examples based on the Balance Sheet, and the Income Statement for Sam Obiora's Supermarket which appears in Chapter Eleven. We shall **group the ratios into four categories**, namely:- liquidity ratios, leverage ratios, operating ratios, and profitability ratios.

(a) **Liquidity Ratios**

These ratios tell whether a business will be able to meet its short-term financial obligations as they become due. This ratio can forewarn a business owner of impending cash-flow problems. A small company with solid liquidity not only is able to pay its bills on time, but also has enough cash to take advantage of attractive business opportunities as they arise.

Liquidity ratios measure a company's ability to convert its assets into cash quickly, and without loss of value to pay its short-term liabilities. The primary measures of liquidity are the current and the quick ratio.

(i) **Current Ratio** The **current ratio** measures a firm's solvency by indicating its ability to pay current liabilities, (debts) from current assets. It is calculated thus:-

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{686{,}985}{367{,}850} = 1.87:1$$

Obiora's Supermarket has N1.87 in Current Assets for every N1.00 it has in Current Liabilities. Current Assets are those that a business owner expects to convert into cash in the ordinary course of business cycle and normally include – Cash, Notes/Accounts Receivable (or debtors), Stocks (or Inventory), and any other short-term marketable securities. Current Liabilities are those short-term obligations (debts) that fall due within one year, and include: Account Payable (or Creditors), taxes payable and accruals (or Payments Accrued Due). The Current Ratio is sometimes called the **Working Capital Ratio**, and it is the most commonly used measure of short-term solvency.

Typically, financial analysts suggest that a small business should maintain a Current Ratio of at least 2:1 (ie. two Naira of Current Assets for N1.00 of Current Liabilities) to maintain a comfortable cushion of Working Capital. Generally, the higher a company's current ratio, the stronger is its financial position. However, a higher current ratio does not guarantee that a company is using its assets in the most profitable manner. Please refer to any standard Accounting textbook for more elucidation on this topic.

(ii) **Quick Ratio**. The current ratio can sometimes be misleading because it does not reflect the **quality** of a company's Current Assets. It should be noted that a company with large amount of debtors which are past-due (or unpaid over a long period), and stocks which are stale could still boast of an impressive current ratio and still be on the verge of financial collapse. The Quick Ratio (Acid Test Ratio) is a more consertive measure of a company's liquidity because it shows the extent to which its most liquid assets cover its current liabilities. This ratio includes only a company's "quick assets," and excludes the most illiquid asset of all – stocks or inventory. It is calculated thus:-

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$= \frac{686{,}985 - 455{,}455}{367{,}850} = 0.63:1$$

Quick Assets include: cash, readily marketable securities and debtors (or accounts receivables); these are assets that can be converted into cash immediately if needed. Some small firms determine Quick Assets by deducting stocks from Current Assets because they cannot convert stocks quickly into cash. Moreover, stocks are the asset on which losses are most likely to occur in the case of liquidation.

The Quick Ratio is a more specific measure of a firm's ability to meet its short-term obligations, and it is a more rigorous test of its liquidity. It expresses the capacity to pay Current Debts if all sales income ceased immediately. Generally speaking, a Quick Ratio of 1:1 indicates that the small firm is overly dependent on its stocks and on future sales to satisfy Short-term debts. A Quick Ratio of greater than 1:1 indicates a greater degree of financial security.

(iii) **Leverage Ratios**. This is a measure of the financing supplied by a firm's owners against that supplied by its creditors; they are a guage of the depth of a company's debt. These ratios show the extent to which an entrepreneur relies on debt capital (rather than equity capital) to finance operating expenses, capital expenditures, and expansion costs. As such, it is a measure of the degree of financial risk in a company. Generally speaking, businesses with low leverage ratios are less affected by economic down-turns, but the returns for these firms are lower during economic booms. Conversely, small firms with high degree of leverage ratios are more vulnerable to economic slides because their debt loads demolish Cash Flow; however, they have greater potential for large profits.

Debt ratio – A small company's **debt ratio** measures the percentage of total assets financed by its creditors compared to its owners, it is calculated thus:

$$\text{Debt ratio} = \frac{\text{Total debt (or liabilities)}}{\text{Total Assets}}$$

$$= \frac{367{,}850 + 212{,}150}{847{,}655}$$

$$= 0.68 : 1$$

Creditors have claims of 68 kobo against every N1.00 of assets that the supermarket owns. This result is a positive sign for the company.

(iv) **Debt to Net Worth Ratio**. A company's **debt to net worth (or debt to equity)** ratio also expresses the relationship between the capital contributions from creditors and those from owners, and also measures how highly leveraged a company is. This ratio reveals a company's capital structure by comparing what the business "owes" to what it is "worth". It is a measure of the firm's ability to meet both its creditor and owner obligations in case of liquidation. The debt-to-net worth ratio is calculated thus:

$$= \frac{\text{Total debt (or liabilities)}}{\text{tangible net worth}}$$

$$= \frac{367{,}850 + 212{,}150}{267{,}655 - 3{,}500}$$

$$= 2.20 : 1$$

Sam Obiora's Supermarket owes creditors ₦2.20 for every ₦1.00 of equity the supermarket owns. Total debt is the sum of current liabilities and long term liabilities; and tangible net worth represents the owner's surplus + retained earnings) less any intangible assets (goodwill) the firm owns. The higher this ratio, the more leverage a business is using; and the lower the degree of protection afforded creditors if the business should fail. A higher debt to net worth ratio also means that the firm has less capacity to borrow; lenders and creditors see the firm as being "borrowed-up". Conversely, a low ratio typically is associated with a higher degree/level of financial security, thus giving the business greater borrowing potential.

(v) **Times Interest Earned Ratio**. This is a measure of a firm's ability to make the interest payments on its debts. It tells how many times a company's earnings cover the interest payments on its debt. It tells how many times a company's earnings cover the interest payments on the debt it is carrying. This ratio also measures the size of the "cushion" a company has in covering the interest cost of its debt load. The times interest earned ratio is calculated as follows:-

$$\begin{aligned} \textit{Times Interest earned} &= \frac{\textit{earnings before Interest and taxes (or EBIT)}}{\textit{Total interest expense}} \\ &= \frac{60{,}629 + 39{,}850}{39{,}850} \\ &= 2.52:1 \end{aligned}$$

The supermarket's earnings are 2.5 times greater than its interest expense. EBIT is the firm's profit **before** deducting interest expense and taxes; the denominator measures the amount the business paid in interest over the accounting period. A high ratio suggests that the company would have difficulty meeting the interest payments on its loans; creditors see this as a sign of safety for future loans. Conversely, a low ratio is an indication that the company is over-extended in its debts; earnings will not be able to cover its debt service if this ratio is less than one.

(b) **Operating Ratios**

Ratios help an entrepreneur evaluate a company's overall operating performance and indicate how effectively the business employs its resources. The more effectively its resources are used, the less capital a small business shall require. These operating ratios are designed to help an entrepreneur spot those areas he/she must improve upon if the business must remain competitive.

(vi) **Average Inventory (or Stock) Turnover**

The average inventory turnover ratio measures the number of times its average stock (or inventory) is sold out, or turned over during the accounting period. This ratio tells whether an entrepreneur is managing stock properly; it also indicates whether a business's stock is under-stocked, or obsolete. The average stock turnover ratio is calculated as follows:

$$Average\ stock\ turnover\ ratio = \frac{\cos t\ of\ goods\ sold}{Average\ stocks}$$

$$= \frac{1{,}290{,}117}{(N805{,}745 + 455{,}455) \div 2}$$

$$= 2.05\ \ times\ per\ year.$$

Sam Obiora's Supermarket turns its stock about two times a year, or once every 178 days in the year. Average inventory (or stock) is the sum of the value of the firm's stocks at the beginning of the accounting period divided by two. This ratio tells an entrepreneur how fast his merchandise is moving through the business. It also helps him/her to balance the company's stocks on the fine line between over-supply and under-supply. To determine the **average number of days** that stock units remain, the procedure is to divide the average stock turnover ratio into the number of days in the accounting period (e.g 365 days ÷ average stock turnover ratio). The result is called days' inventory (or average age of inventory).

(vii) **Average Collection Period Ratio**

A firm's average collection period ratio (or days sales outstanding, DSO) tells the average number of days it takes to collect accounts receivable (or trade debtors). To compute the average collection period ratio, you must first calculate the firm's receivables (or debtors) turnover. Given that Sam Obiora's Supermarket credit sales for the year was N1,309,589 (out of total sales of N1,870,841 then the company's receivables (or debtors) turnover ratio is as follows:

$$\text{Receivables or Debtors turnover ratio} = \frac{\textit{Credit Sales}}{\textit{Debtors}}$$
$$= \frac{N1{,}309{,}589}{N179{,}225}$$
$$= 7.31 \textit{ times per year}$$

Using the following to calculate the firm's average debtors turnover ratio

$$= \frac{\textit{days in accoounting period}}{\textit{debtors turnover ratio}}$$
$$= \frac{365 \textit{ days}}{7.31 \textit{ times/year}}$$
$$= 50.0 \textit{ days}.$$

The lower a company's average collection period, the faster it is collecting its receivables (or debtors). Sam Obiora supermarket's debtors are outstanding for an average of 50 days. Typically, the higher a firm's average collection period ratio, the greater is its chance of incurring bad debt losses.

(viii) **Average Payable Period Ratio**

This is the converse (or opposite) of the average collection period, it tells the average number of days it takes a company to pay its creditors (or accounts payable). Like the average collection period, it is measured in days. To compute this ratio, we first calculate the creditors' payable turnover ratio as follows:-

$$\textit{payables turnover ratio} = \frac{\textit{Purchases}}{\textit{Accounts payable (or creditors)}}$$
$$= \frac{N939{,}827}{152{,}580} = 6.16 \textit{ times in a year}$$

To find the average payable period, we compute as follows:

$$\frac{\textit{Days in accounting period}}{\textit{Payable turnover ratio}}$$
$$= \frac{365}{6.16} \textit{ times per year}$$
$$= 59.3 \textit{ days}$$

Sam Obiora's Supermarket takes an average of 59 days to pay its accounts with suppliers; an excessively high average period it is.

(ix) **Net Sales to Total Assets**

A company's net sales to total assets ratio (also called total asset turnover) is a general measure of its ability to generate sales in relation to its assets. It describes how productively the firm employs its assets to produce sales revenue. The total assets turnover ratio is calculated thus:-

$$\frac{\textit{net sales}}{\textit{total assets}}$$

$$= \frac{N1{,}870{,}841}{847{,}655}$$

$$= 2.21 : 1$$

Sam Obiora's Supermarket is generating N2.21 in sales for every N1.00 of assets. The denominator of this ratio, net total assets, is the sum of all that a company owns (ie. cash, stocks or inventory, land, buildings, equipment etc) less depreciation. This ratio is meaningful only when compared to that of similar size firms in the same industry category.

Profitability Ratios

These ratios indicate how efficiently a company is being managed. They provide the owner with information about a company's "bottom line", in other words, they describe how successful the firm is using its available resources to generate profits.

(x) **Net Profit to Sales.** This ratio is also called **profit margin on sales**, or **net profit margin**. It measures a company's profit per naira of sales. The computed percentage shows the portion of each sales Naira remaining after deducting all expenses. The profit margin on sales is calculated as follows:-

$$Net\ Profit\ on\ Sales\ ratio = \frac{Net\ Profit}{Net\ Sales}$$

$$= \frac{N60{,}629}{1{,}870{,}841}$$

$$= 3.24\%$$

For every N1.00 sales which the supermarket makes, the company keeps N3.24 in profits. Many business owners believe that a high profit margin on sales is necessary for a successful business operation, but this is not always true. To evaluate this ratio properly, an entrepreneur must consider a firm's asset value, its stocks and debtors' turnover ratios, and its total capitalization.

(xi) **Net Profit to Assets**. This ratio, also called Return on Assets Ratio (ROA), tells how much profit a company generates for each Naira of assets that it owns. The ratio describes how efficiently a business is putting to work all of the assets it owns to generate profits. It tells how much Net Income an entrepreneur is squeezing from each Naira worth of the company's assets. It is calculated thus:

$$Net\ Profit\ to\ Assets\ Ratio = \frac{Net\ Profit}{Total\ Assets}$$

$$= \frac{N60{,}629}{847.655}$$

$$= 7.15\%$$

It shows that the supermarket earns a return of 7.15% on its assets base, the ratio provides clues about the asset intensity of an industry. Return on Assets Ratios that are below 5% are indicative of asset intense industries that require heavy investments in assets to stay in business, e.g manufacturing industries, railways, steel companies) etc. Return on Assets ratio that exceed 20% tend to occur in asset-light industries, such as business or personal services, for example, advertising agencies and computer services.

A Net Profit to Assets Ratio that is below the industry average suggests that a company is not using its assets very efficiently to produce a profit. Another common application of this ratio is to compare it to the company’s cost of borrowed capital. Ideally, a company’s ROA should exceed the cost of borrowing money to purchase those assets.

(xii) **Net Profit to Equity**

This ratio is also called, Return on Net Worth Ratio, measures the owners’ rate of return on investment (ROI). This is because, it reports the percentage of the owners’ investment in the business that is being returned through profits annually. It is one of the most important indicators of a firm’s profitability, or a management’s efficiency.

Net Profit to Equity is calculated thus:-

$$\frac{Net\ Profit}{Owners'\ Equity\ (or\ Net\ Worth)}$$

$$= \frac{N60{,}629}{267{,}655}$$

$$= 22.65\%$$

The Supermarket is earning 22.65% on the money it had invested in the business. The ratio compares profits earned during the accounting period with the amount the owner has invested in the business during that time. If this interest rate on the owners’ investment is excessively low, some of this capital might be better employed elsewhere.

Interpreting Business Ratios

Ratios are very useful yardsticks when measuring a firm’s performance, and it can point out potential problems before they develop into serious crisis. But calculating these ratios is not enough to ensure proper control of the firm or company. In addition to knowing how to calculate these ratios, entrepreneurs must understand how to interpret them and apply them to the day-to-day management of their business more effectively and efficiently.

It should be noted however that not all businesses measure their businesses with the same ratios. Infact, key performance ratios vary dramatically across industries and even within different segments of the same industry. Entrepreneurs must know and understand which ratios are most crucial to their companies' success and focus on monitoring and controlling those ones. Sometimes, business owners develop ratios and measures that are unique to their own operations to help them achieve success. These are known as **critical numbers**. These indicators measure key financial and operational aspects of a company's performance. And when these indicators/numbers are headed in the right direction, a business is said to be on track to achieve its objectives.

When comparing ratios for their individual businesses against published statistics, entrepreneurs should remember that the comparison is being made against industrial averages. So, an entrepreneur should strive to achieve ratios that are at least as good as these averages. The goal should actually be to manage the business properly, so that its financial performance should be above average.

As entrepreneurs compare their company's financial performance against those covered in the published accounts/ statistics, they inevitably will discern differences between them. They should take note of those items that are substantially out of line from the industry average. However, a ratio that varies from the average **does not necessarily** mean that the small business is in financial jeopardy. Instead of making drastic changes in the financial policy, entrepreneurs must explore why the figures are out-of-line with published statistics before effecting any necessary changes where needed.

In addition to comparing ratios to industry averages, owners should analyse their firms' financial ratios over a period of time. The ratios on their own, are mere "snap-shots" of a company's financial position, at a single instant. But by **examining these trends** over time, an entrepreneur can detect gradual shifts that otherwise might have gone un-noticed until a financial crisis is looming or happens to the firm.

Break-Even Analysis

Another key component of every sound financial plan is a break-even analysis. A small company's **break-even point** is the level of operation (typically expressed in naira or production quantity) at which it neither earns a profit, nor incurs a loss. At this operational level of activity, sales revenue equals expenditure - that is, the firm "breaks even". By analyzing costs and expenses, an entrepreneur can calculate the minimum level of activity required to keep a company in operation. These techniques can then be refined to project the sales necessary to generate a desired profit level.

Most potential lenders and investors expect entrepreneurs to prepare a break-even analysis to assist them in evaluating the earning potential of the new business. In addition to its being a simple, useful device for financial institutions, break-even analysis can also serve as a planning device for entrepreneurs. It can show an entrepreneur just how unprofitable a poorly planned business venture is likely to be.

Calculating the Break-Even Point

An entrepreneur can calculate a company's break-even point by using a simple mathematical formula. To begin the analysis, the entrepreneur must determine his **fixed costs and variable costs**.

Fixed costs are those expenditures that do not vary with changes in the volume of sales or production, (eg. rent, depreciation expense, insurance, lease or loan payments, and others).

Variable Costs (or expenses) on the other hand, vary directly with changes in the volume of sales or production, (eg. raw material costs, sales commissions, hourly wages and others). However, some expenditure cannot be neatly categorized as fixed or variable because they contain elements of both. These semi-variable expenses change, although not proportionately with changes in the level of sales or production, (an example is electricity). These costs remain constant up to a particular production or sales level/volume, and then climb as that volume is exceeded. To calculate the break-even point, an entrepreneur must separate these expenses into their fixed and variable components. A number of techniques are available (which are beyond the scope of this book), but a good Cost Accounting system can provide the desired results. Students interested in learning more about break-even point are advised to look out for a Standard Management Accounting textbook for help.

Global Aspects of Entrepreneurship

"Arguing against globalization is like arguing against the laws of gravity," said, Kofi Annan, former Secretary General of the United Nations while speaking on globalization. The word "globalization" is a very recent phenomenon which describes the desire of many nations of the world to expand their business and socio economic spheres beyond their countries' territorial borders to other parts of the world.

The Oxford Advanced Learners' Dictionary of Current English (6^{th} Edition), 2001, defines globalization as a derivative of the word global, which means covering or affecting the whole world, such as global issues. For example, the world is said the have become a "global village", which means that the whole world is looked at as a single community that is connected by electronic communication system (or ICT). It also talked about "global warming," another important issue of climatic change that concerns the entire world.

As globalization presently transforms entire industries, experienced business owners and managers now re-think the rules of competition on which they have relied upon for many years. Entrepreneurs in many parts of the world are discovering that the tools of global business are within their reach; the costs of going global are decreasing, and the benefits of conducting global businesses can be substantial and profitable if properly managed. To thrive, they know they must develop new business models and strategies; and also new sources of competitive advantage in order to survive.

A business survey conducted by a Consulting firm, Messrs Bain and Company, published in USA's "Sales and Marketing E-News letter," Issue of 10^{th} Jan. 2005 on page 1, titled "Global Executives Brace for change," reported that 75% of global executives (in USA) believe that they will have to revamp their core businesses to remain competitive, and 80% say that the speed of global business has made maintaining a competitive edge more difficult." Another American Consultant, Laurel Delaney, founder of Global Trade.com says that …"more than 75% of the world's purchasing power lie outside United States of America. The timing has never been better for small businesses to get out of their 'backyards', and become global players," he concludes. From the above-stated submissions therefore, it is quite clear that globalization has come to stay in the entrepreneurs' business world. And as usual, what obtains in the United States of America has already spread all over the world, and Nigeria inclusive.

Why do Businesses go Global?

Most international businessmen have "suddenly realized" that failure to cultivate global market could be a lethal mistake for modern business, no matter their size. The reason is perhaps because since the world has become a global village, competition has become keener than ever before. For decades ago, small companies tended to concern themselves mainly with competitors who were perhaps few kilometers away. But today, even small companies face fierce competition from companies that may be hundreds of thousands of kilometers away! As a result, entrepreneurs find themselves under greater pressure to expand into international markets, and to build "businesses without borders." It is not un-common nowadays to find entrepreneurs who purchase goods from oversees suppliers; or to have the components they use in their products made in foreign countries and assembled in another country, and then sell the finished products to customers in other countries as a result of globalization. It is equally true that the business concept known as "out-sourcing" grew out of globalization.

Outsourcing is one way whereby some entrepreneurs conserve valuable cash (and resources), by delegating certain activities to businesses that specialize in performing them, rather than hiring someone to do them in-house (or doing the activities themselves). In addition to saving cash (and other resources), outsourcing enables entrepreneurs to focus on the most important aspects of running their businesses. One renowned American entrepreneur, Mr. Gerry Blackwell, writing in a newsmagazine, "Small Business Computing" issue of 5th July 2005, under the title "Don't Hire, Outsource," rendered the following advice: "stick to what you are good at, and outsource everything else," source:- (www.smallbuisnesscomputing.com/news/article.php/3512451)

Also, see article by Emily Maltby, titled "Overseas Outsourcing Hots Up Again," CNN money, November 11th, 2008, http://money.cnn.com/2008/11/10/smallbusiness/outsourcing.smb/index.htm. Note that the above websites are included for those interested in gathering more information regarding outsourcing as part of the global aspects of entrepreneurship.

How to Build a Successful Global Company

(i) Choose a niche market; a product line which is being underserved by the major players in the industry and concentrate on it. For instance, a shoe marketing manager in USA chose to pursue children's shoes line when she became an international entrepreneur after leaving her company. According to her . . ."I knew it was being neglected by major marketers; it is a great market no-one is paying attention to."

She learned the benefit of pursuing "undiscovered markets" when she was working for her last employer. She opened connections with a Chinese shoe factory, then created children's shoe designs and had them manufactured to specifications in China. Thereafter, she sold them to retailers in the United States of America and Europe.

(ii) **Success in International Markets depend on a Network of Connections**

Because this lady above-stated, had launched several shoe lines when she served her last employer in America, she knew that success in the shoe business required an extensive network of connections in all corners of the globe. Using her industry contracts, the lady found a Taiwanese investor who supported her financially in start-up capital which also helped her until cash flow turned positive for her company, known as Morgan and Milo Incorporated. She also relied on two industry veterans who have extensive network of contacts in the shoe industry, and they proved to be extremely valuable to her young company. This is a lesson to entrepreneurs planning to go global.

(iii) **Invest in Technology and Organize for Speed**

Operating a global company efficiently requires an investment in technology (ICT), and the company had invested in both basics, such as:- smart phones, e-mails, computers, etc. With their investments in technology (which they constantly up-dated), they could track results and communicate with manufacturers in China or customers in Europe and America.

(iv) **Look Bigger than You Are**

To build a successful global business the entrepreneur understood that her company, Morgan and Milo Inc. has to look bigger than it actually is. One way to achieve that is to build a **successful brand**. She says, "the logo and the polished, professional sales literature designed by our company created the image of a big, successful company." She concluded by saying that . . ."when you are competing in a global marketplace of **shoe giants**, you have to do all the things that people don't expect from a small company operating out of a 1,000 square foot office," she says.

Source: "Small and Global: The World As a Factory", FSB, June 2004, pages 40-42, and Boston Business Journal, 10th June 2005, http://bostom:bizjournals.com/bostom/stories/2005/06.

Note: This is a typical life story of what it entails going global. Some Nigerian entrepreneurs are already working this way; others could equally take a cue from this story and choose their own niche. Globalization is a profitable venture as long as it involves selling one's products abroad; not a system whereby Nigeria becomes a dumping ground for all sorts of foreign goods, such as: second hand cars, fridges, clothes, shoes, tyres, computers, etc. This is surely not the type of globalization, we need in Nigeria. It is destructive and dangerous, we should avoid it.

Importing and Outsourcing

Outsourcing as a fallout of globalization has been considered in the previous section of this chapter as another modern method of embarking upon foreign trade. It is now imperative to look at importation of goods and services, viz-viz outsourcing as an adjunct to globalization.

It is however, observed that many small companies and individuals in Nigeria, in addition to selling their goods in foreign markets also buy goods from distributors and manufactures abroad. As a result of globalization, could you imagine the amount of foreign currency which Nigerians spend in importing essential commodities into the country such as:- drugs/pharmaceutical products, refined petroleum products, building materials, various types of generating sets, flashy cars/vehicles, computers etc. etc. Also these imports (both legal and illegal ones) usually amount to trillions of US dollars annually but accurate statistical data are however unavailable as usual.

In the United States of America alone, companies import more than $2.5 trillion worth of goods and services each year, as reported by "US International Trade in Goods and Service," US Bureau of Economic Analysis issue of 12th May 2009, page 1. The intensity of price competition in many industries, from textiles and handbags to industrial machinery and computers, is much. It means that more companies now shop around the world market, looking for the lowest prices they can find anywhere. The whole world has indeed become a global market as a result of globalization.

Because labour costs in countries such as China and India are far below those in other countries, businesses there offer goods and services at very low prices. For instance, a Computer Programmer in the United States of America might earn $100,000.00 a year, but in India and China a person doing similar job earns $20,000.00 or less a year. As a result of this scenario, many American companies either import goods or **outsource** work directly to manufacturers in countries where costs are far lower than they are in their own country. This craze for outsourcing of goods and services by American companies has led to a massive lay-off of company staff whose jobs have been outsourced by their employers. This has recently led to widespread unemployment plaguing the United States of America, and presently it is also worsened by the economic meltdown. It is even on record that South Africa is also a beneficiary of this 'modern economic bonanza" called outsourcing.

The question now is, how could Nigeria, with its huge population, massive output of university graduates and teeming army of unemployed youths become a beneficiary of outsourcing like countries mentioned above? We hereby propose the following solutions to the problem:-

(i) Our graduates of tertiary institutions should very seriously embrace ICT ie, the Internet, Computer training up to international certificate levels (now available in Nigeria); Advanced Computer Programming Courses, Software Applications, Computer Maintenance, Handset and GSM Repairs, etc. There are some good Skills Acquisition programme centers in Nigeria where these essential skills are being taught.

(ii) Government should provide steady and reliable electricity; good network of roads, potable water and other necessary infrastructure.

(iii) Good and effective security network should be available in the country to encourage local and foreign industrialists/investors.

(iv) Stability and good governance, etc. are required for smooth socio-economic development of Nigeria.

These and other essentials are sine-qua-non for effective industrialization of the country, thereby leading us to achieving Nigeria's vision 20-2020 unfailingly, if the country is serious about it.

Revision Questions

1. Define Ratios and why are they important when analysing the performance of companies.
2. Why are liquidity ratios very important when analysing companies' performance?
3. What is the purpose of debt-to-equity ratio in a business undertaking?
4. Define the following terms:-
   (i) EBIT (ii) Average Collection Period
   (iii) Net Profit to Total Assets

CHAPTER THIRTEEN
Managing the Business Cash Flow

13.1 Managing the Cash Flow

Cash, which is aptly described as the "life-blood of every business and human activity," has ironically become a curse for many small businesses. Lack of this valuable asset has driven countless number of small companies into bankruptcy. However, unfortunately, many more firms will become mere failure statistics because their owners have neglected the principles of cash management that can spell the difference between success and failure.

According to Mr. Guy Kawasaki, an entrepreneur-turned venture capitalist, as reported in a US magazine, "Smart Business" Issue of December 2001 (page 19) – "everything is about cash, raising it, conserving it and collecting it. Indeed, developing a cash forecast is essential for new businesses because start-up companies usually do not generate positive cash flow right away." According to Mr. Kawasaki, "a common cause of business failures, especially in start-up and fast-growth companies, is over-emphasis on increasing sales with little concern for collecting the receivables which those sales generate. Your sales figure may be great, but it is cash flow that determines whether you can keep the doors open. Another problem is that business owners neglect to forecast how much their companies will need until they reach the point of generating positive cash flow; the result is always the same: a cash crisis", concludes Guy Kawasaki.

The above statements amply mirror the type of problems which start-up companies encounter when adequate attention is not paid to cash flow in the business.

As already portrayed in the previous chapter, controlling the financial aspects of a business using the traditional analysis of basic financial statements with ratios, is immensely important; however, by themselves, these techniques are insufficient for achieving business success. Entrepreneurs are fond of focusing on their companies' income statements, particularly sales and profits, but the income statements show only part of a company's financial picture. However, it is possible for a business to earn profits and still go out of business **by running out of cash**. In other words, managing a company's total performance effectively requires an entrepreneur to look beyond the "bottom line" (or profits) and focus on what it takes to keep a company going – ie, cash.

13.2 Cash Management by the Entrepreneur

Cash management is the process of forecasting, collecting, disbursing, investing, and planning for the cash a company needs to operate smoothly. Cash management is a vital task because, cash is the most important, yet "least productive asset" which a business owns. But a business must have enough cash to meet its obligations, or it will be declared bankrupt. Creditors, employees, and lenders expect to be paid on time, and cash is the required medium of exchange. However, some firms manage to retain an excessive amount of cash to meet any un-expected circumstances that might arise. These "excessive naira" has income-earning potentials that its owners are ignoring, ie, profitability. Investing this "excessive cash", even for a short time, can add to a company's earning power. Proper cash management permits the business owner to adequately meet the cash demands of the business, avoid retaining unnecessarily "idle" large cash balances, and stretch the profit- generating power of each Naira invested into the business.

Although cash flow difficulties afflict companies of all sizes and ages, young companies especially, are cash "sponges", soaking up every available Naira, and always hungry for more. The reason usually is that their cash "generating engines" are not properly operating at full speed yet, and therefore cannot provide enough power to generate the cash necessary to cover their rapidly climbing operating expenditures. Entrepreneurs must therefore manage their cash flow from the inception of their business.

Managing cash flow is also an acute problem for rapidly growing businesses; infact "fast-track" companies are most likely to suffer cash shortages. It should be noted however, that many successful, growing, and profitable businesses fail primarily because they become insolvent, and do not have adequate cash to meet the needs of a growing business, with a booming sales volume. Common business sense demands that if a company's sales volume is increasing, its owner must also employ more staff, expand the plant capacity (if necessary), increase the sales force, build inventory (or stocks), and incur other drains on the firm's cash supply.

During periods of rapid growth, cash collections usually lag behind, thereby compounding the company's cash flow problem. Cash, normally flows out of these high – growth companies much faster than it comes in, resulting in a sudden "cash crunch" in the company because of improper cash management. The reason is primarily because, these business owners do not understand that if they are successful, stocks and debtors (or receivables) will increase faster than profits can fund them. The resultant cash crisis may force the owner to lose equity (or ownership control) of the business, or ultimately becomes bankrupt and then the company suffers. The Head of America's National Federation of Independent Business, Daniel Kehrer wrote in the magazine, "Changing Times" issue of November 1989, that "many small business owners wake up one day to find that the price of success is **no cash-in-hand**, because of improper cash management practices, or non at all".

13.3 CASH FLOW CYCLE – How much Cash is Required to Support an Increase in Sales?

The first step in managing cash more effectively is to understand the company's **cash-flow cycle**. This is the time lag between paying suppliers for goods or merchandise, and receiving payment from customers for the products or service. The longer this cash flow cycle, the more likely it is that the business owner will encounter a cash crisis. Preparing a Cash Forecast that recognizes this cycle, however will help to avoid a crisis; understanding the cash flow patterns of a business over the course of a year (or so), is essential to creating a successful cash management strategy.

Business owners should therefore calculate their cash flow cycles whenever they prepare their financial statements, or review it at least quarterly. It is suggested that on a **daily basis**, business owners should generate a report showing the following items:-

<u>Daily/Weekly or Monthly Financial Report</u>

(i)	Total Cash on Hand	₦______________________
(ii)	Bank Balance(s)	₦______________________
(iii)	Total of Daily Sales	₦______________________
(iv)	Total Cash Receipts	₦______________________
(v)	Total Cash Payments	₦______________________
(vi)	Total Receivables (or debtors)	₦______________________
	Grand Total	₦______________________

Compiling these reports into monthly summaries provides the basis for making reliable Cash Forecasts. The next step in effective Cash Management is to analyse the Cash Flow Cycle, looking for ways to reduce its length. For instance, reducing the cycle from 240 days to say 150 days would free up incredible amounts of cash that this company could use to finance growth, and dramatically reduce its borrowing costs. By further analyzing the Daily Financial Report or Monthly Summaries, the entrepreneur should be able to further reduce the length of the Cash Flow Cycle thereby freeing up a lot of cash for the entrepreneur's business growth.

Cash and Profits are Not the Same Thing

It is important for entrepreneurs to realize when analyzing cash flow, that **Cash and Profits** are not the same. Attempting to find out a small company's cash position by merely analyzing its profitability will be futile, because profitability is not necessarily related to Cash Flow. Cash is actually the money that is free and ready for use in the business. **Cash Flow** measures a company's liquidity and its ability to pay its bills and other financial obligations on time, by tracking the flow of cash into and out of the business over a period of time.

Many small business owners soon discover that profitability does not guarantee liquidity. As important as earning a profit is, no business owner can pay his suppliers, creditors, employees, the government, and lenders in profits; that requires payment in cash! Although profits are tied up in many forms, such as stocks, office computers, machineries, equipment, etc, cash is the money that flows through a business in a continuous cycle without being tied up in any other asset. One financial expert warns that …. "businesses fail not because they are making or losing money, but because they simply run out of cash."

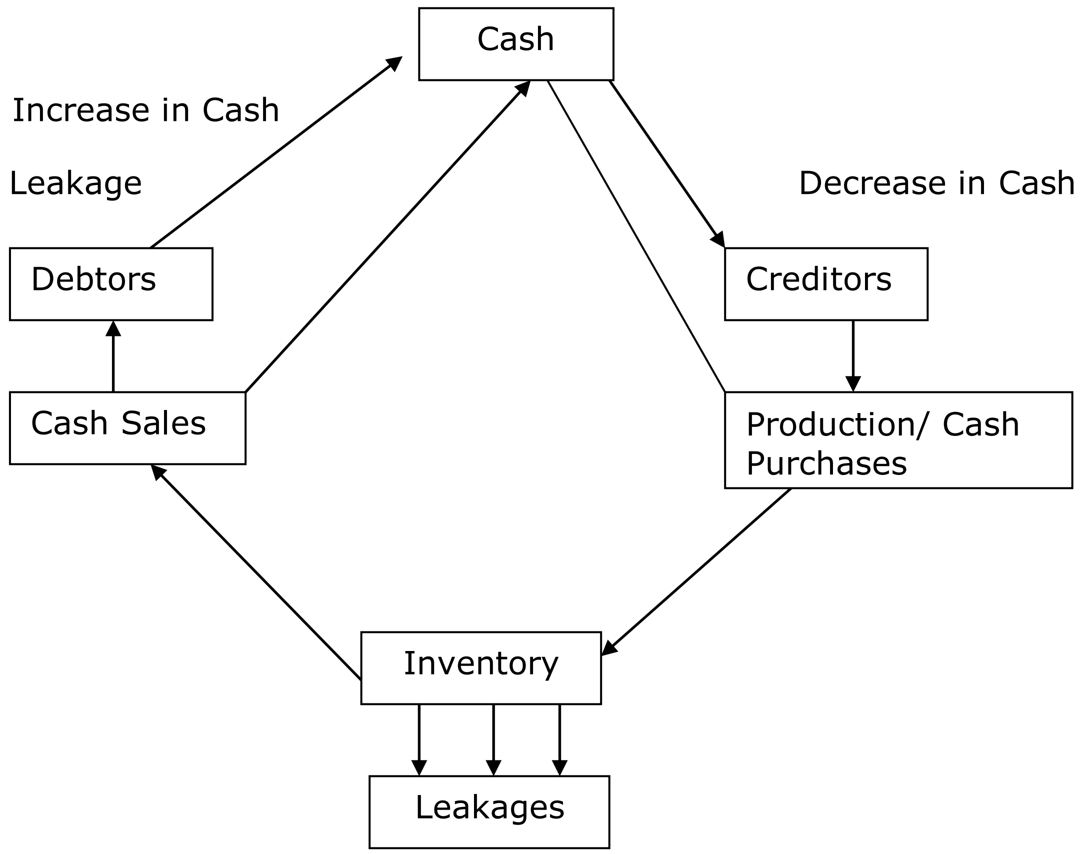


Fig. 5: Flow of cash in a typical small business setting.

This figure shows the flow of cash through a typical small business. Cash flow is the actual volume of cash that comes into, and goes out of the business during an accounting period. Decreases in cash occur when the business purchases goods or merchandise on credit or in cash and goods for inventory (or stocks) and materials for use in production. A business sells the resulting products either for cash or on credit. Whenever a company takes in cash, or collects payments from debtors, its cash balance increases. Note that purchases of stocks and for production lead to sales; that means that cash payment must be received before sales are generated. On the other hand, collection from debtors lags behind sales; that means, customers who purchase goods on credit may not pay until the next month or later. Students are strongly advised to study this Cash Flow diagram properly since it will assist them understand the concept of Cash Flow in the small business.

13.4 **Preparing a Cash Budget**

The need for a cash budget in every business cannot be over-emphasised, because the **cash flowing** in is rarely equal (or "in sync") with the **cash flowing out** of the business. Thus un-even flow of cash creates periodic cash surpluses and shortages, thus making it necessary for entrepreneurs to track the flow of cash through their businesses, so they can project realistically the cash available throughout the year. Many entrepreneurs operate their businesses without knowing the pattern of their cash flow, believing that the process is too complex or time-consuming. In reality actually, entrepreneurs simply cannot afford to disregard the process of cash management in their overall interest. They must ensure that their businesses have on hand an adequate, but not excessive supply of cash, to meet their operating needs. The goal of cash management therefore is to have enough cash available to meet the company's needs at any given time.

The question now is: how much cash is enough for the business? What is suitable for one business may be totally inadequate for another, depending on each firm's size, nature of operations, seasonal pattern of sales, and its particular situation at that point in time. The small business manager should prepare a **Cash Budget**, which is nothing more than a "cash map", showing the amount and timing of the cash receipts, and the cash disbursements day-to-day, week-by-week, or month-by-month. It is used to **predict** the amount of cash which a company will need to operate smoothly over a period of time, and it is a valuable tool in managing a company successfully. A cash budget can illuminate a host of approaching problems, thereby giving entrepreneurs adequate time to handle, or better yet, avoid them. A cash budget also reveals important clues about how well a company balances its accounts payable and accounts receivable, (ie creditors and debtors); how it controls stocks (or inventories); how it finances its growth, and generally makes use of the cash it has in the business.

Typically, small business owners should prepare a projected monthly cash budget for at least one year into the future, and also quarterly estimates for another year. The forecast must cover all seasonal sales fluctuations. The more variable a firm's sales pattern is, the shorter should be its planning horizon. For instance, a company whose sales fluctuate widely over a relatively short time frame might require a weekly cash budget. However, the key issue is to track its cash flow over time. The timing of a company's cash flow is therefore as important as the amounts of cash generated in the business. "An alert cash flow manager should therefore keep an eye, not only on cash receipts or on cash demands as average quantities, but on cash **as a function of the calender**," according to one business owner Mr. Robert Mamis, as reported in the US magazine, "Money In, Money Out" Inc. issue of December 1995, on page 98.

Creating a written cash plan is not an excessively time-consuming task, and cash help the business to avoid un-expected cash shortages; a situation that can cause a business to fail. Preparing a cash budget helps business owners to avoid adverse cash surprises. Computer spreadsheets such as Microsoft Excel and others make the job fast and easy to complete, and it allows entrepreneurs to update their cash flow forecasts with very little time and effort.

A cash budget is based on the **cash method of accounting**, which means that **cash receipts and cash disbursements** are recorded in the forecast **only when the cash transaction is expected to take place**. For instance, credit sales to customers are not reported until the company expects to receive the cash from them. Because depreciation, bad debt expense, and other non-cash items involve no cash transactions, they are omitted entirely from the cash budget.

A cash budget is nothing more than a forecast of the firm's cash inflows and outflows for a specific period, and it will never be completely accurate, according to Accounting experts in the field. However, it does give an entrepreneur a clear picture of a company's estimated cash balance for the period, by pointing out where external cash infusions may be required or where surplus cash balances may be available to invest. And also, by comparing actual cash flows with projections, a business owner can revise the forecast so that future cash budgets will be a bit more accurate. Note: students should refer to any standard Accounting textbook for more information on preparation of a Cash Budget.

Cash Budget for Small Department Store

Assumptions:

Cash balance on December 31 = N12,000

Minimum cash balance = N10,000

Sales are 75% credit and 25% cash

Credit sales are collected in the following manner:

- 60% collected in first month after the sale
- 30% collected in the second month after the sale
- 5% collected in the third month after the sale
- 5% are never collected

Sales forecasts are as follows:	Pessimistic	Most Likely	Optimistic
October (actual)	-	N300,000	-
November (actual)	-	350,000	-
December (actual)	-	400,000	-
January	120,000	150,000	175,000
February	160,000	200,000	250,000
March	160,000	200,000	250,000
April	250,000	300,000	340,000
May	260,000	315,000	360,000
June	265,000	320,000	375,000

Rent is N3,000 per month

Interest payments of N664 and ₦817 are due in April and May, respectively

A tax prepayment of N18,000 is due in March

A capital addition payment of N130,000 is due in February

A bank note payment of N7,500 is due in March

Insurance premiums are N475 per month.

Other expense estimates include:	**Purchases**	**Wages and Salaries**	**Utilities**	**Advertising**	**Miscellaneous**
January	N140,000	N30,000	N1,450	N1,600	N500
February	140,000	38,000	1,400	1,600	500
March	210,000	40,000	1,250	1,500	500
April	185,000	42,000	1,250	2,000	550
May	190,000	44,000	1,250	2,000	550
June	180,000	44,000	1,400	2,200	550

Cash Budget – Most Likely Sales Forecast

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Cash Receipts									
	N300,000	N350,000	N400,000	N150,000	N200,000	N200,000	N300,000	N315,000	N320,000
Credit Sales	225,000	262,500	300,000	112,500	150,000	150,000	225,000	236,250	240,000
Collections									
60% - First Month after sale				180,000	67,500	90,000	90,000	135,000	141,750
30% - Second Month after sale				78,750	90,000	33,750	45,000	45,000	67,500
5% - Third Month after sale				11,250	13,125	15,000	5,625	7,500	7,500
Cash Sales				37,500	50,000	50,000	75,000	78,750	80,000
Other cash receipts				25	35	50	60	60	65
Total Cash Receipts				307,525	220,660	188,800	215,685	266,310	296,815
Cash Disbursements									
Purchases				140,000	140,000	210,000	185,000	190,000	180,000
Rent				3,000	3,000	3,000	3,000	3,000	3,000
Utilities				1,450	1,400	1,250	1,250	1,250	1,400
Bank Note				-	-	7,500	-	-	-
Tax Payments				-	-	18,000	-	-	-
Capital Additions				-	130,000	-	-	-	-
Wages and Salaries				30,000	38,000	40,000	42,000	44,000	44,000
Insurance				475	475	475	475	475	475
Advertising				1,600	1,600	1,500	2,000	2,000	2,200
Interest				-	-	-	664	817	-
Miscellaneous				500	500	500	550	550	550
Total Cash Disbursements				177,025	314,975	282,225	234,939	242,092	231,625
End-of-Month Balance									
Beginning cash balance				12,000	142,500	48,185	10,000	10,000	14,218
+ Cash receipts				307,525	220,660	188,880	215,685	266,310	296,815
- Cash disbursements				177,025	314,975	282,225	234,939	242,092	231,625
Cash (end-of-month)				142,500	48,185	(45,240)	(9,254)	34,218	79,408
Borrowing				-	-	55,240	19,254	-	-
Repayment				-	-	-	-	20,000	53,830
Final Cash Balance				**N142,500**	**N48,185**	**N10,000**	**N10,000**	**N14,218**	**N25,578**
Monthly Surplus/ (Deficit)				130,500	(94,315)	(93,425)	(19,254)	24,218	65,190

Comparing forecasted amounts to actual cash flows and learning the causes of any significant discrepancies allows entrepreneurs to improve the accuracy of future cash budgets. Creating a cash budget requires five basic steps:

2. Determining an adequate minimum cash balance.
3. Forecasting sales.
4. Forecasting cash receipts.
5. Forecasting cash disbursements.
6. Determining the end-of-month cash balance.

Revision Questions

1. Explain the importance of cash management to an entrepreneur's success in business. Why must entrepreneurs concentrate on effective cash flow management?
2. Differentiate between cash and profits. Why is it imperative to distinguish cash from profits?
3. Elucidate on the five steps in creating a cash budget, and use them to create an imaginary cash budget.
4. Explain the techniques for avoiding cash crunch in a small company. What steps can an entrepreneur take to conserve cash within his/her company?

CHAPTER FOURTEEN
Putting Your Business Plan to Work

14.1 Introduction

Capital to start a new business is always a crucial element in creating new ventures. Raising the money to start a new business venture has always been a big challenge for budding entrepreneurs. Although, there are various sources of finance for small businesses, it all depends to a large extent on the nature of business, its size and legal form. The following are some sources of capital for small business in Nigeria:-

(i) Personal savings of the budding entrepreneur.
(ii) Borrowing from friends, relations and associates.
(iii) Borrowing from banks generally.
(iv) Borrowing from the Bank of Industry (BOI).
(v) Small and Medium Enterprises Equity Investments Scheme (SMEEIS).
(vi) Other sources of finance.

Most budding Nigerian entrepreneurs usually start their business through personal savings and also by borrowing from friends, relations and associates. The reason is because Nigerian banks do not have the policy of lending to people wishing to start new businesses since they are regarded as **too risky** for them. As a matter of fact, Nigerian banks have always preferred to approach booming businesses, rather than come to the aid of a struggling new business venture.

At this stage it is more appropriate to refer readers to Chapter Five, under the heading of various Existing Industry and Support Agencies, including Commercial and Development Banks in Nigeria.

The role of various support agencies and Nigerian banks are lucidly examined and highlighted under that chapter which also discusses the role of banks towards the entrepreneur.

In the face of this capital crunch, business's need for capital has been examined there. However, when searching for capital to launch their companies, entrepreneurs must remember the following "secrets" to successful financing, according to one Financial

Consultant, Dayan Gupta, writing in the "Wall Street Journal" of USA, May 22nd, 1998, on page 28, in an article titled "The Right Fit":-

(i) "Choosing the right source of capital for a business can be just as important as choosing the right form of ownership or the right location. It is a decision that will influence a company for a lifetime; so entrepreneurs must weigh their options carefully before committing to a particular funding source. It is important that companies in need of capital align themselves with sources that best fit their needs. This is because the success of a company often depends on the success of that relationship.

(ii) The money is out there; the key is knowing where to look. Entrepreneurs must do their homework before they set out to raise money for their ventures by understanding which sources of funding are best suited for the various stages of a company's growth.

(iii) Raising money takes time and effort. Sometimes, entrepreneurs are surprised at the energy and time required to raise the capital needed to feed their cash-hungry, growing businesses. The process usually includes lots of promising leads, most of which turn out to be dead-ends. Sometimes entrepreneurs also discover that raising capital becomes an on-going job, because it even continues after operations kick off in the new company.

(iv) Creativity counts in raising capital for the business. Though some "traditional sources of funds" now play a lesser role in small business finance than in the past, other sources – eg. SMEEIS, BOI etc, are now more functional. To find the funding or financing their businesses demand, entrepreneurs must use as much creativity in attracting finance as they did in generating the ideas for their products and services.

(v) Be thoroughly prepared before approaching potential lenders and investors. In the hunt for capital, tracking down the prospective financier is not usually easy. So it is advisable to be ready to present your business idea to potential lenders and investors in a clear, concise convincing way. It of course, requires a solid business plan, and well-rehearsed programme on the part of the entrepreneur to convince potential investors and lenders.

(vi) Entrepreneurs should not over-estimate the importance of making sure that the "chemistry" among themselves, and their funding sources is a good one. Too many entrepreneurs get into financial deals because they needed the money to keep their businesses growing, only to discover that their plans do not match that of their financial partners.

This chapter will guide the reader through the myriad financing options available to entrepreneurs, focusing on both sources of equity (ownership), and debt (borrowed) financing.

14.2 **Planning for Capital Requirements**

Becoming a successful entrepreneur requires one to become a skilled fund raiser, a job that usually requires more time and energy than most business founders realize. **Capital** is any form of wealth, employed to produce more wealth; it exists in a typical business including cash, inventory (or stocks), plant, machinery and equipments, etc. Entrepreneurs have access to two different types of capital – ie. equity and debt.

Equity Capital vs. Debt Capital

(a) **Equity Capital** represents the personal investment of the owner (or owners) of a business, and is sometimes called **risk capital** because these investors assume the primary risk of losing their fund if the business fails. If a business succeeds however, founders and investors share in the benefits which can be quite substantial or big. For instance, the founders and early investors in the following American multinational companies became multi-millionaires when the companies went public and their equity investments paid off:- Yahoo, Sun Micro-Systems, Federal Express, Intel, and Microsoft Inc of USA. Google of USA which started with an investment of $25 million in 1999 became a multi-billion company worth $3 billion when it made its initial public offering five years later. The situation of Nigerian Companies going public is not quite clear yet.

To entrepreneurs, the main advantage of equity capital is that it does not have to be repaid, like a loan does. Equity investors are entitled to share in the company's earnings (if there is any), and they usually have a voice in the company's activities and future direction. The primary disadvantage of equity capital is that the owner (or entrepreneur) must give up some of the ownership in the business to outsiders; - sometimes half of the shares, or less. Entrepreneurs are most likely to give up significant amounts of equity in their business at the start-up stage than at any other time. To avoid having to give up control of their companies early on, entrepreneurs should strive to launch their companies with the least amount of money possible. But, will such companies be able to survive with little initial amount of equity is yet another matter of conjecture.

(b) **Debt Capital** is the financing that a small business owner has borrowed, and must repay with interest. Very few entrepreneurs have adequate personal savings needed to finance the complete start-up costs of a small business; so, many of them must rely on some form of debt capital to launch their companies. Lenders of capital are perhaps more numerous than investors, but small business loans can be just as difficult (if not more difficult) to obtain. Although, borrowed capital allows entrepreneurs to maintain complete ownership of their business, it must be carried as a liability on the balance sheet until fully repaid with interest.

In addition, because lenders consider small businesses to be greater risks than bigger corporate customers, they normally charge higher interest rates to small companies. This is because of the risk-return trade-off, i.e the higher the risk, the greater the return demanded by the lender. Most small companies pay the prime rate, ie the interest banks charge their most credit worthy customers, plus a few percentage points. Unlike equity financing however, debt financing does not require the entrepreneur to dilute their ownership interest in their companies. Some entrepreneurs have to resort to borrowed capital only when they are unable to raise personal money to start-off their companies.

14.3 **Sources of Debt Capital**

Debt capital is a popular tool that many entrepreneurs use to acquire capital, however debt financing involves the funds that the small business owner borrows and repays with interest. This source of capital for small businesses are not yet popular in Nigeria, because of the stringent conditions which banks attach to such borrowings. However, we now turn to various sources of debt capital available elsewhere.

(i) **Commercial Banks**

Commercial banks are at the very heart of the financial market for small businesses, by providing the greatest number and variety of loans to entrepreneurs. For instance, in a study conducted by the Small Business Administration of USA, reported in the Magazine "Banking and SME Financing in USA", June 2006, Mr. Charles Ou, stated that "commercial banks contributed or provided 64.7% of all traditional debt to small businesses, compared to 12.3% supplied by commercial finance companies, the next most important source of small business lending in USA. For small business owners, banks are lenders of **first resort**".

Banks tend to be conservative in their lending practices and prefer to give loans to established small businesses, rather than to high – risk start-ups. Unfortunately for entrepreneurs in Europe and USA, the recent meltdown in the financial markets has caused banks to tighten their lending standards, which has made it more difficult for small businesses to qualify for loans.

Because new (or start-up) companies are so risky, banks prefer to give loans to existing businesses with successful track records. Banks are concerned with a firm's operating past, and will scrutinize its financial reports to project it into the future. They also want proof of the stability of its sales and its ability to generate adequate cash flow to repay the loan. If banks give loans to a start-up venture, it requires to see sufficient cash flow to repay the loan, ample collateral to secure it, or a Small Business Administration (SBA) guarantee to secure it (in USA). Unfortunately however, these things do not yet obtain in Nigeria where it is a tough task for small businesses to obtain take-off loans from commercial banks. In fact, it is virtually impossible for Nigerian banks to give take-off loans to new businesses.

(ii) **Commercial Loans (or "traditional bank loans")**

A basic short-term loan is the commercial banks' specialty. Business owners use commercial loans for a specific expenditure – ie, to buy a purchase. The terms usually require repayment as lump sum within three to six months (on instalmental basis). Two types of commercial loans exist – secured and unsecured. A **secured loan** is one in which the borrower's promise to repay is secured by giving the bank a security (or collateral). Although secured loans give banks a safety cushion in case the borrower defaults on the loan, they are much more expensive for the banks to administer and maintain, according to some banking experts.

With **un-secured loans**, the bank grants a loan to a business owner without requiring him/her to pledge any security (or collateral) to support the loan in case of default by borrower. However, this privilege is not usually extended by banks to their customers indiscriminately to avoid abuses. Until business owners can prove their company's credit worthiness to the bank's entire satisfaction, they are not likely to qualify for unsecured commercial loans.

(iii) **Lines of Credit**

One of the most common requests entrepreneurs often make of banks and finance companies is to establish a **commercial line of credit**. It is a short-term loan with set limit that provides much needed cash-flows for day-to-day operations. A line of credit is similar to bank overdrafts, and it is ideal for helping business owners to smooth out the uneven flow of cash that results from seasonal sales, slow moving stocks, rapid growth, extending trade credit and other causes. Like commercial loans, lines of credit can be secured or unsecured. Banks usually charge a small handling fee of between 1% to 2% of the maximum amount of credit, plus interest on the amount borrowed.

(iv) **Medium and Long-Term Loans**

Banks are primarily lenders of short-term funds to small businesses, although they sometimes grant this type of loans of funds to entrepreneurs. Intermediate and long-term loans which are normally secured by collateral, are usually extended for one year or longer, and are normally used to purchase fixed assets and growth capital balances. Commercial banks grant these loans for plant construction, purchasing real estate and office equipment, expanding a business, and other long-term investments. Matching the amount and purpose of a loan to the appropriate type, and length of loan is very important to the banker. This is because most commercial banks do not engage in long-term loans, as their customers could demand their deposits at short notice. Loan repayments are normally made on monthly or quarterly basis as agreed between the bank and its customer.

Revision Questions

1. Explain the importance of planning for a company's capital requirements.
2. Describe the differences between equity capital and debt capital. State also, the advantages and disadvantages of each one.
3. Discuss the various sources of equity capital available to entrepreneurs including – personal savings, friends and relatives, partners, and banks.
4. Describe the various sources of debt capital, and the advantages and disadvantages of each type; including medium and long-term loans.

SHORT BIOGRAPHY OF SUCCESSFUL MEN

1. STEVE JOBS – FOUNDER OF APPLE COMPUTERS, USA

Steve Jobs of USA started Apple Computer with a high school (or secondary school) friend, Steve Wozniak in 1976 at a Silicon Valley garage. He was forced out of the company after ten years, then returned to rescue the company. During his second coming (or second stint), Apple grew into the most valuable technology company in the world.

Jobs invented and masterfully marketed ever-sleeker gadgets that transformed everyday technology, from Personal Computers (PCs) to the iPod and iPhone. He rolled out one sensational product after another, even in the face of the late-2000's recession and his own failing health.

"In 2007, he manufactured the 'touch-screen iPhone and later its minature "apps", which made the phone a device not just for making calls but also for managing money, storing photos, playing games and browsing the web", according to Associated Press Technology Writers Barbara and Robertson in San Francisco, USA.

According to the above-stated writers, "Jobs had a wizardly sense of what his customers wanted, and where demand did not exist, he leveraged a 'cult-like' following to create it". Jobs grew up in California and after finishing secondary education he enrolled in Reed College, Oregan USA, but dropped out after a semester, because according to him, "I had no idea what I wanted to do with my life and no ideas how college was going to help me figure it out," he told Standford University students during the commencement address in 2005. Together with Steve Woznik, Jobs produced The Apple II Computer which hit the market in 1977. It was their first machine for the masses and became so popular that Jobs was worth $100 million at the age of 25. American Time Magazine put his photograph on its front cover in 1982, together with feature articles inside the magazine.

In 1983, Steve and his friend launched two computers named Liza, but in 1984, they came out with Macintosh Computer which became nearly successful. However with Apple's share price falling in 1985, the Board of Directors pushed Jobs out of his day-to-day role of leading the Macintosh team. He resigned his post as Chairman of the Board and left Apple Computers.

However, Jobs later told students at his Stanford University speech in 2005 that . . ."getting fired from Apple was the best thing that could have ever happened to me. This is because, it freed me to enter one of the most creative periods of my life," according to news reporters. Thereafter, Jobs got into two other companies. Next, a computer maker and Pixar, a computer-animation studio he bought from one George Lucas for $10 million.

Pixar, ultimately was the more successful venture but was gulping lots of money. Then Jobs came up with "Toy Story", the first computer-animated full length feature work. In 2006, Jobs sold Pixar to Walt Disney Co. for $7.4 billion in stocks, thus making him Disney's largest individual shareholder and securing a seat in the Board of the company. With Next company, Jobs ultimately shifted his focus to software manufacturing – a move that paid off later when Apple bought Next for its operating system technology, the basis for the software still used in Macintosh computers. By 1996 when Apple Computers bought Next Apple was in dire financial straits. If has lost more than $80 million in one year and had surrendered most of its market share to PCs that were using Windows. In 1977, Jobs returned to Apple Computer as "interim Chief Executive". He then slashed unprofitable projects, narrowed the company's focus and presided over a new marketing push to set the Macintosh computers apart from Windows, starting with a campaign encouraging computer users to "Think Different" – a slogan widely embraced by some computer users in American and elsewhere.

"In the decade that followed his return to Apple, Jobs returned the company to profitability while pushing out an impressive roster of new products. Apple's popularity exploded in the 2000's, as the iPod, smaller and sleeker with each generation, introduced many lifelong Windows users to their first Apple gadget," according to Tim Bajarin, while covering the company for Creative Strategies of USA. "Steve Jobs put in place at Apple a culture of innovation", says Shannon Cross, a Marketing Research Analyst in USA. Steve Jobs, 56 has recently (2011) resigned from the CEO post as a result of illness and took up the role of company Chairman. Jobs then passed the CEO role to Tim Cook, 50 years old, the company's Chief Operating Officer. Cook had been the acting Chief Executive Officer since January 2011. "The company has thrived under Cook's leadership briefly, before becoming the most valuable company in

America from the month of August 2011," according to Shannon Cross, a Research Analyst in USA.
(Source: Sunday Sun Newspaper – Special Feature (ICON) p. 34-35, August 21st, 2011). Through- Associated Press of USA 31/8/2011,

CONCLUSION

Steve Jobs – Exit Of Apple's Master Inventor and Marketer

"Under Jobs, the company cloaked itself in secrecy to build frenzied anticipation for each of its new products. Jobs himself had a 'wizardly sence' of what his customers wanted; and where demand didn't exist, he leveraged a cult-like following to create it."

"Jobs helped change computers from a 'geeky' hobbyists' obsession to a necessity of modern life at work and home, and in the process he 'up-ended' not just personal technology, but the cell phone and music industries'. "He slashed unprofitable projects, narrowed the company's focus and presided over a new marketing push starting with a campaign encouraging computer users to "Think Different" – a slogan widely embraced by computer users in USA and elsewhere", according to news reporters. Mr. Jobs died of cancer in October 2011, at the age of 56 years. Reports by: Shannon Cross, Associated Press of USA; Technology Writers Barbara Ortutay and Jordan Robertson in San Francisco, USA; also Tim Bajarim of Creative Strategies, USA.
Source: Sunday Sun Newspaper issue (ICON), Special Feature, 28th Aug., 2011.

APPENDIX I
THE SCIENCE OF PERSONAL ACHIEVEMENT

14.1 SCIENCE OF PERSONAL ACHIEVEMENT

It is the opinion of the authors that achievement, or lack of it, and the reasons behind each person's degree of success in life, are as different as the individuals who undertake the journey of life from birth to death.

Circumstances of birth such as parental background, race and origin; early or late influences, schools attended, individuals encountered, physical and geographical situation or location, etc, all contribute to the difference in the underlying pattern leading to achievement or failure of the individual.

Fortunate is the person, whose life's experiences include the opportunity for encountering individuals or books that help the individual to focus his or her mind on certain basic truths about personal achievement in life. Only a few persons were perhaps fortunate enough to have developed themselves through the guidance of masters (or mentors), who shaped their early lives towards the right path of success. But this does not however rule out the fact that other less fortunate persons cannot equally achieve success through personal efforts and commitment.

When an individual realizes the simple but profound fact that aiming towards a **specific goal** is the best assurance of "hitting the bull's eye", then he is ready to move towards success in his/her life's endeavours. According to Dr. Napoleon Hill, the American author of the Science of Personal Achievement, "any, and every created individual possesses the ability, if they follow certain guidelines, or philosophy which he calls the "Seventeen Success Principles". According to Dr. Hill, practical and sincere application of these principles, whether singly or in various combinations, has provided the blueprint for success for countless men and women throughout the world. The Seventeen Success Principles are hereby presented as follows:-

(1) **Definiteness of Purpose:**

This is the arrow aimed towards the goal. What is it that you want from life? What is your greatest goal in life? The moment you take hold of this question with your whole attention, you then begin to analyze yourself; your goals and aspirations. Also analyze your present state of affairs, and how to achieve the goal (or goals) you have set for your self.

Who are you, what are you, where are you NOW? Being thoroughly honest with yourself may be your first step towardssuccess. What road are you traveling? What are the road signs you see as you take stock of your present position? It is well to write a list of the things you want from life – such as health, personal relationships you wish to maintain, the amount of money or income you desire, the amount you wish to lay aside for old age security, the kind of home, the kind of automobile, the benefits you wish for each member of your family. These are the major purposes you must define for your future success. Map a one-year plan, five-year plan, setting forth goals of achievement for personal improvement, self-discipline, sales goals per day, per month, per year, etc.

Memorize these lists, going over them daily, early in the morning and just before going to sleep at night. Attempt at all times to remember that achievement of these goals will be determined to a large extent by your attitude and constancy of attention to them. Make your definite purposes a daily habit of prayer, conversation, and thought. By this you establish a "success consciousness" in your subconscious mind, and gradually your subconscious mind will aid you in carrying out the actions and reactions, which will lead to success.

(2) **The Mastermind Power Principle**

Having clearly defined your goals and purposes in thought and in writing, it is well to select an individual or individuals with whom you can share your plan for achievement. The mastermind principle is defined as **an alliance of two or more people, working together in a spirit of perfect harmony to accomplish, a**

definite purpose. The value of the "gathering together of those of like minds" is self-evident. Harmony in a home results when a man and woman work toward the establishment of comfort and happiness for both.

Your mutual agreement with your employer to work toward high sales is a form of masterminding. If your major purpose in life is an ambitious one that extends beyond the accumulation of the ordinary requirements of subsistence, you will need the help of others in achieving it.

The mastermind principle is a means by which you may use the experience, the education, the talent, the influence, and perhaps the finances of other people to aid you in carrying out your major purpose. Your mastermind alliance may begin with your association with one other person. The number of alliances you will require depends entirely on the nature and the extent of the purposes of your alliance. A "meeting of the minds" must be regular, must be mutually beneficial, and must always be harmonious in the basic matters of sincerity and trust.

(3) **Applied Faith**

Deeply embedded in all the process and the principles leading to achievement and success is the element of faith. Faith is a prerequisite to progress of any kind. A man does not begin a journey across the room to get a drink of water without faith. Faith that his legs will carry him the distance required. Faith that when he turns the faucet, water will pour out. Faith that as he swallows, it will quench his thirst. Is it any less an act of faith to step out toward achievement? The same Creator who gave us faith in our ability to walk to the water fountain can supply faith in our ability to reach goals in business and in personal life.

When the word "Faith" is preceded by the word "applied" it means the faith one lives by and acts by – not something one believes in but does not practice, nor the faith in one's instinct to react properly to physical stimuli.

What is it that gives faith its powerful dimension? This is achieved when the individual seizes the truth that faith comes from the infinite God, the same source of power that keeps this world in an orderly continuous movement from day to night, season-to-season, tide-to-tide.

There is nothing, complicated about the method by which you may draw upon the power of faith for guidance in circumstances and goals you desire from life.

First of all, we must come face to face with our innermost self, honestly face the choice of goals, and evaluate the distance, the work, and the circumstances that stand between us and the attainment of these goals. The thoughtful man will realize then that many things must come to pass, a price must be paid, and help from many sources must be forthcoming, if he is to accomplish all he wants. Therefore, one must put the future, the intangibles, and the yet-to-be determined elements into the hands of the Creator –or else leave all this to luck or happenstance. The thoughtful man, the ambitious man, will then put faith to work, applying it to all those elements over which he can have no control as yet. This "letting go" of certain areas, yet with a belief that all will be well when the time for personality involvement arrives – this is faith. It makes for a relaxed state of mind, sound sleep, and a confidence that attracts positive reactions from every source. Faith is the "Platformate" of human endeavour.

(4) **A Pleasant Personality**

Your personality reveals the kind of thinking you do, the ethics you observe, your mental and spiritual strengths and standards, the kind of life you lead. What constitutes a pleasing personality? How may we develop a personality, which attracts people to us?

There are many kinds of personalities, many kinds of attractiveness. Perhaps the most desired characteristic would be a positive mental attitude. "Smile and the world smiles with you, weep and you weep alone." Everyone has blue days, but the world will not long beat a path to the door of the chronically depressed man, the individual who always looks on the dark side of things. Look for the bright side of the street. Accentuate the positive.

It has been said that if you can make a man laugh, you can make him like you. If he likes you, he will also listen to what you have to say in a serious vein. Flexibility, being resilient to the constant changes and strains of life, without losing self-control, is an art, and a worthwhile one. Sincerity is an absolute. Lack of it is as evident as warts on the nose to the perceptive, sensitive, and intelligent observer. Promptness and decisiveness in decision usually denote clarity and directness of thought, self-confidence, and an uncluttered mind. Courtesy, tactfulness, tolerance, frankness, a sense of humor, a pleasant countenance, and ready smile – all help to create and sustain confidence and good relationships.

(5) **Going the Extra Mile**

This is based on the concept of giving more and better service than is expected or required, with the right mental attitude and with no expectation of immediate reward, or gain. The compensations are great, much greater than the investment. Going the extra mile insures an increase in personal courage, self-reliance, personal initiative, and it builds greater enthusiasm. It is conducive to a more positive attitude and happier, more secure position with one's co-workers and employers.

(6) **Personal Initiative**

Personal initiative is a trait much admired and if carried out with discretion and logic, can very quickly put you ahead of the crowd. Initiative, puts one in harmony with everyone around him, and with the universe as a whole. If one has a definite goal in mind, then opportunities for personal initiative are easy to find. Initiative is the first step – it is a self-reliant demonstration, which seldom goes unnoticed by those in authority. Personal initiative is self-confidence in action, and if you are moving toward a definite goal, it speeds your journey and smoothes the way for good work to become easier and more rewarding.

(7) **Self-Discipline**

Self-discipline is training which corrects, moulds, strengthens, and perfects. Your behaviour and your attitudes are expressions of your thoughts. Much of our thinking seems to be uncontrolled, random thinking, or is on a semi-conscious level. From time-to-time we are aware of our "feelings". Feelings may indicate that we have been thinking strongly on certain subjects. When we feel, we become more alert, because we have become aware of power, energy, stimulated by thought. We may be stimulated to love, faith, loyalty, or to fear, jealousy, greed and anger. Self-discipline teaches us to direct the energy generated by our thoughts into feeling – and action – what will be advantageous and strengthening. Self-discipline will help direct our energy into the most useful, successful channels.

(8) **Controlled Attention**

Controlled attention is the act of focusing the mind on a given desire, until ways and means for its realization have been worked out and successfully put into operation. Success comes after much concentration. Controlled attention to the power of our thoughts and to the energy we can generate through the mind is a vital tool. Prayer is not only worship. Prayer generates power, energy, unity, and strength. Thinking with another person on a certain subject brings new insights, and new truths. Attention focused as one individual or several, brings power.

(9) **Enthusiasm**

Enthusiasm is an emotion, the physical counterpart to our ideas. It begins and ends in our minds. Enthusiasm is harmony, and confidence. When you feel yourself taking hold of a definite idea, a definite plan, then you become enthusiastic. Enthusiasm is a feeling of confidence, an awareness of a relationship between oneself and the source of power to achieve. Speak with enthusiasm and positive-ness, move with confidence, and observe how enthusiasm grows and spreads to others.

(10) **Imagination**

"The imagination is the workshop of the soul wherein are shaped all plans for individual achievement." Man's greatest gifts is his thinking mind. It analyzes, compares, and chooses; it creates, visualizes, foresees, and generates ideas. Imagination is your mind's exercise, its challenge, and its adventure.

(11) **Learning from Adversity**

Adversity is a part of life. Every act, situation, or choice of our lives contains cause and effect. In adversities we have situations in which we are made very much aware of the effect. The cause may be known, or it may be elusive or incomprehensible. We experience a very personal, significant reaction, a strong emotion is stirred within us, and we ask, "Why?" **Every adversity carries within it the seed of an equivalent or even greater benefit**. If we can capture this truth and accept the fact that this universe is governed by **immutable laws**, which are part of a creative force, no matter how difficult it may be to see the reason-then we can ride out any storm, which besets our lives. Your attitude in time of adversity determines much of its eternal effect on your life – for good or ill.

(12) **Budgeting Time and Money**

Since your day has the same twenty-four hours in it as everyone else's in the world, you have the same opportunity as anyone for the skillful use of this time. Man has always had to harmonize with the world around him. But as the demands are made, the balance is there, if we seek it out. There is less "time" now, because automation and faster transportation and communication seem to rush us. The art of budgeting time and money is one of the hardest to master, but most rewarding. The budgeting of money is a critical issue. Our eyes tend to be larger than our pocketbooks. How much, time is there to learn to budget our money? All the time is available to us if we map it out.

(13) **A Positive Mental Attitude (PMA)**

Our mind is the only thing we can control. Either we control it, or we relinquish control, or we drift. We can do something about any situation. We cannot NOT do anything. Being negative is doing something. To govern your life, you must learn to govern your attitudes. How we react is determined by our habits of mind control and our attitudes. Are you looking for positive avenues to success? You shall find it, if you adopt a positive mental attitude (PMA).

(14) **Accurate Thinking**

Choose what you want to achieve. Determine how you will set about achieving it. Move toward that goal with definite, positive awareness and with faith. This is accurate thinking. The accuracy of your thinking is affected by the hopes, fears, desires, and attitudes you allow to stimulate you. Organize your mind. Be aware of the power of your mind. Keep it controlled, and accurate, then you can be sure of success.

(15) **Sound Physical Health**

Your thoughts affect your health. Thoughts can make you sick, or thoughts can move you toward good health, good attitudes, sound sleep, and good eating habits. Develop a consciousness of good health, and well-being. Good thinking generates harmony within our bodies, and generates physical manifestations of order and good system in our lives.

(16) **Co-Operation**

Success within and without is an evidence of co-operation. All achievement is the form of significant and successful co-operation and teamwork between individuals. Co-operation is the beginning of all organized and teamwork of all the organs. Our lives are happy when there is co-operation between us and the world around us.

(17) **Cosmic "Habitforce"**

This is perhaps the hardest to define, but it is the principle that supplies the key to the understanding and the utilization of all our inner resources. There are those who would call this the **"mystic" element of life**. If you observe and believe that there is order in the universe, the rising of the sun, the regularity of the tides, then you can see an example of a plan being carried out. There are laws by which the equilibrium of the whole universe is maintained.

There are physical laws which make our patterns of natural behaviour operate in predictable order and regularity. Blending the natural laws of the universe with our own activities help create that power, that force, that energy, which bring harmony, peace of mind, and success in life. You have the power to choose to take hold of the principles of success or face failure.

Conclusion on the Science of Personal Achievement

You have just studied an outline that can help you walk in the light of a new success beam to guide you to whatever station in life your hopes may demand. If it's a better-paying position that you need to make you happy, you may find the way to that position through mastery of the Science of Personal Achievement.

If it is closer harmony and better understanding you need in your present position, the Science of Personal Achievement can show you the way to attain it.

If the domestic relationship in your home needs improvement, this study can bring you and every member of your family the harmony, peace of mind, and understanding, which are so essential for your success in your occupation. The Science of Personal Achievement philosophy will give you a better understanding of yourself and other people, so that you may negotiate with others in a friendly spirit which inspires them to co-operate with you at all times.

If you have not been as successful in the past as you wished to be, this philosophy will help you to discover the reason why, and show you how to remove the cause, or causes. If you are in business for yourself, you can learn how to convert your customers into friendly workers, who will bring you other customers. If you are a teacher, the Science of Personal Achievement can give you that "something" extra, which will increase your earning power and help you promote yourself into wider fields of service in your profession.

APPENDIX II
PRACTICAL ILLUSTRATION OF THE FINANCIAL AND BUSINESS PLAN

Introduction

As we discussed in our earlier units, a business plan is a document that sets out what a business is going to do and how it is going to do it. As we have continued to say, the business plan is a **large picture** made up of smaller plans or pictures. One of those plans or pictures is called **the financial plan**.

The financial plan addresses all the key issues relating to the financing of the small business. In practical terms, it does appear that the financial plan is the most important of all the plans because in the first place, **it clearly shows the would-be-entrepreneur the total financial picture of a project in terms of total project cost, financial inflows and outflows**.

Again as you are aware, banks when called upon to finance a project are usually interested in the **financials of the project**. The banks want to know every detail of the financial implications of the project being submitted to them for appraisal and lending of funds. Banks want to know what the profitability of a project will be and besides, the cash flows.

The financial plan is expected to capture all this information and provide them in a manner that other third parties can read them. By third parties, we mean either the banks or would-be-investors.

CONTENTS OF A FINANCIAL PLAN

To explain the standard acceptable contents of a financial plan, we shall list them, and then go ahead to present a practical example of a plan. The following are contents of a financial plan.

- Estimates of Project Cost including Land, Buildings and things like steel structures, etc.

- Utilities costs.
- Machinery and equipment costs.
- Pre-operational expenses.
- Working capital requirement.
- Financing plan.
- Projected income statement.
- Projected cash flow statement.
- Projected balance sheet.

Practical example of a financial plan

A company is engaged in the extraction of plan kernel oil (PKO) from palm kernels. The company now plans to add a vegetable oil refining plant to its operations, so that it can convert the palm kernel oil (PKO) to vegetable oil through refining.

The company has approached a bank to help it finance the acquisition of the vegetable oil refining plant. Below is the financial plan of the proposed plant.

TASK

You are please requested to study the plan carefully and ensure that you understand it very well.

FINANCIAL PLAN

The objective of the financial plan is to determine the financial outlays and inflows of the project, with a view to establishing the commercial viability of the proposed venture. To be able to do this, the followings should be established:

- Start up costs for the project
- Revenues of the project
- Expenditures of the project
- Profit and loss profile of the project

Estimates of Project Cost		**₦**	
Land for the project		4,000,000.00	
Civil works and foundation		5,000,000.00	
Subtotal	=	**₦9**,000,000.00	(a)

Steel Structures

Including H Beams, U Channels, Angles, checker plates, railing pipes and roofing materials	13,000,000.00	(b)
Totals of (a) and (b)	= **₦22,000,000.00**	

Storage Tanks			**₦**	
2 Units crude oil tank	200 tons	-	3,000,000	
1 Unit refined oil tank	300 tons	-	2,000,000	
1 Unit fatty acid tank	50 tons	-	850,000	
1 Unit water storage tank	20 tons	-	750,000	
1 Unit furnace oil tank	20 tons	-	750,000	
1 Unit diesel storage tank	20 tons	-	750,000	
Sub Total		=	**₦8,100,000**	(c)

Utilities			
1 Unit 500 KVA Transformer	-	3,500,000	
1 Unit 500 KVA generator	-	10,000,000	
1 Unit water bore hole	-	500,000	
Sub Total	=	14,000,00	(d)
Grand Total (a + b + c + d)	=	**₦44,100,000**	

Proposed Financing Plan			**(₦)**
Particulars	**Project Sponsor**	**Bank ₦**	**Total ₦**
Land, building and steel structures	₦9,000,000	13,000,000	22,000,000
Machinery and equipment	20,800,000	77,940,000	98,740,000
Storage tanks	-	8,100,000	8,100,000
Utilities	14,000,000	-	14,000,000
Pre-operational expenses	1,450,000	-	1,450,000
Sub-Total	45,250,000	99,040,000	144,290,000
Working Capital	30,617,994	-	30,617,994
Total	**75,867,994**	**99,040,000**	**174,907,994**

Contribution Ratio:

Project	=	43.3%
Bank	=	56.7%
Total	=	100%

Schedule of Financial Assistance Required

Financial assistance is required from the bank to be applied as follows:

			₦
1.	Construction of steel structures to house the vegetable oil plant	=	13,000,000
2.	Contribution towards purchase of the vegetable oil refining plant	=	77,940,000
3.	Contribution/purchase of storage tanks	=	8,100,000
			99,040,000

Projected Loan Disbursement: 1/11/2009

MORATORIUM: 6 months from disbursement date to enable plant to be delivered on site plus commissioning.

Projected 1st Repayment due date: 30/4/2010

Quarterly Loan Repayment: **N8,674,693.00**

Interest rate: 10% per annum, per quarter

Expected date of last installment: 31/12/2012

Financial projections

The financial forecasts and projections have been arrived at on the following **bases** and **assumptions**:

Bases

1. The forecast include results as shown by the financial statements for the year ended 31st December 2009.
2. The loan of N99,040,000 will be disbursed at about the first week of November 2010. The impact of the Loan therefore on

revenues will begin to show in year 2011, which is regarded as the 1st year of the consolidated project.

3. The vegetable oil plant will commence operations latest on 1st April 2009 and working on 2 shifts per day. If the production plan for the year 2009 appears threatened, the plant will operate at full capacity to cover anticipated production gaps in year 2009. From year 2010 and beyond, the plant will run according to the production plan.
4. There will be no significant changes in government regulations that will affect labour costs and other operating expenses besides the ones in force in year 2009.
5. There will be no drastic change in the political and economic climate of the country that will adversely affect the operations of the company.
6. Government will continue to see the need to protect local manufacturers from foreign invasions.

Depreciation

Depreciation of depreciable fixed assets is calculated to write off the book value on the straight line method at the following rates:

ITEM	**%**
Land and Buildings	2.5%
Motor vehicles	15%
Furniture and Equipment	10%
Plant and Machinery	10%

Project Implementation Schedule

Loan Application and approval: 14 weeks from June 2010
Loan approval and disbursement: latest due 1/11/2009
Plant and Machinery arrive Nigeria: Latest End of February 2009.
Installation and test run of plant: March 2010 (4 weeks)
Plant commences operation: latest 1st April, 2010

Revenue Projections

From the proposed production plant, the following is the revenue profit for the project in year 1 (year 2009).

Projected Year 1 Revenues

Product	Quantity Sold (Tons)	Price Per Ton ₦	Total Revenue ₦
Refined vegetable oil	12,498	145,000	1,812,210,000
Palm kernel cake (PKC)	18,418	5,000	92,090,000
Palm kernel sludge (PKS)	1,315	4,000	5,260,000
Fatty acid	657.84	100,000	65,784,000
Total			**N1,975,344,000**

Year 2 Revenues are same as year 1 Revenues.

Year 3 Revenues are projected to increase by 5% over Year 2 revenue, due to increase in selling prices occasioned by increase in raw material inputs prices.

Year 4 Revenues are same as year 3 revenues.

Year 5 Revenues are projected to increase by 5% over years 3 and 4 due to increase in raw material input prices.

Summary of Projected Revenues

Year	Revenue (₦)
Year 1 (2009)	1,975,344,000
Year 2 (2010)	1,975,344,000
Year 3 (2011)	2,074,111,200
Year 4 (2012)	2,074,111,200
Year 5 (2013)	2,177,816,760

Production Materials and their Costs

Cracked Palm Kernel	N45,000 per ton
Bleaching earth	N88,000 per ton
Citric acid	N200, per kg
Phosphoric acid	N300 per kg

Vegetable Oil Packaging Costs

The refined vegetable oil will be sold in two ways:

1. Direct to vegetable oil distributors who will purchase the vegetable oil in tanker loads. In this case, the vegetable oil tankers will come and load vegetable oil at the factory.
2. The refined vegetable oil will be filled into plastic jerry cans of 9 litres and 18 litres capacity respectively and also sold to the market. The purpose of this is to ensure that the brand of vegetable oil will be in affordable units and prices to the market.

PROJECTED TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2009 AND 2010

	2009 ₦	**2010 ₦**
Sales	1,975,344,000	1,975,344,000
Opening Stock	30,000,000	40,000,000
+ Cost of Manufactured goods	1,576,320,178	1,588,266,114
Loss Stock at Close	40,000,000	50,000,000
= Cost of Sales	1,566,320,178	1,578,266,114
Gross Profit	409,023,822	397,077,886
DEDUCT		
Selling and distribution expenses	10,265,716	10,336,014
Administrative expenses	32,263,476	28,557,671
Total Expenses	42,529,192	38,893,685
Profit before tax	366,494,630	358,184,201
Tax provision	117,278,281	114,618,944
Profit after tax	249,216,349	243,565,257

PROJECTED CASH FLOW STATEMENT

SOURCES OF CASH	2009 ₦	2010 ₦
Earnings before interest	382,494,630	370,184,201
Depreciation	19,137,615	19,137,615
Total sources of cash	401,632,245	389,321,816

USE OF CASH	2009 ₦	2010 ₦
Loan Repayments Interest and Bank Charges	26,024,079	34,698,772
Taxation	16,000,000	12,000,000
Total use of cash	117,278,281	114,618,944
Cash Surplus (Deficit)	159,302,360	161,317,716
Opening Cash Balance	242,329,885	228,004,100
Closing Cash Balance	10,000,000	252,329,885
Total use of cash	252,329,885	480,333,985

PROJECTED BALANCE SHEET **(₦)**

ASSETS EMPLOYED	31/12/2009	31/12/2010
Net Fixed Asset	N198,538,111	N179,689.09
INTANGIBLE ASSETS		
Preliminary Expenses	55,000	55,000
CURRENT ASSETS		
Stock –in-Trade	180,000,000	290,000,000
Raw Materials	140,000,000	300,000,000
Debtors and Prepayments	60,012,378	70,000,000
Cash and Bank Balances	12,000,000	7,767,313
TOTAL	**590,605,489**	**847,511,409**

CURRENT LIABILITIES	₦	₦
Creditors and Accruals	53,000,000	70,000,000
Bank Overdrafts	15,000,000	14,000,000
Tax Provision	117,278,000	114,618,944
TOTAL	**185,278,000**	**198,618,944**
FINANCED BY		
Share Capital	1,000,000	1,000,000
RESERVES		
Profit and Loss Account	341,031,503	584,596,479
Director's Current Account	63,295,986	63,295,986
Total	**509,605,489**	**847,511,409**

CONCLUSION

In this chapter, we discussed the financial plan and we went ahead to use a practical example to demonstrate what the financial plan should look like in real life. For our real life example, we used a Vegetable Oil Refining Plant. We did also advise that you study the worked example carefully, so that you can understand a Financial Plan properly.

SUMMARY

We have fully seen that the financial plan is a very important document both for the entrepreneur and the bank which is expected to finance a would-be-project. It brings out all the fine details of a project as far as finance is concerned. (For further information, please contact the authors).

APPENDIX III
THE ECONOMIC PLAN AND BUILDING THE WINNING TEAM

Introduction

All along, we have tried to dissect a business plan, and by so doing, we broke the business plan into a number of smaller plans like the marketing plan, the financial plan, etc.

When we discussed the financial plan, we set out to examine and evaluate certain things like cash in-flow and outflows. At the end of the day, the financial plan discloses whether a would-be small business will be profitable or not.

However, when we are discussing revenues and costs in Naira terms, we are simply considering the thinking of an investor or bank. Most of the items in the financial plan are micro elements as far as an economy is concerned. What we are saying is that the financial plan is a **micro view** of a project from an investor's narrow view point.

The Economic plan unlike the financial plan considers projects from a **macro economic view** point, as opposed to a micro view point. The economic plan looks at the business from the total view in terms of planned impact on the macro- economic environment.

Economic and Financial Analysis (A Comparison)

The financial plan tries to see a would-be project from an investor's view point. That is essentially a micro view. In the alternative, the economic plan tries to see a would-be project from a national view point, or better still, a macro economic view point.

Both financial and economic plans are talking of resources and how the resources will be allocated. Both of them seem to be concerned with resources allocation problems. In the end, both the financial plan and the economic plan seek to provide answers as to whether an investment project will be undertaken or not. However, there are differences between the financial and economic plan.

We will stress from the onset the fact that they differ in their underlying objectives. The financial plan arranges resources without any consideration of the society in which the would-be business will be located.

On the other hand, the Economic plan tries to arrange or display resources with full consideration of the impact of a project on the entire society.

Another important point to note is that both the Economic plan and the financial plan try to evaluate a project in terms of benefits, differently from the financial or economic plan.

In the Financial plan, costs and benefits are usually reduced to Naira and Kobo terms. But in the economic plan, costs and benefits go beyond naira and kobo terms. For example in the economic plan, costs are usually expressed in terms of opportunity costs or foregone costs to the society as a whole.

Commercial Production of Laundry bar Soap (A Practical Idea for Class Discussion)

Laundry soap is used mainly for washing. It is found in every home, office and factory because of its importance. Although powdered soap and liquid soap are soaps found on the market shelf, laundry soap is preferred because it is not hard on textiles.

In the Nigerian market, manufacture of laundry bar soaps used to be dominated by such big names as Lever Brothers, PZ etc. However, in the wake of the structural adjustment programme (SAP) a lot of small scale entrepreneurs have sprung up and are currently giving the big names a tough fight. The advantage of the small scale producer is in the area of overheads and operational flexibility. The key to success in soap business is quality and lower prices.

Technical Information

The production of soap is a simple chemical reaction referred to as **Saponification**.

The simplest way to explain saponification is to write the Chemical Equation: oil (fatty acid) + caustic soda = soap + glycerol. Incidentally this equation is learnt at secondary school level chemistry and does not need extra clarification. The basic materials required for production of soap are palm kernel oil or palm oil, caustic soda, liquid sodium silicate, dyes and perfumes (where required). The basic equipment are the preparation tank, mixing tank, solidification boxes, soap slicer and soap stamper.

Production Process

There are three different methods employed in the production of laundry bar soap namely: the full boiled process, the semi-boiled process and the cold process. The cold process is the one discussed in this write-up. Caustic soda is dissolved in water in the preparation tank and left overnight. It is important that it stays for at least 24 hours to enable the chemical reaction to be completed. The specific gravity should come up to 13000kg/m^3.

A measured quantity of palm kernel oil is put into the mixing tank. A measured quantity of caustic soda solution is added into the mixing tank and stirred properly for at least 10 minutes.

Then sodium silicate, soda, ash in solution, and dye is added in measured quantities. Stirring continues for another 10 to 15 minutes with perfume added if desirable. Pour the soap into the solidification boxes, which have nylon underlay. Leave the soap to harden. After about 15 hours, you have a hard soap. With the use of the slicing machine the soap is cut into shapes, while the soap stamper affixes the name of the soap on it. The bar soap is packaged and ready for the market.

FINANCIAL HIGHLIGHTS	**₦**
Pre-Investment Outlays	30,000
Rent/ Accommodation	100,000
Machinery / Equipment	100,000
Utilities	30,000
Working Capital	100,000
Total Project Cost	**360,000**
Projected Year 1 Income	2,800,000
Projected Year 1 Expense	1,400,000
Projected Year 1 Profit	1,400,000

CHECK-LIST	Have you covered this in the plan? Tick Yes or No.
Will the project generate employment in the economy? If yes to what extent? No. of skilled hands that will be employed ………………………… Will the project lead to economic growth? Will the nation save foreign exchange if the project is undertaken? If yes, what amount of foreign exchange? What are the forward and backward linkage effects of the project? Will the project lead to technical education? What are the social costs of the project to the economy?	

SELF ASSESSMENT EXERCISE

List four institutions whose products are described as services.

A Practical Business Idea for Class Discussion/Assignment

Laundry and Dry Cleaning Outfit

The advancement of the Nigerian society generally has a great impact on the life styles of the population. Today in the home, both parents (man and wife) find themselves working for a living. As a result of this, little or no time can be squeezed out to do laundry work. With the explosion in the number of bank workers, oil companies employees, insurance workers, soldiers and a whole lot of others in the economy, demand for both laundry and dry cleaning services has become rather very encouraging for the articulate investor.

It is on record that most suits worn by corporate men and women are usually dry cleaned, and at higher cost to the user of dry cleaning services. On the average, it costs about N500 (averagely) to dry-clean a suit in places like Lagos, Port Harcourt and other places in Nigeria. The better way of estimating dry cleaning services in Nigeria is to imagine the huge workforce in corporate Nigeria, and their various laundry and dry cleaning requirements.

Technical Considerations

The project under consideration here is a modern compact customer-driven laundry and dry cleaning outfit that seeks to provide services to the middle and upper segment of the market. Working on a single shift of 8 hours, the outfit can process 1,000 pieces of laundry items and 300 units of dry cleaning items on a daily basis.

Although the real life performance of this project will be dictated by market forces, the financials of this project write-up are based on a working output of 2 shifts per day, and 300 working days in a year. The key equipment required for the project includes the following:

Complete set of dry cleaning equipment, high and rugged washing machines (industrial models), dryers, laundry vats and racks. A dedicated water bore hole and stand-by power generating plan is a must, if the project is to remain focused, dedicated and competitive in its market niche. The strategy of the business will be built around "quality" and low cost production competencies. To reach a wider segment of the target market, it is recommended that collection centers be established through reputable chains in the catchment market.

The collection centers will be paid commission based on their daily collections.

FINANCIAL HIGHLIGHTS	**(₦)**
Pre-Investment Outlays	100,000
Rent/ Accommodation (2 years)	200,000
Machinery and Equipment	2,000,000
Utilities	500,000
Working Capital	200,000
Total Project Cost	N3,000,000
Projected Year 1 Income	30,000,000
Projected Year 1 Expense	26,000,000
Projected Year 1 Profit	N4,000,000

APPENDIX IV
ACCOUNTING RECORDS FOR SMALL BUSINESSES

Introduction

In order to control his or her operations, the small business owners need to have a good understanding of financial statements and the basic fundamentals of accounting record keeping. The financial statement and the accounting records kept are interdependent, because the financial statement is usually generated from accounting records.

So if we are to understand these two areas – financial statements and accounting records, it is better we started by discussing financial statements.

1. Financial Statements

We can define a financial statement as the summary of a business enterprise's transactions for a particular period of time. For our discussion here, we shall restrict ourselves to only three items namely:

- The Balance Sheet
- The Income statement or Profit and Loss Account
- The cash flow statement, and
- We shall examine each of these items separately.

(a) **The Balance Sheet**

A balance sheet is a financial statement that reports a business's financial position as at a specific date. Many accountants tend to see the balance sheet as a picture taken at the close of business on a particular day. What this means is that you can show the financial position of a company as at the end of a month, end of quarter or at the end of a financial year.

Basically, the balance sheet is divided into two parts namely: assets and liabilities. Assets are the financial resources owned by the firm. We shall list the items later. Liabilities are claims which creditors have against the firm. They are also described as the debts of the firm or business. Generally, liabilities can be divided into two categories:

- Short term and long term.
- Short term liabilities are those that should be paid off within 12 months, eg. creditors, taxes, bank overdrafts, etc.
- Long term liabilities are those that are not due within 12 months, eg. middle or long-term loans, etc.
- To aid our discussion, we have drawn up an imaginary balance sheet for a company called Sans Nig. Limited.

You are requested to study the balance sheet and make sure you understand it. However, it is advisable to study the Balance Sheet and Income Statements in any standard Accounting textbook, as it is bound to be of immense benefit to the reader.

SANS NIGERIA LIMITED, BALANCE SHEET
AS AT 31/12/2009

Current Assets:	**N000's**	**N000's**
Cash and bank balance	15,549.00	
Debtors and Prepayments	3,000.00	
Stock-in-trade	50,000.00	
	68,549.00	
Less: Current Liabilities:		
Trade Creditors	2,000.00	
Tax Provisions	18,721.00	
Net Current Liabilities		47,828.00

Fixed and other Assets:		
Land and Buildings	50,000.00	
Machinery and Equipment	30,000.00	
Motor vehicles (Net)	28,054.00	
		108,054.00
		N155,882.00

Financed by:	₦
Share Capital	20,000.00
Deposit for shares	30,000.00
Director's Loan	81,199.00
Profit and Loss Account	24,683.00
TOTAL	**N155,882.00**

Explanatory notes on the balance sheet

(a) **Current Assets**

These are assets which can easily be turned into liquid cash within a very short time (if there is need), especially if the company requires money to meet urgent business needs.

(b) **Current Liabilities**

These are debts or financial obligations which the company should settle within a twelve month period. They are usually short-term business debts. The net **difference** between current assets over current liabilities is known as Working Capital, or Net Current Assets. But where current liabilities exceed Current Assets, the difference is known as negative working capital. It means that the company shall not be able to meet up its business obligations as they fall due without selling off some assets, or borrowing from the bank.

The reader is advised to refer to any standard Accounting textbook for more information on the Balance Sheet and Income Statement (or Profit and Loss Account), since they are very important for running successful business enterprises.

The Income Statement

The Income Statement or (Profit and Loss Account), is a financial statement that reports the success, (profit) or failure (loss) of a business during a period. The period could be one month, a quarter or a year. But most income statements cover a one year period.

The Income Statement normally report the revenues, i.e gross sales made by the business over a period, it also reports expenses made by the business over a period.

Net income is the excess of revenue over expenses, during a certain period. If revenues exceed expenses, the result is a profit; but if expenses exceed revenues, the result is known as a loss.

To aid our discussion, we have drawn up an income statement for an imaginary company called Landol Nigeria Ltd. You are requested to study the Income Statement and ensure that you understand same.

REVENUES	**₦**	
Income from book sales	792,000,000	
Income from magazine sales	47,280,000	
TOTAL REVENUE	839,280.00	(a)
DIRECT COSTS OF PRODUCTION		
Production Materials	567,927,360	
Electricity and gas	6,880,000	
Repairs and maintenance	500,000	
Depreciation	3,346,000	
TOTAL DIRECT COSTS	578,653,360	(b)
INDIRECT COSTS		
Management and Labour	2,508,000	
Interest and bank charges	3,000,000	
Selling expenses	7,250,000	
Insurance of assets	50,000	(c)
TOTAL INDIRECT COSTS	12,808,000	(d)
TOTAL DIRECT + INDIRECT COSTS	591,461,360	(e)
PROFIT BEFORE TAX	N247,818,640	(f)

Table 9.2 Income Statement

Note: To arrive at Profit Before Tax (PBT):-

Total indirect costs + Direct Costs	=	N591,461,360	(e)
Subtracted from Total Revenue (a)	=	N839,280,000	
PROFIT BEFORE TAX	=	**N247,818,640**	(f)

To arrive at closing cash Balances:

Total Cash Inflows	=	N251,164,640	(g)
Less: Total outflows	=	10,600,000.00	(h)
Closing cash balance	=	N240,564,640	(i)

The Cash Flow Statement

The cash flow statement shows the inflows and outflows of cash for a period. The cash flow statement provides an insight into how the cash generated by a business were spent, and the level of the liquidity of a firm.

INFLOWS	**₦**	
Profit before taxation	244,818,640	(e)
Add back depreciation (estimated)	3,346,000	
Total Inflows	251,164,640	(f)
OUTFLOWS	**₦**	
Loan repayment	Nil	
TOTAL OUTFLOWS	10,600,000	(g)
Inflows less outflows	10,600,00	(h)

A Practical Business Idea for Discussion

Commercial Production of Garri

Garri is produced from cassava tubers which are widely grown in most Southern parts of Nigeria. Garri – a food rich in carbohydrate is an important food item in most Nigeria homes. Garri can be taken ordinarily by soaking in water, especially during hot periods. The relative cheapness of garri when compared to pounded yam, semovita, etc, makes it a favourable commodity on the Nigerian food table.

Technical Considerations

The project under discussion is a small scale garri production plant using cassava as raw material. Working on a single shift of 8 hours each per day, total output of 3 tons of garri is possible. However, actual production in this write-up is based on 2 shifts per day, and 300 working days per year. The key equipment required in the production of garri are grater, fermentation vats, hydraulic press and frier (wood or gas-fired).

Production Process

Cassava tubers are peeled and washed after which they are grated by the grater. The resulting pulp is kept in the fermentation vat for four days to ferment after which the cassava mash is pressed by the hydraulic press to remove water. After removing the water contents, the resulting cassava cake is sieved and fried. After frying, the garri is packaged in bags ready for the market.

TECHNICAL DATA

Plant installed capacity:	1095 tons of per annum
Plant attainable capacity:	986 tons of garri per annum
Actual Proposed Capacity:	600 tons of garri per annum
Power drives:	Electric motors 5HP single phase for graters

FINANCIAL HIGHLIGHTS	**(₦)**
Pre-Investment outlays	50,000
Rent/Accommodation (2 yrs)	100,000
Machinery/Equipment	470,000
Utilities	100,000
Working capital	100,000
Total Project Cost	800,000
Projected Year 1 Income	12,000,000
Projected Year 1 Expenses	10,000,000
Projected Year 1 Profit	2,000,000

Keeping the Accounting (or Record) Books

We had earlier discussed that financial statements are very important to all business enterprises. But we did not discuss the way the items there are sourced.

The items required are financial statement or records, generated from the accounting books and records of the firm. We shall now discuss those books and records as follows:-

(i) **Sales and Cash Receipt Journal**

The sales and cash receipt journal usually records daily sales income of a business. In a standard sales, and cash receipt journal, the journal is divided into various columns showing the following:

- Total sales
- Credit sales
- Cash sales
- Bank cash column

A good sales and cash receipt journal should be able to distinguish the goods that are sold for cash, and those that are sold on credit. As the journal is divided into debits (DR) and CR (Credit) columns, it is important that the debits and credits should balance.

(ii) **Cash disbursement, purchases and expense journal**

This journal records expenditure of funds by the business. The journal basically can be divided into various columns showing the following information.

- Payee of an amount of money
- Amount paid
- Purchases
- Other expenditures, and
- Total of each column

3. **Managing the Books of the Business**

For a small business, there are many options available to the entrepreneur in managing the books or records. The first option is to engage an Accountant as an employee of the business. The

Accountant by training can manage the books and records of the business enterprise. Alternatively, an accountant can be hired on a contract basis. The accountant comes in, may be once a month and handles all the records.

Another option is to hire an Accounts clerk, either as a staff of the firm or as a contract book keeper who will work under the supervision of an external Accountant, and who comes periodically to monitor the company's operations.

4. **Summary**

The general motive behind every organization is often complex, but profit motive is one of the most important. In profit making organizations, accounting is a facilitating and communicating device. Accounting records enable the small businesses prepare the financial statements, which are very important in measuring performance.

APPENDIX V
ICT DEVELOPMENT, NIGERIA'S FUTURE AND THE ENTREPRENEUR

1. **Preamble**

"Everyone today knows that ICT, (information and communications technology) is the key to development all over the world, but Nigeria is not yet among the big – time players", according to Mr. Tim Akano, Chief Executive Officer of New Horizon Training Centres, Lagos, at a recent press interview. According to him, "Nigeria would earn more revenue from ICT than what she currently gets from oil".

Consequently, he reiterated the need to gain respect from other countries while stressing that Nigeria has to produce technological things that people would see, and use. According to him, "though we still need oil money, but one Nigerian technology product breakthrough, will give us more revenue than what we make from oil. Countries in most parts of the world are run through taxes. So when we produce something, and by the time government places 30% tax on the individuals or companies that can churn out, say $100 billion (one hundred billion US dollars) per annum, then we are already making more money from this source than oil." Concluding, he said, "we are just starting to be part of ICT revolution with the kind of people we have today; people who can produce made in Nigeria ICT products that would be of benefit to the entire universe".

2. **Nigeria's ICT Development**

Research has shown that Nigeria is just beginning to join the ICT train. It is obvious that Nigeria was not a part of the train ten or twenty years ago. For instance, the telecommunication revolution which the media in Nigeria is celebrating is mostly foreign made. The ICT world has been fragmented and segmented, such that what Nigeria should do is to solely leverage on technology, nothing more.

Our research also clearly showed that the world's ICT base is still in the United States of America, because they saw it first and started it. But when European countries saw the revolution, they just copied it. This is the reason Microsoft of USA controls about 99% of the operating systems on computers. When we talk about Oracle, Sun Java and most others, we notice that they are all based in United States of America. It is also observed that all the major banks, telecom firms and most organizations use technologies which originate from USA.

The question now is this: will Nigeria join the world technological train? If so, when shall it be, and how long shall it take us to get there? The answers to these questions and more, rest squarely in the womb of time.

3. **ICT Development in other Lands**

When ICT revolution reached India, they merely looked for an area to dominate, so they quietly went into software development. They are presently strong in this area of ICT development.

China came along about 10 to 15 years ago, and looked for an area where it could have comparative advantage. After much work on their part, China now dominates in hardware production. So about 35% of hardware is presently produced in China and not in USA. It was previously produced in USA by Dell, but when IBM sold to Lenovo, a Chinese company' it now produced about 35% of the world's hardware. Though, some are produced in Taiwan, but the bulk of hardware is produced in China.

Our research also revealed that Chinese people work 24 hours a day, and they have been doing so for the past 30 years non stop. This is how they were able to catch up with USA. And when USA wanted to overtake Britain, they worked tirelessly until they achieved their objective. Britain was the number one industrialized country in the 1940's and before the Second World War. But when USA was ready, she had to really work harder than Britain.

When China wanted to overtake USA, she knew she had to work harder, because from her discovery, America had embraced Hollywood and other things, such as in the field of entertainment. Same thing applies to Japan, India, Taiwan, and other East Asian countries. These countries do not observe as many public holidays as we do in Nigeria. As things stand now, what are the possibilities of achieving Nigeria's goals of vision 20 – 2020 in the nearest future, since we do not appear to take industrialization seriously?

4. The Present and Future of Nigeria's ICT Development

The present state of ICT development in Nigeria was recently touched upon by Engr. Enrest Ndukwe, the former Chief Executive Officer of Nigeria Communications Commission (NCC) at a ceremony marking his formal retirement from the commission in April 2010. Engr. Ndukwe informed his audience on the occasion that ten years ago when he assumed office as the CEO of NCC, Nigeria had only 400,000 telephone lines, 25,000 analogue lines and few internet subscribers. But as at April 2010 when he was retiring from NCC, Nigeria could boast of about 78.6 million telephone lines and eleven million internet subscribers. According to Engr. Ndukwe, in 2001 Nigeria had only about $50 million invested by the international community in the telecoms market in Nigeria, compared with about $18.00 billion of foreign direct investment (FDI) in Nigeria's telecoms industry as at April 2010.

According to the former Chief Executive Officer of Nigeria Communications Commission, Nigeria is among the ten fastest growing telecoms market in the world at present. Our telecoms industry is the largest density of FDI after petroleum; according to Engr. Ndukwe. This is a remarkable feat which was achieved within a ten year period. It is our sincere hope that the new helmsman at Nigeria Communications Commission (NCC) will improve upon the solid foundation already laid by his predecessor in bringing Nigeria into the mainframe of the world's ICT community.

In conclusion therefore, the future of ICT appears bright, and every Nigerian should endeavour to support it. There are lots of business opportunities to be tapped in Nigeria's ICT because that is where our future development lie presently as a nation, not only in oil production.

The following are some areas of ICT development which Nigerians should concentrate upon-

i. Network Web design; hardware installations, Auto CAD and Desktop Applications.
ii. Software Applications and Networking Technology.
iii. Laptop Repairs, GSM Repairs, GSM marketing; Cyber-Café and Business Centre Operations, Marketing of ICT, Computers, GSM, etc.
iv. Web site designing, and Computer repairs, etc.
v. Professional certificate training courses on CCNA Network, Project Managements with ICT, and PMP Networking, etc.

As could be seen from the above, there are several areas of opportunities open to school leavers, graduates, NYSC members, unemployed persons, entrepreneurs, businessmen, etc. Almost everyone in Nigeria has one thing or another to do profitably towards ICT development in the country with the exception of illiterates, of course. Anybody who is literate at all should be able to key into ICT development.

After all, most of those who pioneered ICT development in the universe were "school dropouts" who later became famous as a result of their inventions. Most of them were neither University nor Polytechnic graduates. These people are already well known to most

Nigerians; so why can't we pioneer an innovation in ICT technology in Nigeria like they did? It is our firm belief that when Nigeria develops ICT systems, other countries shall leverage on it, and patronize us with various jobs, such as out-sourcing, computer configuration, etc.

Most Nigerians might have seen the wonders of ICT, especially the power of television transmission on display during the 2010 one-month World Cup Competition hosted by South Africa. The football matches and other events, including the run-up to the World Cup were all clearly and promptly transmitted live to television screens around the world. The pictures were very clear, such as has never been seen here before, and were watched live by an estimated 6 billion viewers around the globe, according to FIFA authorities.

There are also reports that South Africa made a profit of about $2. billion from tourism while FIFA recorded profits of not less than $3 billion. US Dollars, according to official reports. Such is the awesome power of ICT in general, and television networking in particular.

Source: Sunday Punch, 2nd May, 2011.

About the author

Dr. Charles ObioraUkemenam, is a retired Banker, Financial and Management Consultant. He holds both Master's and Doctoral Degrees from the University of Benin, Edo State Nigeria. He is also a Fellow of the Chartered Institute of Bankers (FCIB), London and Nigeria respectively; Member, the Institute of Management Consultants of Nigeria, IMCON, etc.

After serving in executive positions in some top Nigerian banks for a total period of twenty-five years, he retired voluntarily, and went into Business Education and Management Consultancy services.

He is currently the Managing Consultant/ CEO of ITCN Consults (Nigeria), Enugu. He was as well a Course Facilitator (or Lecturer), Department of Business and Human Resources Management, National Open University of Nigeria (NOUN), Enugu Study Centre for a period of five years. During that period, he handled Post Graduate programmes, such as PGD (Post-graduate Diplomas), MBA, M.Sc, MPA, etc, and also supervision of final degree projects in the Department above-stated.

He was equally a former Senior Lecturer in Banking and Finance at two Polytechnics, namely:- IMT Enugu and Federal Polytechnic Oko, Anambra State for a period of six years in both institutions.

He is the author of **Practice of Banking for Students and Professionals**, published in 2001, and other books in motivation, self-development and entrepreneurial studies currently under publication.

About the book

It is a well known fact that Entrepreneurship Development Studies is a relatively new academic programme in Nigeria's tertiary institutions. Both the National Universities Commission and National Board for Technical Education, gave approval for teaching of the above-stated courses and for the training of undergraduates who would eventually become job creators and employers of labour, instead of job seekers.

The book, Principles and Practice of Entrepreneurship Development has been designed to achieve the bold objectives set out by both the NUC and NBTE as earlier stated. It contains four main sections made up of fourteen chapters which cover all aspects of the subject matter namely:

(i) The challenge of Entrepreneurship;

(ii) Beginning considerations and building the business plan;

(iii) Building the Business Plan; Financial and Marketing consideration;

(iv) Appendices; this contains various sundry issues which trainees and undergraduates are expected to thorough imbibe.

Above all, revision questions appear at the end of each chapter; also some practical examples and their solutions are presented in the book.

Finally, the book is very comprehensive and will serve the students, un-employed graduates, self-employed persons, budding entrepreneurs and those who seek knowledge, because "knowledge is power".

Author

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