NATIONAL UNIVERSITIES COMMISSION

ENTREPRENEURSHIP STUDIES

for Distance Learners in the Nigerian University System

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Study session 1: Origin and Concepts of Entrepreneur and Entrepreneurship

Introduction

In this study session, you are going to learn about the origin of entrepreneurship, the various definitions of entrepreneurship and entrepreneur. The types of entrepreneurs and their characteristics will also be covered. Understanding this unit will provide you with a basis for understanding subsequent units of these modules.

Learning Outcomes for module 1 study session 1

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

1.1 Define and use correctly all the key words printed in bold **(SAQs 1.1, 1.2, 1.3 and 1.4)**
1.2 Discuss the origin of entrepreneurship (SAQ 1.3)
1.3 Discuss an over view of the various definitions of Entrepreneur and Entrepreneurship. (SAQ 1.1)
1.4 Differentiate between Entrepreneur and Entrepreneurship. (Provide SAQ)
1.5 State types of entrepreneurs. (Provide SAQ)
1.6 List the characteristics of a successful entrepreneur. (SAQ 1.2)
1.7 Roles of Entrepreneurs (SAQ 1.4)

1.1 Entrepreneurship – Origin

Various scholars have written extensively on the origin of entrepreneurship. What is interesting is that most of the scholars who wrote about the origin of entrepreneurship are either economists or historians. Basically, the concept entrepreneur is derived from the French concept “entreprendre” which literarily is equivalent to the English concept “to undertake”. From the business point of view, to undertake simply means to start a business (QuickMBA, 2010). From the historical point of view, Schumpeter (1951) opined that the French economist Richard Cantillon, was the first to introduce the concept "entrepreneur" in his work in 1755. He viewed the entrepreneur as a risk taker (Burnett, 2000).

However, some scholars contend that it was an economist, Jean-Baptiste Say, who analysed the concept in an advanced way in his work in 1821 where he identified entrepreneur as new economic phenomenon (Wikipedia, 2010). Given the foregoing, we can infer that the concept “entrepreneur” is almost as old as the formal discipline of economics itself (Schumpeter, 1951) especially given the fact that it was economists such as Adam Smith, David Ricardo, and John Stuart Mill who have written extensively on it, albeit referring to it as "business management”. However, unlike Smith and Ricardo, Mill stressed the significance of entrepreneurship for economic growth. Another renowned economist, Alfred Marshall buttressed Mill’s view by formally recognizing entrepreneurship as an important factor of production in 1890; he viewed entrepreneurship as organization creation and believed that entrepreneurship is the driving element behind organization (Schumpeter, 1951; Burnett, 2000).

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

- o Why is entrepreneurship important according to the various scholars?
- It is generally agree that entrepreneurship is important because of it create utility, increase society's welfare, promote economic growth and development.

1.2 An Overview of the Definitions of Entrepreneurship and Entrepreneur

1.1.1 Entrepreneurship

There are many definitions of the concept 'entrepreneurship'. For instance, Putari (2006) observes that scholars had not been in agreement in their definitions of entrepreneurship and chronicled the definitions of entrepreneurship by various scholars (Brockhaus & Horwitz, 1986, Sexton & Smilor, Wortman, 1987; Gartner, 1988). Cantillon (circa 1730) views entrepreneurship as: "self employment of any sort". In 1934, Joseph Schumpeter equated entrepreneurship with the concept of innovation and applied it to a business context, while emphasizing the combination of resources. Penrose (1963) views entrepreneurship as the activity that involves identifying opportunities within the economic system. While Leibenstein (1968, 1979) perceives entrepreneurship as involving "activities necessary to create or carry on an enterprise where not all markets are well established or clearly defined and/or in which relevant parts of the production function are not completely known". Gartner (1988) conceives entrepreneurship as the creation of new organizations.
Okpara (2000) defines entrepreneurship as the willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully based on the identifiable opportunities. In addition, Nwachukwu (1990) regards entrepreneurship as a process of seeing and evaluating business opportunities, gathering the necessary resources to take advantage of them and initiate appropriate action to ensure success.

After critically studying the above definitions, we can summarize by concluding that entrepreneurship is a function which involves the exploitation of opportunities which exist within a market.

Box 1.1 Definitions of entrepreneurship

Self employment of any sort; the activity that involves identifying opportunities within the economic system; the creation of new organizations; the willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully based on the identifiable opportunities.

Thus, from the definitions above we can see that while defining the concept 'entrepreneurship', laid emphasis on a wide spectrum of activities such as:

- Self-employment of any sort.
- Creation of organizations.
- Innovation applied to a business context.
- The combination of resources.
- Identification and exploitation of opportunities within the economic system or market.
- The bringing together of factors of production under uncertainty.

We can therefore conclude that whatever activity that involves any or all of the above activities can be regarded as entrepreneurship. Entrepreneurship refers to all the processes and activities involved in establishing, nurturing, and sustaining a business enterprise.

1.1.2 Entrepreneur

Scholars have also given several definitions of the concept 'entrepreneur'. For instance in 1816, Putari (2006) quoted Say who asserts that the entrepreneur is the agent "who unites all means of production and who finds in the value of the products...the reestablishment of the entire capital he employs, and the value of the wages, the interest, and rent which he pays, as well as profits belonging to himself." He views entrepreneurs as change agents (Say, 1816). Knight (1921) views entrepreneurs as individuals who attempt to predict and act upon change within markets.

Schumpeter (1934) conceives the entrepreneur as the innovator who implements change within markets through the carrying out of new combinations such as introduction of new techniques of production, reorganization of an industry and innovation. He further argues that the entrepreneur is an innovator, one that introduces new technologies into the workplace or market, increasing efficiency, productivity or generating new products or services (Deakins and Freel, 2009).

Cantillon (circa 1730) conceptualized the entrepreneur as: the "agent who buys means of production at certain prices in order to combine them" into a new product (Schumpeter, 1951). In Quick MBA (2010), the entrepreneur is defined as one who combines various input factors in an innovative manner to generate value to the customer with the hope that this value will exceed the cost of the input factors, thus generating superior returns that result in the creation of wealth.

The entrepreneur is the person who perceives the market opportunity and then has the motivation, drive and ability to mobilize resources to meet it (Di-Masi, 2010).
An entrepreneur is a person who has possession of a new enterprise, venture or idea and assumes significant accountability for the inherent risks and the outcome (Wikipedia, 2010).
The entrepreneur is anyone who has the capacity and willingness to undertake conception,

organization, and management of a productive venture with all attendant risks, while seeking profit as a reward (Business Dictionary, 2010). Interestingly, small business experts also have their definitions of the concept ‘entrepreneur’ (Thinking like, 2010) for instance:
Reiss (2010), views the entrepreneur as the person that recognizes and pursues opportunities without regard to the resources he/she is currently controlling, with confidence that he/she can succeed, with the flexibility to change course as necessary, and with the will to rebound from setbacks.

Pinson (2010) visualized the entrepreneur as a person who starts a business to follow a vision, to make money, to be the master of his/her own soul (both financially and spiritually) and is an "educated" risk taker. Murphy (2010) conceives an entrepreneur as a person who is dynamic and continues to seek opportunities and/or different methods of operation and will do whatever it takes to be successful in business.

Given the above wide range of factors and behaviorur which are used to define the concept ‘entrepreneur’, we can see the difficulty and impossibility of finding a unified definition of the ‘entrepreneur’. Hence, to Di-Masi (2010), the concept ‘entrepreneur’ can be best used in the past tense to describe a successful business person. Thus, entrepreneurs are business persons who identify the existence of business opportunities and based on this they create businesses thereby creating new products, new production methods, new markets and new forms of organization to satisfy human needs and wants mostly at a profit.

It should also be noted that though most entrepreneurial businesses start small, entrepreneurs are not only small business owners; they can also be big business owners. This is because successful entrepreneurs, unlike small business owners, are innovative and, when operating in an enabling business environment, can rapidly create a large amount of wealth while bearing very high risk. In fact, innovation is considered to be the strategic tool of entrepreneurs; this is one of the tools that enable them gain strategic advantage over competitors (QuickMBA, 2010). **Entrepreneurs** are individuals or groups of individuals who carryout entrepreneurship activities to build business empires.

1.1.3 Intrapreneurs

There are given situations where an entrepreneur is not able to establish his or her own business and as such has to work in an organization. In this case they are referred to as ‘**Intrepreneurs**’ i.e. entrepreneurs within an organization. These individuals are entrepreneurs in their own right because they pursue the exploitation of business opportunities as they emerge and are also visionaries within a given organization. Thus, once identified, these individuals should be encouraged to manifest their entrepreneurial abilities to the benefit of the organization otherwise they will be frustrated and may leave the organization or start their own businesses. **Entrepreneurship** is the processes and activities by which corporate organization behave entrepreneurially.

- o How is entrepreneur differ from intrapreneur
- An entrepreneur is a person who create a venture or startup a business and nature it, takes risks of bringing together the factors of production to meet the society’s need at a profit, while an intrapreneur work within an existing organization to pursue the exploitation of business opportunities

1.1.4 Technopreneur

We could also have **technopreneur**, who is an individual whose business is in the realm of high technology, who at the same time has the spirit of an entrepreneur. A technopreneur's business involves high technology or to put it more clearly a technopreneur is a technological innovator and a business man all combined in one individual (Ogundele, 2007).

1.2 Types of entrepreneur

Based on the interaction with the business environment, various types of entrepreneurs can emerge. To this effect, Rockstar (2008) identifies the four types of entrepreneurs as Innovative, Imitating, Fabian and Drone.

1.2.1 Innovative

This type of entrepreneur is preoccupied with introducing something new into the market, organization or nation. They are interested in innovations and invest substantially in research and development.

1.2.2 Imitating

These are also referred to as 'copy cats'. They observe an existing system and replicate it in a better manner. They could improve on an existing product, production process, technology and through their vision create something similar but better. This is the case of the student becoming better than the master!

1.2.3 Fabian

These are entrepreneurs that are very careful and cautious in adopting any changes. Apart from this, they are lazy and shy away from innovations.

1.2.4 Drone

These are entrepreneurs that are resistant to change. They are considered as 'old school'. They prefer to stick to their traditional or orthodox methods of production and systems.

Entrepreneurs occupy three roles, namely as agent of (1) economic change (2) social change and (3) technological change. These are referred to as behavioral roles.

The types and roles of entrepreneur notwithstanding, all entrepreneurs possess certain characteristics and are motivated to become entrepreneur due to certain factors or circumstances which we shall discuss in this unit.

1.3 Characteristics of Entrepreneurship and Entrepreneurs

Scholars do not agree on the characteristics possessed by entrepreneurs. Hence, several scholars through various studies identified several characteristics or traits possessed by entrepreneurs some of which are discussed as follows. For instance,Rockstar (2008) recognized the characteristics of entrepreneurship as:

Creative Activity: Entrepreneurship entails innovations. It deals with product innovation, production techniques innovation while bearing in mind the market;

Dynamic Process: Entrepreneurship is a dynamic process that has to bear in mind the dynamic business environment.

Purposeful Activity: Entrepreneurship is an activity embarked upon for a specific purpose. This could be for profit making purposes, for humanitarian purposes or to bring a difference to the market.
Involves Risk: Entrepreneurship is a very risky venture; entrepreneurial decisions can have far-reaching impact on the organization, people in the organization and even the economy. These decisions are critical, enormous and cannot be easily reverted.

Rockstar (2008) then identifies the following characteristics of entrepreneurs as: risk bearing ability, technical knowledge, and ability to gather financial and motivational resources. Di-Masi (2010), on the other hand, regards the major characteristics of entrepreneurs as: self confidence and being multi-skilled, confidence in the face of difficulties and discouraging circumstances, risk-taking, innovative skills, results-oriented, total commitment. Stephenson (2010) believes that entrepreneurial characteristics are: **seriousness, planning ability,** prudence, and **team work.** Hadzima and Pilla (2010) conclude that the characteristics of highly effective entrepreneurs include: ability to deal with risk, being results oriented, enthusiasm and energy, growth potential, team work, multitasking ability and improvement orientation.

Driessen and Zwart (2010), after carefully studying various researches conducted into the characteristics of successful entrepreneurs, identified three main characteristics and five secondary characteristics of successful entrepreneurs. According to them, the main characteristics are: need for achievement (n Ach), internal locus of control (ILOC) and risk taking propensity (RTP), while they also stated the five secondary characteristics as: need for autonomy (n Aut), need for power (n Pow), tolerance of ambiguity (ToA), need for affiliation (n Aff), and endurance (End). They then concluded that in these studies, successful entrepreneurs score significantly higher on these characteristics than less successful entrepreneurs, small business managers, and non-entrepreneurs (Driessen & Zwart, 2010). Other characteristics identified are: discipline, vision or creativity, calmness, risk tolerance: Focused, balance, (LifeHack, 2008), commitment, perseverance, **initiative, versatility, dynamic, knowledgeable/skilled,** emotional or mental strength, and resilience.
A careful look at the characteristics listed above reveals that some of them overlap while most of them are divergent thereby further fuelling the debate. Some of these characteristics are briefly discussed below.

Risk Bearing Ability: The entrepreneur must have the capacity to bear risk. This is because the new venture is created in an uncertain and risky environment. Di-Masi (2010, however, noted that although risk bearing is an important element of entrepreneurial behavior, many entrepreneurs have succeeded by avoiding risk where possible and seeking others to bear the risk. Basically, what he is saying here is that entrepreneurs bear calculated risks and are more than glad to let others bear their risk when it is convenient for them.

Technical Knowledge: Depending on the kind of venture created, the entrepreneur must have technical expertise about production techniques and marketing.

Ability to Gather Financial and Motivational Resources: Financial and motivational resources are needed for the creation of the new business. Sometimes the entrepreneur, as an individual may not have these resources but he/she/they should have the ability to gather it from those who have it.

Self Confidence and Multi-Skilled: The entrepreneur must have self confidence and believe in him/herself. Self-confidence is an important characteristic that enables individuals to handle any situation without having inferiority or any other type of complex. The entrepreneur also has to be a jack of all trade and master of all. He/she must possess different skills unlike other individuals. For instance, assuming an entrepreneur is a marketer, the entrepreneur should not only possess marketing skills and interpersonal skills but also language skills i.e. ability to speak more than one language. This definitely will be an added advantage!

Confidence in the Face of Difficulties and Discouraging Circumstances: The entrepreneur must be steadfast and resolute and be ready to move on even in the face of adversity. He/she should be a 'never say never' kind of person; everything is possible for the entrepreneur.

Innovative skills: The entrepreneur may not necessarily be an 'inventor' but the one that can make a difference; he/she should be able to see what others cannot see and be able to carve out a new niche in the market place.

Results-Orientated: The entrepreneur is one who knows how to get results under any circumstances either with others or through others. The entrepreneur does this by setting goals and ensuring that such goals are doggedly pursued by all concerned willingly and with joy.

Risk-Taker: The business environment is dynamic and filled with uncertainties and risk. In order to succeed the entrepreneur has to take risk. Successful entrepreneurs take calculated risks and in some cases shift the risks to others.

Total Commitment: Starting /creating a new business is a serious exercise that requires a lot of commitment and hard work. It is like bringing a child into the world and nurturing the child to adulthood. This requires commitment, dedication, hard work, energy and single-mindedness otherwise the 'child' (i.e. business) may die prematurely (Di-Masi, 2010).

Calm: Entrepreneurs need to be cool, calm and collected. They have to remain calm even when exposed to stress, emergency or crisis situations.

Focused: In getting things done and starting and maintaining a business attention has to be paid to a lot of details. Small things when not handled properly or noticed on time may lead to disastrous outcomes.

Tolerance: The entrepreneur has to relate with people. People vary in terms of their perceptions, personality, motivations and attitudes amongst other things. The entrepreneur needs to be tolerant while not being weak, in order to get things done.

Balance: Though, the entrepreneur is a human being, he/she has to be like a super human being in order for him to succeed. To this effect, he/she has to be able to balance all emotions and characteristics and remain focused and objective while having emotional or mental strength and resilience. Balance is important because too much of everything is bad.

Versatility*:* The entrepreneur has to be versatile and be ready to learn and use information technology and other technology to the best advantage.

Seriousness: The entrepreneur has to believe in him/herself and the business and get things done with total seriousness. As mentioned earlier, starting a new business is like giving birth to a child; it is indeed a very serious business.

Planning Ability: The entrepreneur must be a planner; he/she must formulate goals and develop action plans to achieve them. Planning is important for he/she who fails to plan, plans to fail!

Prudence: The entrepreneur must be versatile in financial management. This is because finance is the life-wire of the business. Also, to achieve the profit objective, the entrepreneur must engage in efficient and effective financial management, and have sound financial policies and practices.

Customer-Centric: Businesses are created to satisfy unmet needs. A successful entrepreneur must be able to anticipate customers' needs and satisfy them through his/her product offerings. To do this effectively, the entrepreneur has to adopt a customer-centric or customer-focused approach.

Team Player: Creating a successful business is a one man business but maintaining and sustaining the business cannot be done by one person. The entrepreneur needs others to work with him hence he has to have a formidable or winning team. To this effect, the entrepreneur has to be an effective team manager and recruit the right team members but the entrepreneur's most important team members are the customers for without customers a business cannot survive (LifeHack, 2008; Rockstar, 2008; Di-Masi, 2010; Driessen & Zwart, 2010; Hadzima & Pilla, 2010 Stephenson, 2010).

1.4. Roles of Entrepreneurs

In order to perform their functions effectively and operate a successful business, entrepreneurs have to perform certain roles. These roles are the same as the basic managerial roles which are identified by Henry Mintzberg in 1973. They are as follows:

Figure Head Role: The entrepreneur has to act as figure head in the organization, as such; he/she has to perform ceremonial duties. This is done by representing the organization in formal and informal functions.

Leader Role: The entrepreneur has to act as a leader because the entrepreneur is the one who brings other people together in order to create the business. Thus, he/she has to lead the people in the organization by hiring, firing, training and motivating them.
Liaison Role: The entrepreneur has to act as the link between the business and the parties outside the business.

Monitor Role: The entrepreneur acts as a monitor; he monitors both the internal and the external environment of the business constantly.

Information Disseminator Role: The entrepreneur has to act as the organizational representative and transmit information both within and outside the business.

Spokesman Role: The manager has to act as the spokesman of the business; he/she is the person for the business both inside and outside.

Entrepreneurial Role: This is the basic role of the entrepreneur; he/she launches new ideas for the business and bears the risk.

Disturbance Handler: The entrepreneur also acts as arbitrator in situations of conflict so as to maintain organizational harmony.

Resource Allocator: The entrepreneur decides on how the scarce resources of the business are allocated among its competing ends so as to achieve organizational goals and objectives.

Negotiator Role: The entrepreneur has to negotiate on behalf of the business both with the other categories of labour and other outside sources.
The specific entrepreneurial roles noted earlier on have a number of activities in each role. They are specified below:

Social Roles of Entrepreneur
- Transformation of traditional indigenous industry into a modern enterprise.
- Stimulation of indigenous entrepreneurship.
- Job or employment creation in the community.
- Provision of social welfare service of redistributing wealth and income.

Economic Roles of Entrepreneur
- Bearing the ultimate risk of uncertainty.
- Mobilizing savings necessary for the enterprise.
- Providing channel for the disposal of economic activities.
- Utilizing local raw materials and human resources.

Technological Roles of Entrepreneur
- Stimulation of indigenous technology in the production process.
- Adapting traditional technology to modern system.
- Adapting imported technology to local environment.
- Developing technological competence in self and the workforce through innovation (Ogundele, 2007).

Summary of module 1 study session 1

1 This study session discusess the evolution and definitions of entrepreneurship. It examines how the concept of entrepreneurship originated and the various ways in which various scholars have defined the concept over the years.

2 The study session also identifies characteristics of entrepreneurship and that of entrepreneurs. It also highlights the traits possessed by entrepreneurs.

3 It also examines the roles played by the entrepreneur in ensuring that the business created survives in the dynamic business environment.

4 Finally the study session identifies the different types of entrepreneurs that can emerge.

Self-Assessment Questions for module 1 study session 1

1. The concept 'entrepreneur' was first coined by……………..
    - (a) David, McCllenand
    - (b) Richard, Cantillon
    - (c) David, Hisrich
    - (d) Jean-Baptiste, Say
2. The non-continuous process of combining resources of time, man, money and materials to create products, services and ideas is ……….
    - (a) entrepreneurship
    - (b) management
    - (c) Intrapreneurship
    - (d) production
3. An individual that exhibits innovative abilities, perceives the market opportunities, and has the motivation, drive and ability to mobilize resources to meet market opportunities, while working in an existing organization is referred to as a(an)……………
    - (a) entrepreneur
    - (b) inventor
    - (c) intrepreneur
    - (d) manager
4. The characteristics of entrepreneurs as risk-bearers, coordinators and organizers, gap-fillers, leaders, and innovators or creative imitators were listed by…………….
    - (a) Adam Smith
    - (b) David Ricardo
    - (c) John Stuart Mill
    - (d) Joseph Schumpeter
5. The two disciplines where entrepreneurship originated were …… / ……
    - a. French / English
    - b. Economics / Business
    - c. Economics / History
    - d. History / French
6. The one who creates a new enterprise in a risky and uncertain environment is referred to as a (an)……………..
    - a. risk taker
    - b. entrepreneur
    - c. adventurist
    - d. leader
7. Which one of the following is not considered as entrepreneurship?
    - a. The creation of a new business.
    - b. The routine management of an ongoing operation.
    - c. Innovation applied to a business context.
    - d. The combination of resources.
8. The scholar who first stressed the significance of entrepreneurship for economic growth is……….
    - (a) Cantillon
    - (b) Mill
    - (c) Quesnay

(d) Ricardo

9. When an entrepreneur directs and controls all organizational activities to ensure that things are done properly on schedule, he is performing the........ role.

(a) leader
(b) resource allocator
(c) directing and controlling
(d) visionary

10. An Entrepreneur who starts a business with a fresh idea is simply performing a .... role.

(a) leadership
(b) resource allocator
(c) directing and controlling
(d) visionary

Solution to MCQs

Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**B**	**A**	**C**	**D**	**B**	**B**	**B**	**A**	**A**	**B**

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Study session 2: Entrepreneurial Motivations, variables, creativity and innovation

Introduction

In this study session, you are going to learn about what motivate people to become entrepreneurs, Creativity, innovation and entrepreneurial variables.

You can look around you and see products that are different from what they were years before. Also, you may notice that services are being delivered in better ways than before. These are the end results of creativity and innovation.Many organizations view innovation as the domain of Research and Development (R&D) only, or perhaps of R&D and marketing. People in manufacturing, supply chain, human resources, finance, service, and other functional areas can be creative too - if given an opportunity. Creativity and imagination are unevenly and rather randomly distributed, and one never knows where the next big idea will come from (Loewe and Dominiquini, 2006). Building a sustainable competence for innovation requires an organisation to harness the creativity of its employees. The initiative provides a chance for the organization to think more holistically about innovation from a business model perspective as accountants and plant managers' work alongside salespeople, engineers and chemists. Each team member brings his or her own expertise to the table (Loewe and Dominiquini, 2006).

Learning outcome for module 1 study session 2

At the end of this study sesion, you should be able to

2.1 Define and use correctly all the key words printed in **bold** (**SAQ2.1**)
2.2 Discuss the motivational and non-motivational influences on entrepreneurship. (**SAQ**
2.3 Identify entrepreneurship variables (**SAQ 2.3**)
2.4 Define Creativity and innovation (**SAQ 2.3**)
2.5 Explain creativity process (**SAQ 2.3**)
2.6 Discuss various forms and classifications of innovation (**SAQ 2.4**)
2.7 Discuss the phases in successful innovation (**SAQ 2.4**)

2.1 Entrepreneur motivations

Motivation is the driving force within individuals that propel them to action. **Entrepreneurial motivations** are those factors that propel individuals to become entrepreneurs. Scholars have conducted various researches on entrepreneurial motivations and have come up with several factors that motivate people to become entrepreneurs. Some scholars have adopted the trait approach and come up with certain traits and characteristics that they believe entrepreneurs possess.

Some of these characteristics have been discussed earlier on in the previous study session. However, the problem with this school of thought is that the scholars do not agree on the special characteristics that the entrepreneur possess; also it has been discovered that there are some successful entrepreneurs that do not possess some or all of the special characteristics identified.

Shane, Locke and Collins (2003) discussed the major motivations that prior researchers have suggested could influence the entrepreneurial process, as well as motivations that are less commonly studied in this area. They argue that human motivations influence entrepreneurial decisions. Furthermore, scholars are of the opinion that variance across people in these motivations will influence who pursues entrepreneurial opportunities, who assembles resources, and how people undertake the entrepreneurial process. They identify several human motivations that influence the entrepreneurial process and conclude that entrepreneurship is not solely the result of human action, (external factors also play a role e.g., the status of the economy, the availability of venture capital, the actions of competitors, and government regulations). However, if the environmental factors are held constant, they observe that human motivation plays a critical role in the entrepreneurial process. They also stress that motivational differences such as need for achievement, risk taking, tolerance for ambiguity, and locus of control, self-efficacy and desire for independence, drive and egoistic passion also influence the entrepreneurial process. They discover that people vary in their willingness and ability to engage in the entrepreneurial process because of non-motivational individual differences such as their opportunity cost (Amit, Muller & Cockburn, 2009), their stocks of financial capital (Evans & Leighton, 1989), their social ties to investors (Aldrich & Zimmer, 1986), and their career experience (Carroll & Mosakowski, 1987; Cooper, Woo, & Dunkleberg, 1989).

Other non-motivational factors that influence entrepreneurship are life-path circumstances (such as unsatisfactory work environment, negative displacement, career transition and positive pull influences) and background characteristics (such as childhood, family environment, education, age and work history) (Unilag, 2007). Bhat and McCline (2005) also studied what motivates people to become entrepreneurs and identified entrepreneurial motivators to be: Desire for Innovation, the desire for autonomy, wealth and financial independence, the achievement of personal objectives and the propensity for action ('doing') and excitement of entrepreneurship. Some of these factors are briefly discussed in the following sections.

- What are those things within you to propel you to startup a business of your own
- These entreprenurial motivations that propel an individual to become entrepreneurs and they include discovery of opportunities, need for achievement, desire to be one's own boss etc

2.2 Motivational Influences on Entrepreneurship or Bright Side of Entrepreneurs

Bright side refers to the positively energizing influence of each of the issues listed below.
Shane *et al.* (2010) identified the motivational influences on entrepreneurship as:

2.2.1 Need for Achievement

David C. McClelland, a psychologist, the father of the Need for Achievement Theory posits that individuals who are high in N Ach are more likely than those who are low in N Ach to become entrepreneurs. This is because such individuals tend to engage in activities or tasks that have a high degree of individual responsibility for outcomes, require individual skill and effort, have a moderate degree of risk, and include clear feedback on performance. In a nutshell, these individuals effectively operate in situations in which they can achieve results through their own efforts, pursue moderately difficult goals and receive relatively immediate feedback on the outcomes of their performance (Unilag, 2007).

2.2.2 Risk taking Propensity

Risk-taking propensity has been defined in the entrepreneurship literature as the willingness to take moderate risks (Begley, 1995). This motivational influence on entrepreneurship is an offshoot of the need for achievement factor, for individuals with a high need for achievement would have moderate propensities to take risk. This is because activities with moderate risk are challenging and at the same time appear to be attainable (Atkinson, 1957).

2.2.3 Tolerance for Ambiguity

According to Budner (1962), an ambiguous situation is "one which cannot be adequately structured or categorized by an individual because of the lack of sufficient cues while he defined intolerance of ambiguity as the tendency to perceive ambiguous situations as sources of threat. And Teoh and Foo (1997) define tolerance of ambiguity as the ability to respond positively to ambiguous situations. Thus, because the entrepreneur creates a new business in an uncertain and risky situation, an individual that has intolerance for ambiguity cannot be an entrepreneur.

2.2.4 Locus of Control

This refers to the extent to which an individual believes in fate and their ability to control fate. Individuals who have an external locus of control believe that the outcome of an event is outside their control, and view fate as mainly determined by external forces and luck. On the other hand, individuals with an internal locus of control believe that their personal actions directly affect the outcome of an event. Thus, individuals with internal locus of control are propelled to become entrepreneurs because they believe that they control their fate (Rotter, 1966; UNILAG GST Module 1, 2007).

2.2.5 Self-efficacy

This is conceptualized as the belief in one's ability to muster and implement the necessary personal resources, skills, and competencies to attain a certain level of achievement on a given task. Self-efficacy is basically, task-specific self-confidence (Bandura, 1997; Shane *et al.*, 2010). An individual with high self-efficacy will take negative feedback in a more positive manner and use that feedback to improve his/her performance hence is more likely to become an entrepreneur.

2.2.6 Desire for Independence

This could be in terms of financial or job independence. Independence entails taking the responsibility to use one's own judgment as opposed to blindly following the assertions of others. It also involves taking responsibility for one's own life rather than living off the efforts of others. An entrepreneur is a decision maker and must have a mind of his/her own.

The entrepreneur gives the order, while others follow! Thus, once an individual desires to be independent and take total control of his/her life, then that person is propelled to become an entrepreneur.

2.2.7 Drive

Shane *et al.* (2003) used this concept to refer to the willingness to put forth effort (i.e. both the effort of thinking and the effort involved in bringing one's ideas into reality). According to them there are four aspects of drive, namely: (1) ambition; (2) goals; (3) energy and stamina; and (4) persistence. Thus, once an individual has drive, he will be propelled to become an entrepreneur.

2.2.8 Egoistic passion

Shane *et al.* (2003) viewed egoistic passion as a passionate, selfish love of the work. According to them, the true or rational egoist passionately loves the work; loves the process of building an organization and making it profitable and is motivated to do what is actually in his/her own interest. Thus, once an individual has egoistic passion, then he/she is propelled to become an entrepreneur.

- Identify and discuss any three characteristics of a successful entrepreneurs
- *Need for achievement*: individuals who effectively operate in situations in which they can achieve results through their own efforts, pursue moderately difficult goals and receive relatively immediate feedback on the outcomes of their performance
- *Desire for independence:* This could be in terms of financial or job independence. Independence entails taking the responsibility to use one's own judgment as opposed to blindly following the assertions of others.
- *Self-efficacy* will take negative feedback in a more positive manner and use that feedback to improve his/her performance hence he/she is more likely to become an entrepreneur.

2.3. Non-Motivational Influences on Entrepreneurs or the Dark Side of entrepreneur

Non-motivational influences or the dark side is used with reference to the stress producing tendency of each of the issues discussed below.

2.3.1 Opportunity Cost

According to a study by Amit *et al.*, (2009) entrepreneurs are more likely to undertake entrepreneurial activities when their opportunity costs are lower. That is paid workers who chose to become entrepreneurs do so because they have less to lose (i.e. lower opportunity costs) by leaving their paid work.

2.3.2 Stocks of Financial Capital:

This refers to the amount of money an individual is able to accumulate or stock. Evans and Leighton (1989) found that the hazard into self-employment is constant in age. And older workers tend to have the propensity to become entrepreneurs because they would have had time to build up the capital needed to start a business unlike younger workers.

2.3.3 Social Ties to Investors

The importance of social embeddeding in the creation of a new business has been appreciated by scholars of entrepreneurship. Aldrich and Zimmer (1986) note that entrepreneurs are highly social actors and they actively embed themselves in social contexts. For instance, in the course of their entrepreneurship research, they found that immigrant entrepreneurs in many cases formed ethnic networks to share capital or business in order to overcome hostility in the host countries. Thus, given these conditions, an individual will be propelled to become an entrepreneur.

2.3.4 Career Experience

This is closely related to unsatisfactory work experience. If an individual is not happy with his/her job and has acquired a great deal of experience on the job and possesses entrepreneurial abilities, then there is the tendency for the person to become an entrepreneur.

2.3.5. Life-Path Circumstances

This refers to individual circumstances within the life-path of individuals that propel them to become entrepreneurs. These are factors such as:

2.3.6 Unsatisfactory Work Environment

When an individual is dissatisfied with his work environment or finds the work environment unconducive, then in rebellion, he will quit the job and seek alternative employment. However, if the individual in question is an entrepreneur, then he is likely going to start his own business.

2.3.7.Negative Displacement

This arises when unforeseen circumstances in an individual's life-path causes the person to make major changes in lifestyle. This could be an accident, the loss of dear ones or sponsors etc. When such occurrences happen, the individual is forced to undergo a drastic change in the lifestyle and as such may become an entrepreneur.

2.3.8 Career Transition

This situation arises when an individual is between one career-related activity and another. For instance, when an individual who was initially a copy typist goes to Secretarial School and obtains a certificate, then there is a career transition which can necessitate the creation of a new business.

2.3.9 Positive Pull Influences

This refers to centers of influence within the society. That is, individuals whom people look up to as mentors encourage a person to become an entrepreneur.

2.3.10 Background Characteristics

This has to do with factors such as: childhood, family environment, education, age and work history. It is believed that position in the family, i.e. whether first born, last born, only child, upbringing, educational level and age influence the propensity of the individual to become an entrepreneur. For instance, an issue of debate among scholars is whether entrepreneurs tend to be only child or first born child of a family. Other scholars argue that individuals are more likely to become entrepreneurs when they are between the ages of 25 and 40 years, while some other scholars contend that individuals are more likely to become entrepreneurs when they are between the ages of 22 and 55 years. Another group of scholars disagree with these positions by stating that individuals could become entrepreneurs even before the age of 22 years or even after the age of 55years (Unilag GST Module 1, 2007).

2.4 Entrepreneurship Variables

What factors affect the supply of entrepreneurship? Basically, two factors affect the supply of entrepreneurship: opportunity and willingness to become an entrepreneur. Opportunity is the possibility to become self-employed if one wants to. The primary factors that affect opportunity are:

2.4.1 The individual's intrinsic entrepreneurial ability and intuition (Allinson, Chell & Hayes, 2000).

The degree to which the spirit of enterprise exists or can be initiated in the individual is through the society, by the society and culture in which he is embedded (Morrison, 1998).

2.4.2 The general macro-economic environment.

One of the primary determinants of the supply of entrepreneurship is the willingness of an individual to become an entrepreneur. Willingness is a personalized activity. It goes beyond intentions and/or new idea conceptualization. Willingness must lead to the creation of enterprise from nothing (Timmons, 1989).It also involves the relative evaluation of work in self employment compared with one's other options for employment (Praag et al, 1995). The supply of entrepreneurship is seen thus, to be dependent on both individual level factors and general economic and non-economic factors.

To encourage entrepreneurship, policy makers can improve the economic factors that face entrepreneur by initiating reforms that increase both the market incentives and availability of credit and capital to entrepreneurs (Wilken, 1972). Therefore, instituting appropriate market and tax regulations a country can encourage and increase the supply of entrepreneurs in its population. The second major determinant of the supply of the entrepreneurship is opportunity. In order for an individual to start his own enterprise, it is necessary for him to have the credit or capital to finance the initial start-up cost. Policy makers can encourage the supply of entrepreneurship by creating programmes and institutions such as SMEDAN to encourage and assist entrepreneurs to find capital, draw-up business plans, and comply with the various business and tax regulations.

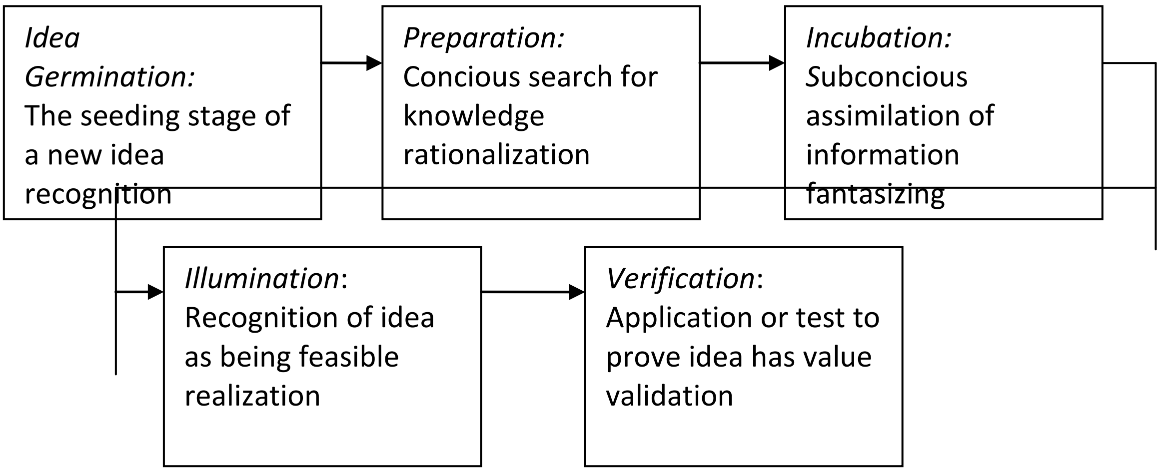
On developing entrepreneurship, new education initiatives could be created to teach entrepreneurship. By equipping more people with the skills' attitudes and characteristics to become entrepreneurs; by promoting and developing entrepreneurial spirit within the society, a country can effectively increase its supply entrepreneurs.

2.5 Creativity

The terms creativity and innovation are often used to mean the same thing, but each has a unique connotation. Creativity is '' the ability to bring something new into existence."This emphasizes the "ability," not the "activity," of bringing something new into existence. A person may therefore concieve of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. Innovation is the process of doing new things. It is the conversion of creative ideas into market place reality, which people are prepared to buy. This distinction is significant. Ideas have little value until they are converted into new products, services, or processes. Innovation, therefore, is the transformation of creative ideas into useful applications but creativity is prerequisite to innovation (Holt, 1992;)

2.5.1 Stages of creativity

Figure 1: The creative processs



Source: Holt (1992)

According to Holt (1992), the creative process comprises the following five stages as shown in figure 1:

1. *Idea germination*

Exactly how an idea is germinated is a mystery; it is not something that can be examined under the microscope. For most entrepreneurs, ideas begin with *interest* in a subject or *curiosity* about finding a solution to a particular problem.

2. *Preparation*

Once a seed of curiosity has taken form as a focused idea, creative people embark on a conscious search for answers. If it is a problem they are trying to solve, then they begin an intellectual journey, seeking information about the problem and how others have tried to resolve it. Inventors will set up laboratory experiments, designers will begin engineering new product ideas, and marketers will study consumer buying behaviour.

3. *Incubation*

The idea, once seeded and given substance through preparation, is put on a back burner, the subconscious mind is allowed time to assimilate information. Incubation is a stage of ‘mulling it over’. When an individual has consciously worked to resolve a problem without success, allowing it to incubate in the subconscious will often lead to a resolution.

4. *Illumination*

Illumination occurs when the idea surfaces as a realistic creation. This stage is critical for entrepreneurs because ideas, by themselves, have little meaning. Reaching the illumination stage separates daydreamers and tinkerers from creative people who find a way to transmute values.

5. ***Verification***

An idea once illuminated in the mind of an individual still has little meaning until verified as realistic and useful. Thus, verification is the development stage of refining knowledge into application.

According to Adams (2005), the following are critical to individual creativity:

1) Knowledge: The T-shape mind with a breadth of understanding across multiple disciplines and one or two areas of indepth expertise.
2) Thinking: a strong ability to generate novel ideas by combining previously disparate elements. This 'synergistic' thinking must be combined with analytical and practical thinking.
3) Personal motivation: the appropriate levels of intrinsic motivation and passion for one's work combined with appropriate synergistic motivators and self-confidence.
4) Environment: a non-threatening, non-controlling climate conducive to idea combination and recombination such as 'intersection'.
5) An explicit decision to be creative along with a meta-cognitive awareness of the creative process can go a long way in enhancing long-term creative results.

- What are the factors that encourage creativity
- The factors are knowledge of noble idea generation, thinking, personal motivation, environment and determination to be unique.

2.6 Innovation and its benefits

Zimmerer, Scarborough, and Wilson (2008) define innovation as the specific instrument of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. As a dimension of corporate entrepreneurship, innovation is a firm's commitment to creating and introducing products, production processes, and organisational systems (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Zahra, 1996). Innovation is the process that provides added value and novelty to the firm and its suppliers and customers through the development of new procedures, solutions, products and services as well as new methods of commercialisation (Shaw, O'Loughlin and McFadzean, 2005).

According to Knight (1997) and Kreiser, Marino and Weaver (2002) in Scheepers (2007), innovativeness refers to the capability, capacity and willingness of an enterprise to support creativity and experimentation to solve recurring customer problems. Innovativeness entails creativity and experimentation that result in new products, new services, or improved technological processes (Dess and Lumpkin, 2005). It is arguably the most essential component of corporate entrepreneurship (Fitzsimmons, Douglas, Antoncic, and Hisrich (2005).

Innovation is the outcome of the firm's effective development and use of new technologies and/or knowledge about market opportunities (Ireland, Hitt, Camp, and Sexton, 2001).

For a firm to be innovative, it needs to have a free-wheeling, "boundary less" brainstorming culture to engender creative ideas (Khandwalla and Mehta, 2004). It also requires that organisations depart from existing technologies and practices and venture beyond the current state (Dess and Lumpkin, 2005). Its attribute describes a firm's imperative to initiate newness with added value (Aloulou and Fayolle, 2005).

Innovation can lead to competitive advantage and provide a basis for firm growth (Hitt, Hoskisson, and Kim, 1997). Innovative firms develop strong, positive market reputations. They engage in opportunity exploration which includes behaviour such as looking for ways to improve current products, services or processes, or trying to think about current work processes, products or services in alternative ways (De Jong and Wennekers, 2008). Innovative firms also adapt to market changes and exploit market or opportunity gaps. Sustained innovation moreover distances entrepreneurial firms from their industry rivals, and thus increases financial returns (Bhardwaj, Sushil and Momaya, 2007).

2.6.1 Forms of Innovations

According to Hamel (1997) in Dess and Lumpkin (2005), innovations come in different forms:

Technological innovativeness primarily comprises research and engineering efforts aimed at developing new products and processes.

Products-market innovativeness consists of market research, products design, and innovations in advertising and promotion.

Administrative innovativeness is concerned with novelty in management systems, control techniques, and organisational structure.

Innovation can also be classified in terms of whether it is incremental, modular, architectural or radical (Henderson and Clark, 1990 in Hager, 2006):

Incremental Innovation: This comprises relatively small modifications to pre-existing solutions (Scheepers, 2007). In the view of Henderson and Clark (1990) in Hager (2006), this type of innovation improves and extends an established design. Improvement takes place in individual components, but the basic core design concepts and the linkage between them remain the same. An example is faster spinning hard drives.

Modular Innovation*:* This kind of innovation changes the core design of one or more components but does not change the entire product architecture. This type of innovation requires new knowledge for one or more components, but the architectural knowledge remains the same. A good example is the digital phone which replaced the analog phone, without changing the phone itself (Henderson and Clark, 1990 in Hager, 2006).

Architectural Innovation: The essence of this type of innovation is the reconfiguration of an established system to link together components and parts in a new way (Henderson and Clark, 1990 in Hager, 2006). According to the authors, architectural innovation does not mean that the components remain unchanged but they are changed in a manner that there are new ways of linkage between the components. The change is so small that the core concept behind the changed component is the same, and the associated scientific and engineering knowledge remain the same. An example is the technologies where architectural innovations reduced the size of the hard drives from 14-inches diameter disks to diameter of 3.5-inches, and from 2.5-inches to 1.8-inches.

Radical Innovation: This type of innovation brings about a new dominant design and consequently, a new set of core design concepts embodied in components that are linked together in a new architecture (Hager, 2006). Radical innovation leads to new solutions that address customer needs (Morris and Kuratko, 2002 in Scheepers, 2007). In the view of O'Connor and Ayers (2005) in Lassen (2007), radical innovation is the commercialisation of products or technologies that have a strong impact on the market, in terms of offering wholly new benefits; and the firms, in terms of generating new business.
Moore (2004) also gives the following taxonomy of innovation:

Disruptive Innovation: Gets a great deal of attention, particularly in the press, because markets appear as if from nowhere, creating massive new sources of wealth. It tends to have its roots in technological discontinuities, such as the one that enabled Motorola's rise to prominence with the first generation of cell phones.

Application Innovation: Takes existing technologies into new markets to serve new purposes.

***Product Innovation**:* Takes established offers in established markets to the next level, as when Intel releases a new processor or Toyota a new car. The focus can be on performance increase, cost reduction, usability improvement or any other product enhancement.

Process Innovation: Makes processes for established offers in established markets more effective or efficient. Examples include Dell's streamlining of its PC supply chain and order fulfillment systems.

Experiential Innovation: Makes surface modifications that improve customer's experience of established products or processes. These can take the form of delighters ("You've got mail!"), satisfiers (superior line management at Disneyland), or reassures (package tracking from FedEx).

Marketing Innovation: Improves customer-touching processes be they marketing communications or consumer transactions

***Business Model Innovation**:* Reframes an established value proposition to the customer or a company's established role in the value chain or both. Examples include IBM's shift to on-demand computing, and Apple's expansion into consumer retailing.

Structural Innovation: Capitalizes on disruption to restructure industry relationships. Innovators like banks, for example, that have used the deregulation of financial services to consumers under one umbrella.

2.6.2 Phases in Successful Innovation

Desouza, Dombrowski, Awazu, Baloh, Papagari, Kim, and Jha, (2007) identify the following five essential phases of successful innovation:

Idea Generation and Mobilisation

This phase is the starting point for new ideas. Successful idea generation should be stimulated by the pressure to compete and by the freedom to explore. Once a new idea is generated, it is conveyed to the mobilization phase, wherein the idea travels to a different physical or logical location. Because most inventors are not also marketers, a new idea often needs someone other than its originator to move it along. This phase is crucially important to the progression of a new idea, and omitting it can delay or even sabotage the innovation process (Desouza *et al.,* 2007).

Advocacy and Screening
According to the authors, this phase is the period for weighing an idea's costs and benefits. Advocacy and screening have to take place simultaneously to weed out ideas that lack potential without allowing stakeholders to reject ideas impulsively solely on the basis of their novelty. Firms will have more success when the evaluation process is transparent and standardized, because employees feel more comfortable contributing when they could anticipate how their ideas would be judged.

Experimentation
The experimentation phase assesses the sustainability of ideas for a particular firm at a particular time – and in a particular environment. In this phase, it is essential to determine who the customer will be and what he or she will use the innovation for. With that in mind, the firm might discover that although someone has a great idea, it is ahead of its time or just not right for a particular market. However, it is important not to interpret these kinds of discoveries as failures – they could actually be the catalysts of new and better ideas (Desouza *et al.,* (2007)***.***

Commercialisation
In this phase, the firm should look to its customers to verify that innovation actually solves their problems and then should analyse the costs and benefits of rolling out the innovation. According to the Desouza *et al* (2007), an invention is only considered an innovation once it has been commercialised. Therefore, the commercialisation phase is a significant one similar to advocacy in that it takes the right people to progress the idea to the next developmental phase.

Diffusion and Implementation
According to the authors, diffusion is the process of gaining final, company overall acceptance of an innovation. Implementation is the process of setting up the structures, maintenance and resources needed to produce it.
According to Loewe and Dominiquini (2006), good innovation processes share the following characteristics:
Allow divergence and exploration at the front end. This helps ensure that the new ideas generated are not simply a repeat of what has been done before.
Synthesize individual ideas into bigger platforms before selecting individual ideas to develop further. This enables the company to avoid "gambling the farm" on one idea without first learning about the larger opportunities at hand.

- o How can one be innovative?
- One can become innovative through continuous searching for better ways of doing things, it is the attitude that chalenge status quo.

Summary of module 1 study session 2

You have learnt in this study session entrepreneurial motivations, motivational and non-motivational influences on entrepreneurship. In addition, entrepreneurship variables have been examined.

You as an individual may concieve of something new and envision how it will be useful but not necessarily take the necessary action to make it a reality. Innovation is the process of doing new things. The innovation initiative provides a chance for your organization to think more holistically about innovation from a business model perspective whether as accountants, plant managers and business owner work alongside salespeople, engineers and chemists. As a dimension of corporate entrepreneurship, innovation is a firm's commitment to creating and introducing products, production processes, and organisational systems. Hence, if your firm wants to remain competitive and also prosper, it has no choice but to proactively improve its innovation effectiveness.

Self- Assessment Questions (SAQ) for module 1 study session 2

SAQ 2.1 (tests learning outcome 2.1)
Define motivation using your own words in the space provided below:
____
____
____
____
____
____

SAQ 2.2 (tests learning outcome 2.2 and 2.3)
In the table below, put the following factors under their appropriate headings:
Drive, risk taking propensity, career experience, desire for independence, self-efficacy, career transition, life-path circumstances, background characteristics, locus of control, egoistic passion.

Motivational influences	Non-motivational influences

SAQ 2.3 (tests learning outcome 2.4, 2.5 and 2.6)
Which of the following affect the supply of entrepreneurship?
Money
Love
Risk
Opportunity
2. Creativity is:
   (a) the ability to bring something new into existence.
   (b) the process of doing new things.
   (c) ability to imitate perfectly.
   (d) all of the above.
3. The first step in creative process according to Holt (1992) is:
   (a) Incubation
   (b) Preparation
   (c) Idea generation
   (d) Verification
4. The following are forms of innovation except:
   (a) Technological Innovation
   (b) Product-Marked Innovation
   (c) Administrative Innovation

(d) Idea generation

5. When innovation brings about a new dominant design and consequently, a new set of core design concepts embodied in components that are linked together in a new architecture, it is known as:

(a) Architectural Innovation
(b) Radical Innovation
(c) Modular Innovation
(d) Incremental Innovation

6. When innovation brings about the reconfiguration of an established system to link together components and parts in a new way, it is known as:

(a) Modular Innovation
(b) Architectural Innovation
(c) Radical Innovation
(d) Incremental Innovation

7. Creative process according to Holt (1992) can be classified into:

(a) 4 stages
(b) 5 stages
(c) 6 stages
(d) 7 stages

8. When innovation consists of market research, product design, and innovations in advertising and promotion, it can be said to be:

(a) Technological Innovation
(b) Product-market Innovation
(c) Consumer related Innovation
(d) Administrative Innovation

9. According to Adams (2005) the following are critical to individual creativity except:

(a) Knowledge
(b) Thinking
(c) Personal Motivation
(d) Verification

SAQ 2.4 (tests Learning Outcome 2.6 and 2.7)

Based on your knowledge of this unit, which of the following statements are true or false? Circle T for True and F for False

T F Incremental innovation comprises relatively small modific Radical innovation brings about old dominant design

T F Structural innovation capitalizes on disruption to restructure industry relationships

T F Successful innovation has six phases in all

T F An invention is only considered an innovation once it has been identified

2.10 Essay

Assuming you are asked to rate yourself as a successful entrepreneur based on entrepreneurial characteristics identified in this unit, itemize the entrepreneurial characteristic that you feel you possess. In your own view, do you qualify to be called a successful entrepreneur?

In order to perform their functions effectively and operate a successful business, entrepreneurs have to perform certain roles.
Itemize five managerial roles.
Write Short notes on three managerial roles of an entrepreneur in a small business enterprise.

Identify three non-managerial roles of an entrepreneur. Write short notes on two of them.
Scholars have conducted various researches on entrepreneurial motivations and have come up with several factors that motivate people to become entrepreneurs.
(a) Briefly discuss the motivational influences.
(b) Explain the non-motivational influences on entrepreneurship.
(c) Write notes on any two of the factors in each category.

SOLUTION TO MCQ

Ques. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Ans.	B	A	C	D	B	B	B	B	C	D	A	C	D	B	B	B	B	B

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Module 1

Study session 3: Concept of Business and Business Environment

Introduction

Introduction for session 3

In the previous session you have learned about what motivate people to become entrepreneurs and what creativity and innovation mean. In this session, you are going to learn about what business is and the components of the business environment. The session will also discuss the process of environmental scanning using the SWOT Analysis.

Learning Objectives for module 1 study session 3

At the end of this study session, you should be able to;

3.1 Define and correctly use all the key words printed in **bold**
3.2 Give various definitions of the concept ‘business’
3.3 identify and discuss the components of the business environment;
3.4 Identify the internal and external environment factors
3.5 Describe the process of scanning and analyzing business environment using SWOT.
3.6 Identify the factors to consider under SWOT

3.1 An Overview of the Concept of Business

The concept ‘business’ has been defined in different ways by various authors. It has been viewed as an economic system in which goods and services are exchanged for one another for money, on the basis of their perceived worth (BusinessDictionary.com, 2010). A business is also conceived as a legally recognized organization. It is also referred to as: enterprise, business enterprise, commercial enterprise, company, firm, profession or trade operated for the purpose of earning a profit by providing goods or services, or both to consumers, businesses and governmental entities (Sullivan and Sheffrin, 2003; AllBusiness.com., 2010).

Whatever is the definition of business, it should be known that a business is any undertaking that deals with the production and distribution of goods and services that satisfy human needs and wants. Businesses do not exist out of the ‘blues’! They are created by a special kind of labour called the entrepreneur. However, once the businesses have been created the entrepreneur has to organize all the factors of production to ensure that the business survives. The purpose for which a business is established varies and by virtue of this we have different types of businesses. For instance if a business is established for the purpose of making a profit, it is called a profit making business, otherwise, it is called a not-for-profit or non-profit making business. Also businesses could be classified as legal, when they are established in compliance with the rules of the land, government or society. Illegal businesses are those that do not follow established laws. Legal businesses can also be referred to as wholesome businesses because they are beneficial to the society. On the other hand, unwholesome businesses are illegal businesses that are inimical to the society.

For businesses to survive and achieve their set goals and objectives, they have to perform the organic business functions. These are the basic functions every business has to perform: production, marketing, finance and personnel. However, care should be taken in not confusing the organic business functions with the managerial functions. Once the entrepreneur has established the business, managers have to run the business. Management is simply getting things done through and with others. In order to get things done in the business/organization, managers among other things have to perform the managerial functions which are popularly known with the acronym, POSDCORB. POSDCORB means: Planning, Organizing, Staffing, Directing, Coordinating, Reporting and Budgeting. Businesses do not exist in isolation; they exist within an environment which is referred to as the business environment and managers have to manage the affairs of the business taking into cognizance the dynamic and complex business environment.

3.2 The Concept of Environment

The concept 'environment' literally means the surroundings, internal, intermediate and external objects, influences or circumstances under which someone or something exists (Kazmi, 1999). The environment within which something exists exhibits certain characteristics which have been identified by Kazmi (1999) to be: complexity, dynamism, multifaceted and far-reaching impact. These are apart from the simple and stable environmental conditions.

The business environment is simply the surroundings within which a business exists. The environment of the business exhibits the following conditions and characteristics. These are:

Stable Condition: This environment is highly predictable, thus permitting a great deal of standardization (work process, skills and output) to take place within the organization.
Simple Condition: This environment is one where knowledge can be broken down into easily comprehended components (Minzberg, 1979).
Dynamism: The business environment is not static. It is dynamic and as such changes continuously. This is because of the interactions of the various factors that make up the business environment.
Complexity: The business environment is not simple; it is complex by virtue of the various components that comprise it and the interactions and interrelationships among these factors.
Multifaceted: The business environment is many-sided. It can be viewed from many angles by the parties involved. Hence, an occurrence that is viewed as strength to an organization may be perceived as a weakness by another.
Far-reaching impact: The happenings in the business environment can have enormous impact on the organization. It could have the ripple effect. This is because the business environment can be conceived as a system, specifically an open system made up of different components that interact and interrelate with one another. Hence, once there is a problem or development with one aspect/sector, it could have far-reacing impact on the other aspects/sectors (Kazmi, 1999).

By virtue of the above characteristics, it is important for the entrepreneur to monitor the business environment constantly. Thus, it is of fundamental importance for the entrepreneur to monitor both the key macro-environmental forces (demographic/economic, technological, political/legal and social/cultural) and micro-environmental forces (customers, competition, distribution channels, and suppliers) that will affect their ability to earn profits in the market place (Kotler, 1995). These macro-environmental forces and micro-environmental forces are the components of the business environment.

- o Why is business environment important to an entrepreneurs?
- It is important because it determines the success or otherwise of their venture. Also it is within the environment discover opportunities. Threats to the business success are equally found within the environment. It is absolutely necessary for entrepreneurs to understand the environment.

3.3 Components of the Business Environment – An overview

Scholars have classified the business environment using various basis or criteria. This notwithstanding, it should be noted that the business environment is made up of the internal and the external environment and the main macro-environmental forces/factors found in the external environment and micro-environmental forces/factors/ in the internal environment of the business. These are discussed briefly in succeeding sections.

Internal Environmental Factors*:* The internal environmental factors refer to those factors over which the entrepreneur has control, at least in the short run; this is why it is also called the controllable environment of the business. The internal environment of the business is made up of all those physical and socials factors within the boundaries of the business, which impart strengths or cause weaknesses of a strategic nature and are taken directly into consideration in the decision-making behavior of the business. Strengths are inherent capacities, which a business can use to gain strategic advantage over its competitors; they are the internal strong points of the business such as: its core skills, competencies and expertise. While weaknesses are inherent limitations or constraints, which create strategic disadvantages, they are the internal factors that are lacking in the business. A successful entrepreneur will find ways of overcoming the weaknesses and convert them into strengths (Ifechukwu, 1986; Kazmi, 1999; Business-Plan, 2010). The internal environment of the business is made up of micro-environmental factors such as: organizational goals and objectives, specific technologies utilized by component units of the organization, the size, types and quality of personnel, its administrative units, and the nature of the organization's product/service (Ifechukwu, 1986). The nature of a business' internal environment is also determined by the organizational resources, organizational behaviour, strengths, weaknesses, synergistic relationships and distinctive competence (Kazmi, 1999).

Kazmi's (1999) views **Organizational resources** as the physical and human resources used as inputs in the organization to create outputs.

Organizational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organization.

Strengths are inherent capabilities that give strategic advantage.

Weaknesses are inherent limitations or constraints, which create strategic disadvantage.

Synergy is an idea that the whole is greater than the sum of its parts, i.e. 3+3=7.

Distinctive competence: The specific ability possessed by a particular organization that distinguishes it from others.

Organizational capability: This is the inherent capacity or ability of an organization to use its strengths, and overcome its weaknesses in order to exploit opportunities and face threats in its external environment.

3.3.1 Intermediate Environmental Factors

Intermediate determinants of entrepreneurship ideally represent issues or factors in the borderlines between strictly internal and external factors affecting entrepreneurship. Generally they include the customers and the suppliers who are the links between the organization and the purely external environmental factors. They also include various support systems, both private and public e.g. legal firms and public relations agencies. Some of such support systems include:

The National Directorate of Employment (NDE): This was established by the Federal Government of Nigeria in November, 1986. It was designed to work out strategies for dealing with mass unemployment in the country especially among the school leavers and college graduates. The mandate given to NDE is executed within the framework of four core programmes. These are:

- The Small-Scale Industries and Graduate Employment and Vocational Skills Development.
- Support for Agricultural Programmes.
- National Youth Employment and Vocational Skills Development and
- Special Public Works Programmes.

NDE executes its programmes by providing financial support and training and development for existing entrepreneurs and new entrants into entrepreneurship (Ogundele, 2007).

Some Financial Support Systems: These include:

- Small Industries Credit Committee.
- National Economic Reconstruction Fund.
- Small and Medium Enterprises Loans Scheme.
- Micro Finance Banks.
- Nigerian Industrial Development Bank.
- Extension Services Units: The Federal Government in 1964 established Industrial Development Centres (ADC) located in Oshogbo, Owerri and Zaria. They were to provide extension services to small and medium scale enterprises in terms of technical appraisal of loans application, managerial assistance, product development and production planning and control. Later more were created to have IDC in each state of the Federation.

Technical and Technological Related Support Systems: These include:

- The Federal Institute of Industrial Research, Oshodi (FIRO).
- Project Development Institute (PRODA) in Enugu.
- Rural Agro-Industrial Development Council (RMRDC) etc.

These were established to provide technical and technology related support for Nigerian entrepreneurs. These support systems as intermediate factor have closer links with the entrepreneurs to facilitate their operations in various ways.

3.3.2 External Environmental Factors:

The external environmental factors refer to those factors over which the entrepreneur has no control but have tremendous impact on the survival of the business; this is why it is also called the uncontrollable environment of the business. Within the external environment of the business are all the factors which provide opportunities or pose threats to it. Opportunities are favourable conditions in the business' environment, which enable it to consolidate and strengthen its position. They are the likely benefits to the business resulting from changes in the external environment while threats are unfavorable conditions in the business' environment, which create a risk for, or cause damage to, the business; they are the possible pitfalls or dangers resulting from changes in the external environment. A successful entrepreneur will grab opportunities as they emerge and avoid threats or even look for ways of converting threats into opportunities (Kazmi, 1999; Business-Plan, 2010).

The major external environmental factors are:

Demographic factors: These include the market i.e. consumer populations. It deals with their composition in terms of sex, age, income, marital status, educational levels etc.

Political/Legal Factors: this is made up of laws, government agencies and pressure groups that affect the business.

Technological Factors: This deals with knowledge of how to accomplish tasks and goals, and innovations (Herbert, 1973).

Natural Environment: This deals with all the gifts of nature or natural resources of the nation that serve as input for the business.

Socio-Cultural Factors: These deal with the people, their norms, values and beliefs as they affect the business.

Economic Factors: These deal with the Macro level factors relating to means of production and wealth distribution. It also includes the forces of supply and demand, buying power, willingness to spend, consumer expenditure levels, and the intensity of competitive behavior.

Competitive Environment: These are those firms that market products that are similar to, or can be substituted for, a business' product(s) in the same geographical area. The four general types of competitive structure are monopoly, oligopoly, monopolistic competition, and perfect competition.

Other Factors: The other factors making up the external business environment are: (1) Suppliers, which are other firms and individuals that provide the input resources needed by the organization to produce goods and/or services. (2) Intermediaries, who are independent businesses that perform all the activities necessary to direct the flow of goods and services from manufacturers/marketers to ultimate consumers/customers. They include wholesalers, retailers, agents and distributors, and (3) Customers who constitute a portion of the target market of the business; they are the ones the business strives to satisfy.

- o Identify any two factors each that can be classified as intermediate and external environment respectively
- Intermediate environmental factors include customers and suppliers, while external environmental factors are economic and technology

3.4 An Overview of SWOT Analysis

SWOT entails the objective analysis of a business's Strengths and Weaknesses and its Opportunities and Threats. In order to identify its strengths, weaknesses, opportunities and threats, an organization has to carry out internal and external evaluation and also opportunities/threats analysis and strengths/weaknesses analysis.

The Internal Evaluation starts with: The identification of the profit contribution of each area, followed by allocation of resource, determination of risks involved, variety reduction, realistic allocation of costs and the assessment of company resources. External evaluation starts with the determination of market stranding, determination of competitors' strengths and weaknesses, assessment of the vulnerability of the business' main products to substitutes, assessment of the effects of economic changes on the business, inter firm comparisons and Stock Market Valuation in terms of an assessment of the company's vulnerability to takeover (Dixon-Ogbechi, 2003).

3.4.1 Strengths/Weaknesses Analysis

This involves scanning the internal environment of the business in order to identify its strengths and weaknesses. The entrepreneur needs to evaluate the strengths and weaknesses of the business periodically. Also, the entrepreneur can assess the internal environment of the business by critically looking at the internal factors in terms of the 5s, namely: Skills, Strategy, Staff, Structure, Systems and Shared Values (Dibb, Simkin, Pride, & Ferrell, 1991; Aluko, Odugbesan, Gbadamosi & Osuagwu, 1998; Business-Plan, 2010). To do this effectively the entrepreneur needs to ask him/herself and answer questions pertaining to the 5s (five 's') in terms of their strengths and weaknesses by developing questionnaires to ask questions pertaining to major internal environmental factors such as:

Skills: What skills do the organizational members possess?
What are the distinctive competencies of the organization?
Strategy: Does your business have a clear vision and mission?
Are your business objectives/goals derived from its mission?
Does your business have plans?
Do you follow the laid down plans of the business as scheduled?
Does your business have clear strategies to operationalise its policies?
What skills do the organizational members possess?
What are the distinctive competencies of the organization?
Staff: Does the business have qualified staff for the relevant positions?
Are the staff rightly placed?
Does the business have adequate number of personnel to man the various positions?
Structure: Does the business have an organizational structure or organogram?
What type of organization structure does your business adopt?
Are there clear lines of reporting and communication?
Systems: Does your organization have a system?
What kind of systems (e.g. MIS, Accounting, Quality Control, and Inventory) does your business have in place? (Business-Plan, 2010).

If the answers to these questions are positive/or the factors are present, then you record them as strengths and if the answers are negative/ the factors are absent, then you record them as weaknesses. After this, each factor is rated as to whether it is a major strength, minor strength, neutral factor, minor weakness, or major weakness (Business-Plan, 2010).

3.4.2 Opportunities and Threats Analysis

This involves scanning the external environment of the business in order to identify the Opportunities and Threats. The entrepreneur can assess the external environment of the business by critically looking at the opportunities and threats emanating from changes in the major external environmental factors. For instance opportunities in the technological environment could be availability of advanced technology, developments in Information Technology like the advent of the GSM; opportunities in the Political/Legal environment could be favorable government policies, tax holidays; opportunity in the Demographic environment could be great market demand; opportunities in the Economic environment could be growing export market increased consumer spending and growing industry.

Positive seasonal influences are an opportunity in the natural environment; opportunities in the other environment could be change in consumers taste in favour of your product and Intermediaries' cooperation. Examples of threats in some external environmental factors can come from direct competitors, indirect competitors, consumers, substitute products or services and suppliers, customers brand switching and innovations by competitors (Dixon-Ogbechi, 2003; Business-Plan, 2010).

The entrepreneur can classify the overall attractiveness of a business once he/she has conducted a thorough opportunities and threats analysis. To this effect, threats could be classified according to their seriousness and probability of occurrence. To evaluate its opportunities, the business needs to operate a reliable Management Information System (MIS). The information obtained will enable the entrepreneur know if the business is ideal (i.e. it is high in major opportunities and low in major threats); is speculative (i.e. it is high in both major opportunities and threats); mature business (i.e. it is low in major opportunities and threats) and troubled (i.e. it is low in opportunities and high in threats). An effective opportunity and threat analysis is advantageous to the entrepreneur; it will enable the entrepreneur make decisions on whether the business should limit itself to those opportunities where it now possesses the required strengths or should consider better opportunities where it might have to acquire or develop certain strengths (Dibb *et al*., 1991; Aluko *et al*, 1998; Dixon-Ogbechi, 2003; Business-Plan, 2010).

Summary of module 1 study session 3

This unit looked at how the entrepreneur can analyze and scan the environment for entrepreneurial opportunities. In doing this, the reductionist approach has been adopted. To this effect, an overview of the concept of business, environment, business environment, business environmental factors was discussed. The study session also discusses the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis and sees how this could assist the entrepreneur evaluate the attractiveness of a business. Apart from this the SWOT framework is beneficial for entrepreneurial decision making because it enables the entrepreneur respond to the dynamic business environment by enabling him consolidate on the strengths, overcome or turn weaknesses around, grab opportunities and avoid threats or even convert threats to opportunities (Business-Plan, 2010).

Self- Assessment Questions (SAQs) for module 1 study session 3

MULTIPLE CHOICE QUESTIONS

1. The concept 'environment' can also be referred to as…………………..
   - (a) surroundings
   - (b) external objects
   - (c) inferences
   - (d) circumstances

2. The business environment can be broadly classified into……………
   - (a) two
   - (b) three
   - (c) four
   - (d) five

3. When a development perceived as a threat by an organization is viewed as an opportunity by another then the business environment is ………………..
   - (a) multifaceted
   - (b) Stable
   - (c) Simple
   - (d) potent

4. A …………………. is an inherent constraint that creates strategic disadvantage for an organization.
   - (a) threat
   - (b) weakness
   - (c) strategy
   - (d) risk

5. A …….. business environment is made up of a number of factors that interact and interrelate with one another.
   - (a) complex and dynamic
   - (b) Simple
   - (c) Stable
   - (d) potent

6. The body of regulations and laws can be classified under the
   - (a) Political/Legal environment
   - (b) Socio-cultural environment
   - (c) Technological environment
   - (d) Demographic environment

7. The environment that recognizes the customs, traditions and value of the community is known as
   - (a) Demographic
   - (b) Socio-cultural
   - (c) Technology

(d) Historical

8. The environment in the borderline between the internal and external environment is ……………….

   (a) General
   (b) Remote
   (c) Close
   (d) Intermediate

9. The support systems that facilitate entrepreneurship process listed here are ……………….
   (a) Seven
   (b) Six
   (c) Five
   (d) Four

10. Entrepreneur can assess the external environment of the business by critically looking at the ….

   (a) opportunities and strengths
   (b) opportunities and threats
   (c) opportunities and weaknesses
   (d) Weaknesses and threats

11. The scanning of the business environment so as to identify the favourable and unfavorable conditions therein is ……………….
   (a) SWOT analysis
   (b) External evaluation
   (c) Internal Evaluation
   (d) Market analysis

12. Threats from external environmental factors can come from:
   (a) Direct Completion (b) Indirect competitors
   (c) Consumers (d) None of the above (e) All of the above

13. Opportunities in the political/legal environment could be -
   i. (a) favourable government policies (b) Tax holidays
   ii. (c) Great market demand (d) a and b (e) None of the above

14. The essence of scanning the external environment of business is in order to identify ______________.
   (a) only strengths (b) weaknesses
   (c) strengths and weaknesses (d) opportunities and threats

15. The entrepreneur can assess the internal environment of business by

critically looking at the opportunities and threats.

(a) Opportunities (b) threats and opportunities

(c) strength and threats (d) strengths and weaknesses

16. The entrepreneur can assess the internal environment of the business by critically looking at

5ps (b) 5s (c) 5w (d) 5t

Ques. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Ans.	A	A	A	B	A	A	B	D	D	B	A	E	D	D	D	B

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Study session 4: Forms of Business Ownership and Legal Implications

Introduction

In the previous study session 3, you have learnt business and business environment. In this session you will agree with me that different forms of businesses operate around you. Some are very small, run by a single person without any assistance, others engage few other people. These businesses can be categorized differently, for example they can be classified as sole propietorship, partnership, limited liability companies, cooperative societies. All these various forms of businesses are what you will learn in this study session. In addition, you will also learn the legal requirement for establishing each category and also the regulatory agency that regulate the activities of companies in Nigeria

Learning outcomes for module 1 study session 4

At the end of this study session 4 you should be able:

4.1 Define and use correctly all the key words printed in **bold**
4.2 Define sole proprietorship; discuss its advantages and disadvantages. (SAQ 1-4)
4.3 Explain partnership, types, formation, dissolution of partnership.(SAQ 4-6)
4.4 Explain limited liability companies (SAQ4-9)
4.5 Explain co-operative societies and types (SAQ 10)

4.1 Consideration for the choice of the form of Business organization

You have to appreciate the fact that there are various forms of business organizations that exist in the environment. Again, business is a profit-seeking enterprise established for the purpose of creating goods and services that meet the needs of mankind. Business plays a major role in the lives of every individual as well as a nation (Oluwafemi, 2000). Business activities are undertaken to improve the financial and the material welfare of the participants. A major group that plays an active role in business within a capitalist economy is the entrepreneur, that is, a person who perceives investment opportunities and takes advantages to exploit them by organizing for the business (Lawal, 1993).

Selecting a form of business ownership is a landmark step in the creation of a venture. Most entrepreneurs however are not trained in the finer points of business law. Consequently, it is imperative that an entrepreneur carefully searches for the types of legal ownership and then consults an attorney (lawyer), and an accountant or both to verify whether the choice addresses their specific needs (Scarbough Wilsion and Zimmerer, 2009). One of the main reasons small businesses fail is that they do not seek legal and accounting help at the beginning. Nickels, Mchugh and Mchugh (2005) stated that one of the key to success in starting a new business is to understand how to get the resources you need. To stay in business, an entrepreneur may need help from someone with more expertise than he/she has in certain areas, or may help to raise more money to expand. How you form your business can make tremendous difference in your long-term success as an entrepreneur.

Although an entrepreneur may change the form of ownership later, this change can be expensive, time consuming, and complicated.

There is no single best form of business ownership. Each form has its own unique set of advantages and disadvantages. The key to choosing the optimum form of ownership is the ability to understand the characteristics of each business entity and how they affect an entrepreneur's business and personal circumstances.
The following, according to Scarborough et al (2009), are relevant issues the entrepreneur should consider in the evaluation process:

Tax consideration: In a graduated tax rates, the government's (that is Local, State and Federal) constant modification of the tax code, and the year-to-year fluctuations in a company's income require an entrepreneur to calculate the firm's tax liability under each ownership option every year.

Liability exposure: Certain forms of ownership offer business owners greater protection from personal liability due to financial problems, faulty products, and a loss of other difficulties. An entrepreneur must evaluate the potential for legal and financial liabilities and decide the extent to which they are willing to assume personal responsibility for their companies' obligations.

Start–up and future capital requirements: The form of ownership can affect an entrepreneur's ability to raise start-up capital. Also as a business grows, capital requirements increase, and some forms of ownership make it easier to attract outside financing.

Management ability: Entrepreneurs must assess their own ability to successfully manage their own companies. Otherwise, they may need to select a form of ownership that allows them to involve people who possess those needed skills or experience in the company.

Business goals: The projected size and profitability of a business influences the form of ownership chosen. Business often evolves into a different form of ownership as they grow, but moving from some formats can be complex and expensive. Legislation may change and make current ownership options less attractive.

Management succession plans: Entrepreneurs, in selecting a form of business ownership, must look ahead to the day when they will pass their companies on to the next generation or to a buyer. Some forms of business ownership better facilitate this transition. In other cases, when the owner dies –so does the business.

Cost of formation: The cost of formation to create business ownership varies from one form to the other. Entrepreneurs must weigh the benefits and the costs of the form they choose.

4.2 Forms of Business Ownership

Whether small or large, every business fits one of three categories of legal ownership, sole proprietorships, partnership, and corporations (Brone and Kurtx, 2009).

4.2.1 Sole Proprietorship

The sole proprietorship is the simplest and most popular form of ownership. This form of business ownership is designed for a business owned and managed by one individual. Sole proprietorship is the easiest kind of business for you to explore in your quest for an interesting career. The sole proprietor is the only owner and ultimate decision maker for the business. The sole proprietorship has no legal distinction between the sole proprietor status as an individual and his or her status as a business owner. The simplicity and ease of formation makes the sole proprietorship the most popular form of ownership in Nigeria. One approach when naming a business is to visualize the company's target customer. What are they like? What are their ages, gender, lifestyles and location? What makes our company competitive or unique to those customers? Although sole proprietorships are common in a variety of industries, they are concentrated primarily among small businesses unit such as repair shops, small retail outlets, and service providers, for example, such as painters, plumbers, and barbing saloon.

Advantages of proprietorship: Following are the advantages of proprietorship

1) Least cost of business ownership to establish
2) Minimum or no special legal restriction
3) Ownership of all profit
4) No special taxes since business income and proprietors' income are taxed as one.
5) Maximum incentive to succeed
6) Privacy
7) Flexibility of operation
8) Easy to discontinue

Disadvantages of proprietorship: Following are the disadvantages of proprietorship

1) Unlimited personal liability
2) Limited access to capital for expansion
3) Limited skills and abilities
4) Feelings of isolation /overwhelming time commitment
5) Few fringe benefits
6) Limited growth
7) Lack of continuity for the business that has a limited life span.

4.2.2 Partnership

Another option for organizing a business is to form a partnership. A partnership is a legal form of business with two or more owners. Partners legally share a business assets, liabilities, and profits according to the terms of a partnership agreement. The law does not require a written partnership agreement, also known as the articles of partnership, but it is wise to work with an attorney to develop an agreement that documents the status, rights and responsibilities of each partner. The partnership agreement is a document that states all of the terms of operating the partnership for the protection of each partner involved. Banks often want to review the partnership agreement before lending the business money.

A partnership agreement can include any legal terms the partner's desire. The standard partnership agreement will likely include the following information:

1) Name of the partnership
2) Purpose of the business
3) Location of the business

4) Duration of the partnership
5) Names of the partners and their legal addresses
6) Contributions of each partner to the business, at the creation of the partnership and later.
7) Agreement on how the profits or losses will be distributed.
8) Agreement on salaries or drawing rights against people for each partner.
9) Procedure for expansion through the addition of new partners.
10) Distribution of the partnership asset to the partners.
(11) Sale of the partnership interest
12) Absence or disability of one of the partners
13) Voting rights
14) Decision making authority
15) Financial authority
16) Handling tax matters
17) Alteration or modifications of the partnership agreement.
18) Termination of partnership
19) Distribution of assets upon dissolution of the partnership

A Partnership can be regarded as an improvement on sole proprietorship form of business organization, the minimum number of people that can form a partnership is two, while the maximum is twenty, with the exception of partnerships comprising professionals; for example, lawyers, accountants, doctors, to mention just a few. Notably, most partnerships are usually formed by professionals and those that engage in service oriented business concerns.

Types of Partnership: There are four types of partnership, on the basis of liability of partners

(1) **General partnership:** This is a partnership in which all owners share in operating the business and in assuming liability for the business' debts.

(2) **Limited partnership:** This is a partnership with one or more general partners and one or more limited partners. Limited partnership is one in which certain partners are liable only for the amount of their investment. This is a special kind of partnership governed by partnership Act of 1907. The purpose of a limited partnership is to allow one or more individuals to provide capital on which a return is expected. In case of liquidation, the limited partners only lose the capital.

(3) **Master Limited Partnership (MLP):** This is a newer form of partnership which looks much like a corporation in that it acts like a corporation and is traded on the stock exchanges like a corporation but it is taxed like a partnership and thus avoids the corporate income tax.

(4) **Limited Liability Partnership (LLP):** LLP limited partners risk losing their personal assets to only their own acts and omissions of people under their supervision. This newer type of partnership was created to limit the disadvantage of unlimited liability.

Types of partners on the basis of the involvement in partnership: An entrepreneur interested in being involved in partnership form of business should endeavor to understand the types of partners that he/she can choose to be in this form of business. Partners may be classified on the basis of liability, degree of management participation in management share in the profit and so on. The following types of partners are organized

1) **General partner:** A general partner is an owner (partner) who has unlimited liability and is active in managing the firm.

2) **Limited partner:** A limited partner is an owner who invests money in the business but does not have any management responsibility or liability for losses beyond the investment.

3) **Silent partners:** These are partners who are known by the public as owners of the business, but they may take no active role in marketing the business.

4) **Secret partners:** These are partners who take active role in the management of the company but they are unknown to the outsiders as partners.

5) **Sleeping partners:** These are also known as dormant partners, they are neither known as partners by the public nor do they participate in managing the company. They only share from the profit /loss of the business to the tune of capital contributed.

6) **Nominal partners:** These kinds of partners are publicly known that they are partners although they have no investment in the business and therefore have no rights of management. They merely lend their names to the enterprise and may be liable for certain debt of the partnership.

- How is a general partner different from a sleeping partner?
- A general partner is an owner (partner) who has an unlimited liability and is active in the management of the form, a sleeping partner on the other hand do not participate in the day to day running of the business, they only share in the profit /loss of the form. Most often they are not known to the public and partners

Advantages of Partnership: The following are the advantages of Partnership

- Easy to establish
- More financial resources
- Shared management and pooled /complementary skills and knowledge
- Division of profits
- Minimum governmental regulation/limited legal restrictions
- Flexibility
- Freedom from double taxation
- Secrecy
- Longer survival

Disadvantages of Partnership: The following are the diadvantages of Partnersip

- Unlimited liability
- Division of profits
- Disagreement among partners especially with regard to authority and control
- Difficult to terminate because partners are bound by the law of agency
- Restrictions on transfer of ownership
- Lack of continuity

4.2.3 Dissolution and Termination of a Partnership

Partners expect their business relationships are going to last forever. However, most do not. There are possibilities that problems may occur when the entrepreneur realizes he or she is not in charge of his or her own company. Even when partnerships work, there are always fears that the partners will develop different business goals. Partners may dissolve or terminate the partnership. Thus dissolution occurs when a general partner ceases to be associated with the business. This may be as a result of:

- Expiration of a time period or completion of the project undertaken as delineated in the partnership agreement.
- Expressed wish of any general partner to cease operation.
- Expulsion of a partner under the provisions of the agreement.
- Withdrawal, retirement, insanity, or death of a general partner (except when the partnership agreement provides a method of continuation).
- Bankruptcy of the partnership or of any general partner.
- Admission of a new partner resulting in the dissolution of the old partnership and establishment of a new partnership.
- A judicial decree that a general partner is insane or permanently incapacitated, making performance or responsibility under the partnership agreement impossible.
- Mounting losses that make it unpractical for the business to continue.
  Impropriety or improper behaviour of any general partner that reflects negatively on the business. (Adapted from Scarborough et al 2009 pg 87). Termination on the other hand is the final act of intentionally closing the partnership as a business. This can occur after the partners have agreed to cease operations and all affairs of the partnership have been concluded.
    - How is Sole Proprietorship different from partnership?
    - Sole proprietorship is a business established and run by the owner for purpose of meeting needs and making profit, while partnership is a business run by between 2 and 20 partners for purpose of meeting needs and making profit

4.3 Limited Liability Companies

The incorporation of companies differs from one country to the other. Each country has a body of laws that guide the registration and operations of companies. In Nigeria, the Companies and Allied Matter Act (CAMA) of 1990 is the major law that guides formation and registration of companies in Nigeria.

4.3.1 Formation of Company and Capacity of Individual

According to Section 18 of CAMA 1990, two or more persons may form and incorporate a company by complying within requirements of the act. It also specifies the category of people that can come together to form a company. Section 20 states that anyone in these categories is not qualified:

- he is less than eighteen years of age;
- he is of unsound mind and has been so found by a court in Nigeria or elsewhere;
- he is an un-discharged bankrupt;
- he is disqualified under Section 254 – which says a person is convicted by a High Court of any offence in connection with the promotion formation or management of a company, etc.

Types of Companies: three types of companies can be identified

- Limited by shares
- Limited by guarantee
- An unlimited company.

A company is said to be ***limited by shares,*** if the liability of its members limited by the memorandum to the amount, if any unpaid on the shares respectively held by them.

A company is said to be ***limited by guarantee*** if the memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up.

A company is said to be ***unlimited*** when the members do not have any limit on the liability of its members.

4.3.2 Private liability Companies

The private liability company can be formed by minimum of two persons and maximum of fifty persons excluding employees of the company both past and present (according to Section 22 Subsection 3). The total number of members of a private company shall not exceed fifty, not including persons who are bonafide in the employment of the company or were while in that employment and have continued after the determination of that employment to be, members of the company. The articles of the private company must restrict the transfer of its shares, i.e. the share of the company is not transferable through public offer for subscription. The law also requires the name of private company to end with the word "limited".

The public liability company is a company where the shareholders are members of the public. The shares are generally freely transferable. Public companies are large trading concerns with minimum membership of two but no maximum. The name of a public company is expected to end with Public Limited Company (PLC).

- o Explain limited liability companies?
- Limited liability companies are companies incorporated or registered in Nigeria that is regarded as an artificial person, such company can sue and be sued. They can take the form of private or public companies.

4.3.3 Legal Requirement for Registration of Companies

The Companies and Allied Matter Acts specified the documents of incorporation, in section 35 of the acts to include:

- Memorandum of Association;
- Articles of Association;
- Notice of the address of the registered office and head office;
- Statement of the lists and particulars of the first directors of the company;
- Statutory declaration of compliance with the provisions of the acts
- Any other document that may be required by the Corporate Affairs Commission (CAC), e.g. tax certificate of the directors, etc.

If the promoters have met the requirements of the CAC, a certificate of incorporation or certificate of registration would be issued and immediately the company becomes an artificial person or legal entity.

Memorandum and Articles of Association: These two documents constitute the basic constitution of a company. They are in fact the main incorporation documents. The provision of the Articles of Association is subsidiary to that of the Memorandum of Association. In other words, Memorandum of Association is superior to the Articles of

Association. Wherever there is a conflict between the provisions of the two, that of Memorandum of Association takes pre-eminence prevails.

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

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

Content of the Articles of Association: The Articles of Association prescribe the rules and regulations for the internal management of the affairs of the company. The Articles of Association regulates the rights, duties, and obligations of the members among themselves and also the rights, duties and obligations of the members to the company and vice-versa. Other items contained in the document include:

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

Advantages of Limited Liability Companies

a. It has a legal entity;
b. Limited liability of shareholders
c. Ability to attract capital
d. Ability to continue indefinitely
e. Transferable ownership
f. Separation of ownership from management
g. The death of a shareholder does not mean the end of the company;
h. Accessibility to large capital which enhance growth.

Disadvantages of limited liability companies

a. When company becomes very large, there is no personal relationship between the customers and the owners;
b. Official red tapism may delay decision making;
c. Chain of command becomes long which lead to communication breakdown.
d. Cost and time involved in the incorporation process

e. Double taxation
f. Charter restrictions
g. Extensive legal requirement and restrictions
h. Potential for diminished management incentives
i. Potential loss of control by the owners
j. Difficulty of termination
k. Possible conflict with share stockholders and board of directors

- How is private ompany different from public company?
- Private company has a maximum number of 50 persons, shares are not subscribed to or transferable by the public and the name must end with “limited” while public company do not have any maximum number of subscribers, shares are publicly subscribed to and transferable through the stock exchange market.

4.4 Co-operative

A form of business ownership which involves a collective ownership of a production, storage, transportation or marketing organisation is what is referred to as a co-operative. Some individuals dislike the notions of having owners, managers, workers and buyers as separate parties with separate goals for business organisation. They envision a situation whereby people will co-operate with one another as an association and share the wealth more evenly. This is what necessitates the form of business ownership referred to as cooperatives.

4.4.1 Types of Co-operative

Consumer/producer co-operative
Workers co-operative
Finance co-operatives
Co-operatives allow small businesses to obtain quantity discounts on purchases, reducing costs and enabling the co-operative to pass on the savings to its members.

Summary of module 1 study session 4

It goes without saying that it is not easy to choose the best form of business organisation. Its evidence is outlined in this study session that an entrepreneur may participate in the business world in a variety of ways. He/She can start a sole proprietorship, partnership, limited liability company (private or public), or cooperative, There are advantages and disadvantages to each, but whichever one is selected there are risks. Before you decide which form is good for you, you need to

- Assess the nature, goals and anticipated future of the business.
- Determine the resources, capabilities, and risk level of the owner.
- Review your current and expected tax situation.
- Understand the laws of your state and other jurisdictional regulations relating to forms of business ownership.
- Involve professional advisers, such as an attorney and an accountant to advise and assist with the decision process and take the appropriate action (Scarborough et al, 2009).

Self- Assessment Questions for module 1 study session 4 (SAQs)

1. One of the following is not an advatange of sole proprietorship (a) ownership of all profits (b) Minimum legal restriction (c) unlimited liability (d) Privacy(Test learning outcome (LO) 4.2)

2. The Minimum number required to start a sole proprietorship (a) One (b) two (c) seven (d) twenty (Test LO 4.2)

3. All of the followings are the disadvantages of sole proprietorship except (a) Limited growth (b) unlimited liability (c) lack of continuity after the death of promoter (d) Easy to raise capital (Tests LO 4.2)

4. Partnership formation requires minimum and maximum number of partners respectively (a) 2 and 20 (b) 2 and 50 (c) 2 and 7 (d) 7 and 20 (Tests LO 4.3)

5. The document that states all the terms of partnership is known as (a) Partnership agreement (b) article of partnership (c) article of association (d) a and b (Tests LO 4.3)

6. The general partners have (a) limited liability (b) Unlimited liability (c) participate in the day to day running of the business (d) b and c (Tests LO 4.3)

7. The uniquness of private limited company is that the investors have (a) limited liability (b) minimum of two person to start the business (c) shares are publicly subscribed (d) Restrictions on the transfer of shares (Tests LO 4.4)

8. One of the differences between the public and private limited companies is (a) the minimum number of owners (b) the maximum number of owners (c) limited liability (d) unlimited liability of owners (Tests LO 4.4)

9. One of the major documents of incorporation is (a) article of partnership (b) Partnership agreement (c) memorandum of association (d) memorandum of incorporation

10.

Ques. No.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**C**	**A**	**D**	**A**	**D**	**D**	**D**	**A**	**C**	**B**

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MODULE 1

Study session 5: Teamwork, Group Dynamic and Entrepreneurship

Introduction

You will agree with me that, there is need for people to work together in any form of business whether sole proprietorship or Limited Liability Company

You will learn in this study session the concept of team work in an organization. It is often said that two heads are better than one. When organizations are run using team system, such organizations are able to make better decisions. You will also learn different types of teams

Learning Outcomes for module 1, study session 5

At the end of this module 1, study session 5 you should be able to:

5.1 Define and correctly use all the key words printed in **bold**
5.2 Define team building and identify the characteristics of teams. (SAQ 1-4)
5.3 Define a group and theories of group formation (SAQ 5-8)
5.5 List types of group; explain advantages and disadvantages of group. **(SAQ 9-10)**

5.1 Team: definition and typology

As defined by Daft (1997), a **team** is a unit of two or more people who interact and coordinate their work to accomplish a specific goal. A team could also be seen as a group of people with some common identity. Each of whom possesses particular aptitudes, knowledge and skills. In addition, personality factors such as cultural experience, values, needs for affiliation and achievement, along with levels of self-awareness and interpersonal comfort, who come together to share their perspectives, bias and expertise, to resolve conflict as well as provide support and recognition through task involvement, social interaction and emotional expression for a particular mission, along with short and long term goals and objectives. Members of an effective team usually possess complementary skills, to achieve common goal.

The implication of this definition is that a team consists of interdependent individuals who share responsibility for specific outcomes. Thus, at a minimum, there must be shared responsibilities and interdependence-role, goal interdependence and outcome interdependence (Giese et al, 2001; Daft, 1997).

5.1.1 Typology of Teams

Many types of teams can exist within an organization, whatever the type of team that an entrepreneur chooses to have in his enterprise, the goal must be to increase the work of the organization through effective and efficient actualization of the set goals of the enterprise.
One of the ways to classify teams as proposed by Daft (1997), is in terms of those created as part of the organization's formal structure (formal team) and those created to increase employee participation (self-directed teams or self regulatory teams).

1. **Formal teams** are basically created by the organization as part of the formal organization structure. Three common types of teams exist: vertical, horizontal and special purpose teams.

(a) **A vertical team** is composed of a manager and his or her subordinates in the organization's formal chain of command. A vertical team could also be called a functional or command team.

(b) A horizontal team is composed of employees from about the same hierarchical level but from different areas of expertise. Task forces and committees are the two most common types of horizontal teams.

(c) The third, special-purpose team is created outside the formal organization to undertake a project of special importance or creativity.

2. Self-directed teams are designed to increase the participation of low level workers in decision making in the conduct of their jobs with the goal of improving performance. Its types are problem-solving teams and self-directed teams.

- Problem-solving teams on the other hand consist of 5 to 20 multi-skilled workers who rotate jobs to produce an entire product or service, often supervised by an elected member. The rationale is that the combined skills of the employees are sufficient to perform a major task of the organization.
- Self-directed teams possess special skills and knowledge that may free them from critical supervision from the entrepreneur. They are capable of performing jobs from different areas of the enterprise and are thus, in collaboration, able to see to the development of a product or service with little or no supervision.

The entrepreneur must have clear facts about the skills, knowledge and abilities of subordinates in order to be able to ascertain the type of team that best fits the types of goals he is seeking to achieve. It is with this knowledge that the entrepreneur can then build the type(s) of teams that will be relevant to the effective and efficient actualization of the goals of the enterprise.

5.1.2 Team Building

Team building, as earlier noted, is the process of creating team features in a group in order to make them more effective. Team building exercises are very important in the development of teams that will work together for an extended period of time on a complex project or series of activities (Darwyn, 2000). Team formation or process is made up of five stages namely:

Forming :where members find out what the task is, what the rules are and what methods are appropriate.

Stormy: emotional resistance to demands of task.

Norming: open exchange of views and feelings, cooperation develops

Performing: emergence of solutions to problems, constructive attempts at task completion.

Adjusting: modifications made in the light of feedbacks (Ogundele 2011).

Several authors (Barto et al; 2001; Daft 1997 Roberts et al 2001 Darwyn 2000) have identified the following as the relevant issues in team building.

Cohesiveness: This is the extent to which membership of a team is positively valued and members are drawn toward the team. Team building ensures that the social (interpersonal attraction) as well as task cohesiveness is built into the team.

Roles and Norms: All teams develop set roles and norms over time. Norms are rules that govern the behaviorur of team members while roles define the part that team members play in the team. The use of explicitly defined roles enables the team to cope effectively with the requirement of task. Team building ensures that these norms and roles are discussed and accepted.

Communication: Effective communication is vital to the smooth functioning of any team. Team building thus, would include facilitating the learning of effective communication through skill development and communication network design.

Goal Specification: It is very important for team members to have common goals for team achievement, as well as to communicate clearly about individual goals they may have. A simple but useful team building task is to assign a newly formed team the task of producing a mission and goal statement.

Interdependent: This entails the issue of how each team member's success is determined, at least in part, by the success of the other members. Thus, the structure of the cooperative learning task should be such that it requires positive interdependence, that is, a feeling of "sink or swim" together.

5.1.3 Characteristics of an Effective and Efficient Team

For a team to be effective, it must possess certain characteristics. These characteristics, where absent or deficiently present, will naturally result in poor team performance.

These characteristics are:

Shared vision or goal: There must be a vision or goal to which every member of the team subscribes to. This vision or goal must be understood and shared by all.

Strong team identity: Members must strongly identify with the team. They must feel themselves as actively belonging to a team.

Results driven structure – The structure of the team should be such that it will facilitate the achievement of set goals.

Competent team members: The composition of the team is very important. Care should be taken to ensure that members have task relevant skills, knowledge and attitude that will ensure goal attainment.

Strong commitment to the team: There is high social and task cohesiveness. The former ensures good interpersonal relations, while the latter results in feeling of fulfillment arising from goal achievement.

Clearly defined roles and responsibilities: Every team member knows what his or her role and an expectation are, and directs his or her energy towards performing them.

Mutual trust: Members trust and believe in one another in other words, there is reciprocity of trust among members. Mutual thrust ensures smooth interpersonal relations.

Small team size: The size of a team has implications for its performance. Large teams tend to have disagreements and differences of opinions which may impede goal attainment.

High levels of empowerment: Requisite power and authority is given to team members. This will enable them get their jobs done without much reference to higher authority.

Effective communication: Information necessary for achieving team goals is freely shared among members to enhance performance.

Independence among team members: The task of the team is such that there is interdependency among members. That success of the team is determined, at least in part, by the success of other members.

Strategies that may be adopted by entrepreneurs in team building, the desire for organizational effectiveness requires that team perform optimally.

The following are best practices for fostering high performance in teams:

- As a leader, act as a model for expected behaviors
- Find ways to create early success
- Continually introduce new facts and information
- Make sure team members spend lots of time together
- Give positive feedback and reward high performance
- Communicate high performance standard
- Set the tone in 1st meeting
- Create sense of urgency
- Ensure members have right skills
- Establish clear rules and team behavior

  - How will you describe an effective and efficient team?
  - An effective and efficient team must possess strong team identity, have competent team members, have clearly defined roles and responsibility, strong comittment to the team, have mutual trust, high level of empowerment and effective communication skills.

5.2. Benefits of Teamwork and potential problems

In deciding whether to use teams to perform specific tasks, entrepreneurs must consider both the benefit and cost. Teams by nature, impact positively on both the output/productivity and satisfaction of members. On the other hand, teams may also create a situation in which motivation and performance are actually decreased.
However, the entrepreneur must seek to explore the positive impact of teams in creating more value for his enterprise.

5.2.1 Potential Benefits of Teams

1. **Increased level of effort:** Employee teams often unleash enormous energy and creativity from workers who like the idea of using their brains as well as their bodies on the job. Since the success of teams depends on all the members, exceptional effort is thus made to ensure goal attainment.
2. **Satisfaction of members:** Employees have a need for belonging and affiliation. Working in teams can help meet these needs. Participative teams reduce boredom and often increase employees' feeling of dignity and self-worth.
3. **Expanded job knowledge:** Teams empower employees to bring together knowledge and ability to task. Multi-skilled employees learn the entire job that the team performs. Again, the intellectual resources of several members can result in short cuts and alternative points of view for team decision.
4. **Organizational flexibility:** Employee teams ensure greater flexibility as expanded job knowledge allows work to be re-organized and workers reallocated as needed to produce products and services with great flexibility.

5.2.2 Potential Problems of Teams

1. **Power realignment:** Successes of teams, especially self-directed teams often create lesser needs for supervisions. This adjustment may be difficult for the entrepreneur who fears the loss of status (Bernstein, 1987) when his control diminishes.
2. **Free riding:** Free riding or social loafing occurs when team members do not exert equal effort in goal attainment. In large teams, some people are likely to work less, meaning

therefore, that some other members have to work more. The term 'free rider' is used to describe a member who attains benefits from team membership but does not do a proportionate share of the work (Albanese and Van Fleet, 1985).

3. **Coordinating cost:** The time and energy required to coordinate the activities of a group to enable it to perform its task are called coordinating costs (Daft, 1994). Groups often spend time getting ready to work and lose productive time deciding who is to do what and when (Brightman, 1988).

5.3 Definition and theories of groups

(i) A group is defined as two or more persons who are interacting with one another in such a manner that each person influences the other(s).

(ii) A group is a collection of people who interact with one another regularly over a period of time and see themselves to be mutually dependent with respect to the attainment of one or more goals

5.3.1 Theories of Group Formation

Propinquity: The theory states that individual affiliate with one another because of spatial geographical proximity e.g. people who sit together always easily form into group.

George Hanmans theory of Activities, interactions and sentiments: The theory states that the more activities a person shares, the more numerous will be their interactions and the stronger will their sentiments; and the more sentiment persons have for one another, the more will be their shared activities and interaction.

Balance theory [Theodore Newcomb] it states that persons are attracted to one another on the basis of similar attitudes towards commonly relevant objects and goals. Once the relationship is formed, the participants strive to maintain a symmetrical balance between the attraction and common attitudes.

Exchange theory is based upon reward – cost outcomes of interaction. A minimum positive level (rewards greater than cost) of an outcome must exist in order for attraction or affiliation to take place. Rewards from interactions gratify needs, while costs incur anxiety, frustration, embarrassment, or fatigue. Propinquity, interaction and common attitude all have roles in exchange process

In conclusion, practically, people form groups for economic, security and social reasons.

5.3.2 Types of Groups

1) **Primary group:** they are those characterized by intimate, face-to-face association and cooperation, they are primary chiefly and fundamentally because they form the social nature and ideals of the individual. Small group and primary group are similar but can be differentiated as follows:

A small Group has to meet only the criterion of small size, no attempt is made to assign precise number, the group must be small enough for face to face interaction and communication.

Primary group on the other hand, apart from being small, must have a feeling of comradeship, loyalty and a common sense of values among its members. Hence, all primary groups are small groups but not all small groups are primary groups.

2) **Work Group**: it is one created by formal authority of an organisation to transform resources inputs into product outputs.

3) **Formal Group**: Created through formal authority for the accomplishment of given purpose.

4) **Informal Groups**: Emerge unofficially and without being designated as parts of the Organisation. They are often found as subgroups or cliques within formal groups.
5) Psychological Groups: Groups in which the members truly interact with one another, perceive themselves to be part of the group; share common sense of group purpose; and are psychologically aware of every other member's needs and potential resources and contributions.
6) Other types of Groups
Membership group -: are those to which the individual actually belongs.
Reference group -: is one with which a person is identified or to which he would like to belong
The in-group represents a clustering of individuals holding prevailing values in society or at least, having a dominant place in social functioning.
The out-groups-are the conglomerates, looked upon as subordinate or marginal in the culture.
A command group- It consists of superior and immediate subordinates. The membership and structure of command groups are formally determined and are represented on the organisation chart.
Task force group is formally designed to work on specific project or job. The interaction and structure are formally designed to accomplish the task.

5.2.3 Advantages of group to organisation

- Accomplishment of task that cannot be done individually
- Bringing a number of talents to bear on complex and difficult task
- Provide a vehicle for decision making that permits multiple and conflicting views to be aired and considered
- Provide an efficient means for organisational control of employees
- It serves as critical liaison or coordinating function among served departments.
- Facilitate changes in organisational policies or procedures
- Increase organisational stability by transmitting shared beliefs and values to new employees.
- Infusing pre-established formal system with dynamism.
- Reservoirs of potential formal managers.

Advantages of group to individuals

- Aiding in learning about the organisation and its environments
- Aiding in learning about oneself
- Provide help in gaining new skills
- Obtaining valued rewards that are not accessible by oneself
- Satisfying important personal needs, especially needs for social acceptance and affiliation.
- Protection against perceived threats
- Exploitation of leadership potentials in organization
- An outlet of frustration (Ogundele, 2012)

5.2.4 Strategies in Group Development

(i) Forming Stage – Consideration of acceptance behaviour, consideration of benefit to be gained, the contribution expected the purpose of the group.

(ii) Storming Stage – Detailed involvement of group members further clarified, attention directed towards obstacles standing against group conflicts also arises as individual try to impose their preference on the group.

(iii) Initial Integration State – The group begins to come together as a coordinated unit. Members, develop a preliminary sense of closeness, and want to protect the group from disintegration.

(iv) Total integration – sees the emergence of a mature organised and well functioning group Complex tasks are dealt with and membership disagreements are handled creatively

5.3.5 Factors affecting group performance and decision making in group

- Group size
- Group Cohesiveness
- Group Composition
- Group Norms

Group Size -: relates to the number of persons that make up the group. Too large group may not allow for effectiveness participation of all group members

Group Cohesiveness -: this relates to the oneness of the group members. Highly cohesive group tend to be more energetic in working on group activities, less likely to be absent and happy about performance. Highly cohesive group could be disadvantageous because of the effect of "group think" and loss of individuality. Note that the essence of group is to bring various ideas; where this is not happening; the effectiveness of group performance will drastically reduce.

Group Composition – These are the people that belong to the group in terms of their talents, exposure, personality and educational background.

Group Norms– this is about the acceptable behaviour of the group. It can also be regarded as rules or standard of behaviour that apply to group members.

Decision Making in Groups: Decision making is the process of selecting the course of action from the various available alternatives

Groups make decision in the following ways:

- Decision by lack of response
- By authority rule
- By minority rule
- By the majority
- By Consensus -: where a clear alternative appears with the support of most members, and even those who oppose it feel that they have been able to express their mind.
- By Unanimity -: all group members agree on the course of action to be taken.

5.3.6 Comparison between individual and group decision making

1) The presence of others increases the motivational level of individual performance.
2) Group usually provide more and better solutions to problems than individual working above- accuracy and quality of judgement.
3) Group learn faster than individuals especially in a classroom situation.
4) More time is used by group in decision making than by individual

5) Decisions made after group discussion are more risky than decisions made by the average individual prior to group discussion.

Summary for module 1 study session 5

You have learnt in this study session the defintion of team as basically two or more people brought together with the aim of complimenting one another in achieving specific objectives. It implies that they have to possess complimentary skills to provide better solution. The method of team building was also discussed. The advantages and potential problems of team were listed.

Also you have been exposed to what is usually called group process or group dynamics. You will recall that group has been defined as consisting of two or more people. Theories of group and types of group formation have been discussed. Finally, the functions of group to both the individual and organisation have been highlighted.

Self-Assessement Questions (SAQs) for module 1 study session 5

1. A team with different levels of hierarchy can be regarded as: (Test LO 5.2)
   (a) Horizontal team
   (b) Vertical team
   (c) Special Purpose team
   (d) Football team

2. A formal team can be found in (Test LO 5.2)
   (a) officially designed organizational structure
   (b) unofficially designed organizational structure
   (c) the previously designed organizational structure
   (d) All of the above

3. Relevant issues in team building include all except: (Text LO 5.2)
   (a) Cohesiveness (b)Goal Specification
   (c)Independence (d) Interdependent

4. Effective teams must possess the following characteristics except: (Text Lo 5.2)
   (a) team identity (b) competent team members
   (c) mistrust among team members (d) mutual trust among team members

5. Two or more people who interact and coordinate their work to accomplish a specific goal, can be regarded as:
   (a) A team (b) Friends (c) Allied (d) None of the above

6. When a group is created by formal authority of an organization to transform resources inputs into product outputs, such group is known as: (Text LO 5.3)
   (a) Work group (b) Informal group
   (c) Unofficial group (d) Psychological group

7. ………….. is described as the oneness of the group member.(Text LO 5.3)
   (a) Cohesiveness of group (b) Independence of group member
   (c) Group Composition (d) Group Norms

8. The theory that stated that the more activities persons share, the more numerous will be their interaction and the stronger will be their sentiments is: (Text LO 5.3)
   (a) Balance theory (b) George Hanmaus theory
   (c) Exchange theory (d) Propinquity theory
9. The stage at which group tends to tackle obstacles and conflicts is known as: (Text LO 5.4) (a) Forming stage (b) storming stage (c) Initial Integration (d) Total Integration.
10. The emergence of a mature organized and well functioning group were complex task dealt with and membership disagreement are handled effectively is known as: (a) Total Integration stage (b) Initial Integration stage (c) Forming stage (d) Storming stage.

Ques.No.	1	2	3	4	5	6	7	8	9	10
Ans.	B	A	C	C	A	A	A	B	B	A

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MODULE 2

Study session 1: The Roles of Vision, Mission and Objectives In Entrepreneurship Development

Introduction

As a learner who is taking a course in entrepreneurship, you must have expectations, dreams or mental pictures of future possibilities. Sometimes you can either think positively or negatively. When you think negatively, you have problems of changing your future positively. On the other hand, if you think positively you can make impossibilities to become possibilities. This writer was once a nobody, who washed plates and swept offices, with a vision of greater future. Within a short period of time he became a Lecturer in one of the top universities in Nigeria. This unit will prepare you to understand how you can come up with a clear vision so that you will become whatever you desire to become in life. This unit will define vision and its components, the importance of vision, ways of keeping your vision alive and many more. I am sure you are prepared to follow me to explore the roles of vision in making you a successful entrepreneur.

Learning outcomes for module 2 study session 1

At the end of module 2, study session 1, you should be able to:

1.1 Define and correctly use all the key words printed in **bold**
1.2 Define vision, components of vision (SAQ 1-3) and importance of vision
1.3 Define mission statement and characteristics
1.4 State the meaning of organizational goals and objectives

1.1 Defining vision and its components

Vision evokes pictures in the mind; it suggests a future orientation. Vision is vital to human existence.

The future picture (Lynch, 1997): Vision is in the realm of imagination of a favourable future. Vision is best described by the visioner.

A form of non- specific guidance normally produced for an organization by its CEO (Haggins & Vineze). It gives an imaginary picture of a preferred future which the leader must carefully guide the organization to reach.

Vision is also a picture of your company in the future. It is your inspiration, the framework for all your strategic planning and it is also articulating your dreams and hopes for your business (Ward, 2010).

Vision again is short, succinct, and inspiring statement of what the organization intends to become and achieve in the future, often stated in competitive terms. Vision refers to the category of intentions that are broad, all-inclusive and forward-thinking. It is the image that a business must have of its goals before it sets out to reach them. It describes aspirations for the future, without specifying the means that will be used to achieve these desired needs.

Vision can also be defined as the mental images or picture of a preferred future either for the individual or for an organization; such future is in the realm of imagination which the visioner must bring into reality with the support of others.

Vision entails projection into the future by the organization, by clearly definning its long-term outlook (Adeleke, Ogundele and Oyenuga, 2008)

1.1.2 Components of vision

Components of Vision according to Collins & Porras, (1996) can be broadly classified into two, namely:
Core Ideology
Envisioned future

Core ideology is described as enduring character of an organization-i.e. a consistent identity that transcends product or market life cycle, technological breakthroughs and the likes. It is what the organization stands for, the very purpose for which the organization is created. The core ideology can be further sub-divided into two namely:

Core value i.e. core tenet of the organization, guiding principles, what the organization stands for. It is a state of belief that is very difficult or impossible to change. It has to do with the foundation on which the business relationship both to the society and the entire stakeholders is built. It is the extent of integrity the organization is ready to maintain.

Core purpose: the reason for the organization's existence, a clear description of the activities of the organization. Any organization or individual that misses its purpose is not fit to live; the core purpose must be seen to be achieved. If the purpose is to create an enduring financial system such organization must be seen to fulfill such purpose.

Envisioned future. It is creative, looking to a future of greatness; it keeps the organization as well as individual motivated even if the founders are no longer in existence.

- Define vision and list two important component of vision.
- Vision is a form of non- specific guidance normally produced for an organization by its chief executive officer (CEO). It can also be described as mental images or picture of a preferred future either for an individual or for an organization; such future is in the realm of imagination which the visioner must bring into reality with the support of others. Component of vision include core ideology and envision future.

1.1.3 Importance of Vision and key elements that make leaders with vision succeed

The distinguishing function of a leader is to develop a clear and compelling picture of the future and to secure commitment to that ideal. In addition to vision, the appropriate combinations of the following factors indicated in figure 1 below will bring about an effective organization:

Figure 1: Processes of a developing vision.

Take away vision = Organization confusion
Take away skills = Organization anxiety
Take away incentives = organization gradual change
Take away resources = Organization frustration
Take away action plan = false starts

1.1.4 Key elements that make a Leader with vision to succeed

Take personal responsibility for initiating change: The entrepreneur must take personal responsibility to initiate the necessary change. People resist change; most people see the negative effect of the change, but as an entrepreneur, one must stay focused and take charge.

Create a vision and strategy for the organization.

An entrepreneur is the creator of its vision; it is usually first conceived within, and then expressed in writing, the realization of which requires appropriate strategies to be put in place for its implementation.

Trust and support others: The entrepreneur cannot realize his vision without others. It is therefore necessary to ensure that the entrepreneur communicate his/her vision in a very clear and unambiguous way to elicit the support of others. Since the vision cannot be realized alone there is need for trust so that none of the members of the organization work under suspicious condition.

Open yourself for criticism and be ready to adjust. An entrepreneur must be able to subject the vision to criticism so as to amend and make the vision better. Humility to adjust where necessary is important.

1.1.5 Visioning Process and way of keeping vision alive

Initiate and provide constant vigilance: Vision must emanate from the leader(s) within the organization and appropriate vigilance must be ensured to bring the vision to reality. Vision should be original because if copied from other persons, it may not last particularly when challenges arise in the process of actualizing the vision.
Set high goals but be realistic: Vision must be challenging in the sense that it must call for attention such that it will be worth pursuing. Vision must inspire the owner of the vision as well as those that will be involved in actualizing the vision. Unrealistic goals will result in frustration; hence vision must be realistic to the extent that those involved will believe its accomplishment.
Seek significant early involvement by other members of the organization: The sharing of vision with others give room for criticism so as to make the vision better and robust. The inputs of others will allow a well conceived vision. If resources have been committed before involving others it may lead to waste; if the vision could be better actualized with minor amendments.
Encourage widespread review and comments: Subject your vision to a critical evaluation by others, allow both positive and negative comments but be careful of destructive comments.
Keep communications flowing: Give room for both vertical and horizontal communication. All the members of the organization or family members must have something to offer. No one is the absolute custodian of knowledge
Allow time for the process to work; do not be in a haste to quit your vision. Sleep over your vision before you get started.
Demonstrate commitment, follow through: Vision is lonely; demonstrate your commitment and encourage the commitment of the organization members. You must lead others to follow your vision through. If you abandon it no one can revive it but you. So do not quit your vision, a quitter never wins and winners never quit.
Maintain harmony of sub-units: Ensure the different units of the organization work in harmony. No unit is allowed to work at variance with one another, that is, it must be a unified vision.

1.1.6 Ways of keeping Vision alive

Honour and live the vision as the organization's constitution. The vision is not a document prepared and hung in the office. The culture and value of the organization must take its root from the vision.
Encourage new members' understanding and commitment through early introduction. New members of the organization must be taught and understand the aspiration of the organization.
Make it constantly visible. Let the attitude of the leaders always reflect the organizational vision. The decision making process must be in line with the organization vision, so that all members of the organization are constantly aware that it is the organizational vision that is directing the activities within the organization.
Create integrity through alignment and congruency – decision making patterns, personnel policies etc must be in line with the vision.
Review the vision periodically, revising as appropriate to reflect changing conditions.

- List how you will ensure your vision is brought into reality

- Honour and live the vision as the organization's constitution. Encourage new members' understanding and commitment through early introduction make it constantly visible. Create integrity through alignment and congruency. Review the vision periodically

1.1.7 Tips to making the vision a Reality and evaluation of vision

- Vision must be developed by leaders, those who have the strength and influence to establish direction and mobilize the organization members and resources.
- Empower people at all levels by articulating your vision, agree on clear goals and objectives and give them the authority they need to be entrepreneurial in finding ways of achieving their goals.
- A vision must be communicated to followers and must be supported by them. Leaders must market their vision clear to the followers.
- Remove fear of unknown and fear of failure in your words and actions.
- Stay focused on the key strategic goals despite all the day-to-day distractions.
- Create a working environment that encourages creativity and innovation.
- Allow people time for exploration and discovery in addition to normal work.
- Make the vision comprehensive and detailed so that every member of the organization can understand his or her part in bringing the vision to reality.
- Invest in employee training and coaching. Help them to develop entrepreneurial and creative skills.
- A vision must be uplifting and inspiring.
- Plan for success but give room for failure.

1.1.8 Evaluation of vision – The following are some of the evaluation criteria:-

- Foresight
- Broadness of vision
- Uniqueness of vision
- Consensus of vision
- Practicality of vision
- Accessibility of vision

  - How important is vision in entrepreneurial process?
  - Vision is very central in entrepreneurial process as it is the mental picture of the better future that propel the entrepreneur to give all it takes to bring the future dreams into reality by creating venture, work tirelessly to ensure it success and eventually reaping gains/benefits.

1.2 Mission Statement

We have said that vision is a mental picture of a preferred future; it is essentially futuristic, and forward looking view of what an organization intends to become. Mission on the other hand is what an organization is and the reason for its existence. A meaningful mission must specifically state the fundamental and unique reason for its being and how it is different from other corporate organizations. Pearce II & Robinson Jr., (2004) defined mission as the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of its operations in product and market terms. Mission gives specific direction and focus to the organization. Thompson (1997) sees mission as the 'essential purpose of the organization, concerning particularly why it is in existence, the nature of business (es) it is in and the customers it seeks to serve and satisfy.' In defining the mission statement, the organization must take into account five key elements namely:

- History of the organization
- The current performance of the organization
- The environment where it operates
- The resources available and
- Distinctive competences

1.2.1 Characteristics of Mission Statement

Kazim (2004) identified seven characteristics of effective mission statement as follows:

It should be visible: A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable.

It should be precise: mission statement should not be too narrow to restrict organization activities and it should not be too broad to make it meaningless giving no direction.

It should be clear: Mission statement should be clearly stated to the extent that it can lead the organization into definite action.

It should be motivating: Mission statement must be motivating to the employees and society. It must delight the stakeholders to enable it achieve the embodiments of the statements.

It should be distinctive: Mission statement should be unique to each organization and differentiate it from similar organizations.

It should indicate major components of strategy: which are long-range, decisions, plans, mission, goals, objectives, options, resources allocation, resource utilization, process and advantages improvement

It should indicate how objectives are to be accomplished in terms of concrete specific targets defined for mission derived goals (Adeleke, Ogundele & Oyenuga, 2008).

  - Explain the importance of Mission statement
  - Mission statement is the reason for the organization existence; it is unique purposes that differentiate one business from the other. Mission statement gives direction and focus to organization

1.3 Organizational goals and objectives

1.3.1 Organizational goals

Kazim (2004) defined goals as what an organization hopes to accomplish in a future period of time. They represent a future state or an outcome of the effort put in now. A broad category of financial and non-financial issues are addressed by the goals that an organization sets for itself. Goals and objectives are often used interchangeably; the major difference has to do with the fact that goals are considered broader than objectives. Goals can be stated in broad terms such as marketing goals, financial goals, and production goals. When these goals are broken down to reflect specific, measurable and timing of their accomplishment, they then become objectives.

1.3.2 Organizational Objectives

Objective is described in Olayiwola (2007) as specific intended results of organization activities. Kazim (2004) sees objective as the ends that state specifically how the goals shall be achieved. Objectives are concrete and specific in contrast to goals which are generalized; objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification, thus making objectives measurable and comparable.

1.3.3 Importance of objectives

Objectives are vital to the survival of organization especially in the area of unifying different sections and harmonization of different interests. Objectives are important for the following reasons:-

To provide directions for the organization.
It allows the organization to relate effectively and efficiently with its environment
It aids decision making
It allows the organization to pursue its vision and mission
It allows resources to be effectively and efficiently allocated among competing needs.
It provides the standard for performance evaluation.
To establish a basis for control.

1.3.4 Characteristics of good objectives

Since objectives are important tools to measure and evaluate organizational performance, it is important for such tool to possess certain characteristics such as:-

- Clear and understandable by all the stakeholders
- It should be concise, specific and direct
- It must be measurable in quantitative or qualitative terms
- It must have a time horizon which must be clearly stated within which objective must be accomplished
- It must be challenging and attainable
- There must be harmony among different objectives
- Prioritizing of objectives where resources available are inadequate to pursue multiple objectives at the same time.

  - Why should an entrepreneurial organization have clearly stated objectives?
  - Objectives are the specific intended results of organization. When objectives are clearly stated, they provide clear direction, aid decision making, allow organization to pursue its vision and mission, provide effective ways of allocating resources and enable organization to relate effectively with its environmen

Summary of module 2, study session 1

This unit has been able to define vision and the components of vision. It identified core ideology and envisioned future as the two components of vision. It also discussed important elements that make leaders with vision succeed. Other key areas such as: - ways of keeping vision alive and requirements for effective vision evaluation were also discussed. The unit also discusses organization mission, goals and objectives.

Self-Assessment Questions (SAQs)

1. Which of the following is not a feature of vision?
(a) short (b) succinct (c) inspiring (d) ambigous
2. Core value of an organization is also called…………………………………………….
(a) core motive (b) core intent (c) core tenet (d) core mission
3. Core value is the extent of ………………….. the organization is ready to maintain.
(a) knowledge (b) capacity (c) integrity (d) inspiration
4. …………is the reason for the organization‟s existence, a clear description of the activities of the organization (Tests Lo1.3)
(a) core mission (b) core purpose (c) core movement (d) core activities
5. ……………. is creative, looking to a future of greatness; it keeps the organization as well as individual motivated even if the founders are no longer in existence. (tests Lo 1.2)
(a) policy (b) envision future (c) envisioned vision (d) future
6. If vision is taken away , an organization can set into …… (Tests LO 1.2)
(a) order (b) progress (c) movement (d) confusion
7. Take away skills and have (Tests LO 1.2)______________________
(a) organisational progress (b) organisation stress
(c) organisation anxiety (d) organisation failure
8. Lack of resources can cause …………..in an organization (tests LO 1.2)
(a) slow down (b) frustration (c) efficiency (d) others
9. Lack of action plan can cause ………………….
(a) progress (b) false start (c) clear way (d) none of the above
10. An entrepreneur must be open to …….. and be ready to adjust. (Tests LO 0.4)
(a) criticism (b) challenge (c) other (d) none of the above

- - Describe the characteristics of good objectives?
- - Clear and understandable
  It should be concise, specific and direct

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Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**A**	**C**	**C**	**B**	**B**	**D**	**C**	**B**	**B**	**A**

MODULE 2

Study session 2: The Roles of Government and Business Regulatory Agencies In Nigeria

Introduction

You need to appreciate the fact that Entrepreneurial enterprises in market economies are the engine of economic development. SMEs contribute to sustainable growth and **employment generation** in a significant manner owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their **potential** to react to challenges and changing environments. For instance, SMEs have strategic importance for each national economy due to a wide range of reasons. Logically, the government plays a major role by in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of **GDP**. There is need for government to create an **enabling environment** for enterprises to strive to contribute to the increased welfare of the society since government alone cannot meet the aspirations of the large number of the population.

This module will therefore explain the various ways in which the government has been supporting the entrepreneurs/SMEs. It will also show the objectives as well as the benefits government intends to achieve for these **supportive roles.**

Learning outcomes for module 2 study session 2

At the end of module 2 study session 2 you should be able to;

2.1 Define and correctly use all the key words printed in **bold**
2.2 Explain Business Regulatory/Legal role of Government in Nigeria
2.3 Define Promotional/Supportive Roles
2.4 Explain the reasons for Government regulation/promotion/supportive roles
2.5 List and explain the benefits of government roles
2.6 Identify and discuss functions of five regulatory bodies in Nigeria.
2.7 List other regulatory agencies

2.1 Business Regulatory/Legal Roles

In every society, social and business activities are guided by certain laid down principles. Such principles emphasis acceptable manners of conduct among the community members. Similarly the regulatory/legal environment prescribes acceptable principles and guides in business relationship such that each party understands the requirement of the business relationship and that each party will conduct business activities in accordance with the laws of the land. There are three levels of regulations in Nigeria namely:

- The Federal Legislation acts
- The State legislation laws
- Local Government by laws

The Nigerian constitution distinguishes between the exclusive and concurrent legislative list. While exclusive list contains areas where only the Federal legislators can make laws, the concurrent list specifies where both Federal and States can legislate but where there is conflict that of Federal supersedes. The domestic business falls under the concurrent list, hence both Federal and States including Local Governments can make laws to regulate business activities in their domains. The regulatory roles of government involve the following activities:
Ensuring businesses comply with government laws. Every game has rules and regulations with a referee to ensure compliance. Except every player plays according to the rules there will be chaos. The governments and their various agents serve as referees to ensure all operators comply with the rules such as:-

- Controlling and monitoring of quality of product through different agencies.
- Free and fair competition among business operators.
- Controlling the disposal of hazardous waste.
- Licensing of organization for production of consumable items.

- Government regulations are uncalled for in a capitalist economy like Nigeria. Discuss
- A popular saying goes thus 'where there is no law, there is no sin'. If government allows every entrepreneur to behave without regard to law, there will be chaos, no attention will be given to quality, fraud will be rampant, and unhealthy competition will be the order of the day and the entire business environment will not be safe for any geniue investor. Government regulatory roles must be encouraged.

2.2 Government and Business Regulatory Agencies/Bodies

There are many aspects of regulatory and monitoring roles of government. In order to effectively carry out these roles, government has established different agencies/bodies with the appropriate legislative backings to ensure business operations are conducted in a friendly business environment. Some of the agencies and their functions include:-

2.2.1 The Corporate Affairs Commission

The Corporate Affairs Commission was established by the Companies and Allied Matters Act **(CAMA)** 1990 as a corporate body with perpetual succession and a common seal; it is capable of suing and being sued in its corporate name. The headquarters of the Commission was to be based at Abuja the Federal Capital Territory.

Functions of the CAC

The Act that established the Commission specified the following functions:

- The regulation and supervision of the formation, incorporation, registration, management, and winding up of companies.
- Establishing and maintaining companies' registry and offices in all the states of the Federation suitably and adequately equipped to discharge its formations.
- Arrange or conduct an investigation into the affairs of any company where the interests of the **shareholders** and the public so demand.
- Perform such other functions as may be specified by any act or enactment.
- Undertake such activities as one necessary or expedient for giving full effect to the provisions of the Act (CAMA, 1990).

2.2.2. National Agency for Food and Drug Administration and Control (NAFDAC)

NAFDAC was established under decree No 15 of 1993.The decree vested in it dual functions. To see to the establishment of food beverages and cream industry

As well as regulating and controlling the importation, manufacturing, distribution, sales and use of processed food, drugs, cosmetics, medical devices, bottled water, chemicals and advertisements relating to food, beverages and cream products.

Ensure that the use of **narcotic drugs and psychotropic** substances are limited to medical and scientific purposes.

Conduct appropriate tests and ensure compliance with standard specifications to ensure efficiency and safety of food, drugs, cosmetics, bottled water, medical devices, chemicals and their raw materials as well as production process in factories and other establishments.

Undertake the registration of processed foods, drugs, cosmetics, medical devices, bottled water and chemicals.

Compile standard specifications and guidelines for production, importation, sales and distributions of processed foods, drugs, cosmetics, medical devices, bottled water and chemicals.

Inspect all imported and locally made processed foods, drugs, chemicals, cosmetics, medical devices, bottled water, and establish relevant quality assurance systems.

2.2.3 The Standard Council

According to Ogundele, (2007), the body was established as Nigerian Standard Organization Act of 1971, now Standard Organization of Nigeria (SON). The functions of the council include:

- To advise government on standards, standard specifications, control and methodology.
- Designating, establishing and approving standard in respect of metrology, materials, commodities, products, processes for the certification of products in commerce and industry throughout Nigeria.
- To provide necessary measures for the control of raw materials and products in conformity with standard specifications.
- Awarding of certificate marks by the council to the manufacturers whose products meet Council's established standards
- Sealing up and confiscating of assets of organizations that fail to live up to the standards set.

2.2.4 The Independent Corrupt Practices and Other Related Offences Commission (ICPC)

The Independent Corrupt Practices and Other Related Offences Commission was established as a corporate body by the Federal Government of Nigeria as a legislative initiative to combat corruption which has become endemic in the national life. The commission comprises high police ranking officers, legal practitioners with at least 10 years post-call experience, retired judge of a superior court of law, a retired public servant not below the rank of a director, a woman, a youth not less than 21 or more than 30 years of age at the time of his or her appointment and a chartered accountant. The ICPC mandate was to prohibit and prescribe punishment for corrupt practices and other related offences.

Duties of the Commission:
Section 6 (a-f) of the ICPC Act 2000 sets out the duties of the Commission as paraphrased in the following:

- ➢ To receive and investigate complaints from members of the public on allegations of corrupt practices and in appropriate cases, prosecute the offenders.
- ➢ To examine the practices, systems and procedures of public bodies and where such systems aid corruption, to direct and supervise their review.
- ➢ To instruct advice and assist any officer, agency, or parastatal on ways by which fraud or corruption may be eliminated or minimized by them.
- ➢ To advise heads of public bodies of any changes in practice, systems or procedures compatible with the effective discharge of the duties of public bodies to reduce the likelihood or incidence of bribery, corruption and related offences.
- ➢ To educate the public on and against bribery, corruption and related offences.
- ➢ To enlist and foster public support in combating corruption
- ➢ With respect to the prosecution of cases, the ICPC Act provides that every prosecution for offences under it shall be deemed to be done with the consent of the Attorney-General. Furthermore, it is provided that the Chief Judge of a State or the Federal Capital Territory shall designate a court or judge to hear and determine all cases arising under the Act. Presently, there are two such designated Judges in each State of the Federation and the Federal Capital Territory.
- ➢ The offences that can be handled by the commission are contained in the act that established it. The offences include among others: giving and accepting gratification, fraudulent receipt or returns and gratification by and through agents, bribery of public officers, using office or position for gratification, making false or misleading statements to the commission as well as attempt and conspiracy.

  - o Discuss the roles of Corporate Affairs Commission in relation to business oprations in Nigeria.
  - The commision was established by the Companies and Allied Matters Act (CAMA) 1990 as a corporate body with perpetual succession and a common seal; it is capable of suing and being sued in its corporate name. All business activities are required by law to register. The commission is expected to give the certificate of registration or incorporation after all requirements for registration/incorporation have been met. The Commission has the power to revoke certificate of any company that contravene any part of the law.

2.2.5 The Economic and Financial Crimes Commission (EFCC)

The **EFCC** was established by Act of parliament in 2004 and the Commission was empowered by the Act to carry out the following function which can be found in part two of the Act:

Functions of the Commission

The Commission according to the Act shall be responsible for -

(a) The enforcement and the due administration of the provisions of this Act;

(b) the investigation of all financial crimes including advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud, contract scam, etc.;
(c) The co-ordination and enforcement of all economic and financial crimes laws and enforcement functions conferred on any other person or authority;
(d) the adoption of measures to identify, trace, freeze, confiscate or seize proceeds derived from terrorist activities, economic and financial crimes related offences or the properties the value of which corresponds to such proceeds;
(e) The adoption of measures to eradicate the Commission of economic and financial crimes;
(f) the adoption of measures which include coordinated, preventive and regulatory actions, introduction and maintenance of investigative and control techniques on the prevention of economic and financial related crimes;

(g) The facilitation of rapid exchange of scientific and technical information and the conduct of joint operations geared towards the eradication of economic and financial crimes;
(h) The examination and investigation of all reported cases of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved;
(i) The determination of the extent of financial loss and such other losses by government, private individuals or organizations;
(j) Collaborating with government bodies both within and outside Nigeria carrying on functions wholly or in part analogous with those of the Commission concerning -

> (i) the identification, determination, of the whereabouts and activities of persons suspected of being involved in economic and financial crimes,
>
> (ii) The movement of proceeds or properties derived from the commission of economic and financial and other related crimes;
>
> (iii) The exchange of personnel or other experts,
>
> (iv) The establishment and maintenance of a system for monitoring international economic and financial crimes in order to identify suspicious transactions and persons involved,
>
> (v) maintaining data, statistics, records and reports on persons, organizations, proceeds, properties, documents or other items or **assets** involved in economic and financial crimes; undertaking research and similar works with a view to determining the manifestation, extent, magnitude, and effects of economic and financial crimes and advising government on appropriate **intervention** measures for **combating** same.

(k) dealing with matters connected with the extradition, deportation and mutual legal or other assistance between Nigeria and any other country involving Economic and Financial Crimes;

(l) The collection of all reports relating to suspicious financial transactions, analyse and disseminate to all relevant Government agencies;

(m) Taking charge of, supervising, controlling, coordinating all the responsibilities, functions and activities relating to the current investigation and prosecution of all offenses connected with or relating to economic and financial crimes;

(n) The coordination of all existing economic and financial crimes investigating units in Nigeria;

(o) maintaining a liaison with office of the Attorney-General of the Federation, the Nigerian Customs Service, the Immigration and Prison Service Board, the Central Bank of Nigeria, the Nigeria Deposit Insurance Corporation, the National Drug Law Enforcement Agency, all government security and law enforcement agencies and such other financial supervisory institutions in the eradication of economic and financial crimes;
(p) Carrying out and **sustaining** rigorous public and enlightenment campaign against economic and financial crimes within and outside Nigeria and;
(q) Carrying out such other activities as are necessary or expedient for the full discharge of all or any of the functions conferred on it under this Act.

In addition to the functions listed above, the Commission was also empowered by the Act to:
(a) Cause investigations to be conducted as to whether any person, corporate body or organization has committed any offence under this Act or other law relating to economic and financial crimes
(b) Cause investigations to be conducted into the properties of any person if it appears to the commission that the person's lifestyle and extent of the properties are not justified by his source of income;

What other responsibilities does the Commission have?

The Commission was also charged with the responsibility of enforcing the provisions of the following laws:–
(a) The Money Laundering Act 2004; 2003 No.7 1995 N0. 13
(b) The Advance Fee Fraud and Other Fraud Related Offences Act 1995;
(c) The Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act 1994, as amended;
(d) The Banks and other Financial Institutions Act 1991, as amended; and
(e) MiscZellaneous Offences Act
(f) Any other law or regulations relating to economic and financial crimes, including the Criminal code or Penal Code

2.3 Other Regulatory Agencies
Other agencies that are involved in regulatory and supportive roles are isted below
- Governing Council of National Office of Industrial Property
- Productivity Prices and Income Board
- The Central Bank of Nigeria (CBN)
- Nigerian Stock Exchange (NSE)
- Securities and Exchange Commission (SEC)

- National Insurance Corporation (NICON)
- Raw Materials Research and Development Council (RMRDC)
- Nigerian Deposit Insurance Corporation (NDIC)
- Nigerian Export Credit Guarantee Insurance Corporation
- Industrial Development Coordination and many others.

How many regulatory agencies mentioned above can you quickly list?

- Governing Council of National Office of Industrial Property
- Productivity Prices and Income Board
- The Central Bank of Nigeria (CBN)
- Nigerian Stock Exchange (NSE)
- Securities and Exchange Commission (SEC)
- National Insurance Corporation (NICON)
- Raw Materials Research and Development Council (RMRDC)
- Nigerian Deposit Insurance Corporation (NDIC)
- Nigerian Export Credit Guarantee Insurance Corporation

Industrial Development Coordination and many others

2.4 Promotional/Supportive Roles of Government

Without mincing words, in defining the role of government supporting entrepreneurship and SMEs, it is obvious that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of the key conditions for success. Although a number of agencies have been established in the past to strengthen the SMEs, it is generally believed that the government needs to do more. The following are typical ways by which government promotes and supports entrepreneur Discuss the various ways government promotes and supports entrepreneurship

- **Tax Holiday:** A tax holiday is a temporary reduction or elimination of tax; governments usually create tax holidays as incentives for business investment. The taxes that are most commonly reduced by national and local governments are sales taxes, company income tax etc. Tax holiday is a kind of incentive used to encourage the growth and development of business enterprises.
- **Financial incentive:** These schemes are one form of strategic assistance an organization may be able to access from the government or agencies. These high level schemes focus on projects that will achieve real productivity improvements - particularly those that will assist collaboration among firms in research, technology diffusion, business transformation and capacity building within the defined sectors e.g. agricultural sector, manufacturing sector etc.
- **Infrastructural development:** These are basic facilities that will enhance productivity, reduce cost if they are centrally provided by the government. These items include constant electric supply, portable water, good road facilities, efficient communication system etc. The lack of basic infrastructural facilities has been responsible for low economic activities particularly in the manufacturing sectors in Nigeria.

- **Subsidies:** This is a form of financial assistance granted to economic agents such as business organizations with the aim of supporting such businesses to generate increased productivity and promote increased employment and society's welfare.
- Credit facilities through government financial agencies.
- Assistance in the areas of attraction of overseas capital and technical know-how
- Availability of reliable data from CBN, FOS NDE etc.
- Stability of system of laws and justice.
- Preparation and dissemination of weather forecasts.
- Export promotion Activities. The Nigerian Export Promotion Council (NEPC) was established through the promulgation of the Nigerian Export Promotion Decree No. 26 of 1976 and formally inaugurated in March, 1977. This Act was amended by Decree No.72 of 1979 and further amended by the Nigerian Export promotion Decree No. 41 of 1988 and complimented by the Export (Incentives and Miscellaneous Provisions) Decree No. 18 of 1986. Furthermore, the Nigerian export Promotion Council Amendment Decree No.64 of 1992 was promulgated to enhance the performance of the Council by minimizing bureaucratic bottlenecks and increasing autonomy in dealing with members of the Organized Private sector. The Council has a Governing Board drawn from both the Public and the private sectors.

  The council has the following objectives:

  a. to promote the development and diversification of Nigeria's export trade;
  b. to assist in promoting the development of export-related industries in Nigeria;
  c. to spearhead the creation of appropriate export incentives; and,
  d. to actively articulate and promote the implementation of export policies of the Nigerian government.

Creation of incubator units providing the space and infrastructure **for business beginners** and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation

Ogundele (2007) listed the following as the objectives for business regulation in Nigeria;
To create and maintain a climate of confidence, trust and stimulating the activities of enterprises by respecting the rules of competition

- Creating an environment that will allow the enterprise to thrive, grow and maintain stability
- Determine clearly the national goals of acceptable global levels, wages, price of other goods and services, credits and investment
- Ensuring social progress and maximum justice in consonant with the level of economic activity
- To fix and distribute public and social burdens in a fair manner
- The constitutional rights or sovereign rights of government demand that it should keep close watch over the activities of business
- To protect the needs of consumers against the production and sales of inferior goods
- To control sources of revenue in the form of taxes, customs and excise duties etc.
- It could also be for keeping international obligations e.g requirements of International Monetary Fund (IMF) and World Bank as noted earlier.
- Ensuring that the economy is not dominated by foreigners.

Lawal (1993) included the following as part of government reasons for business regulation:-

a. Providing greater employment opportunities
b. Increasing exportation of manufactured goods
c. Achieving dispersion of industries
d. Improving technology
e. Attracting foreign investment
f. Increasing private sector participation and
g. Increasing local content of industrial output.

Can you identify five objectives of Government regulations in the business sector

2.5. The Objectives of government Regulation

- To ensure the development of healthy balance between private and public ownership
- To make use of equal opportunity for cooperation
- To ensure utilization of the existing capacity and the creation of economy of scale
- To avoid the creation of natural monopolies
- To promote a more equitable distribution of income and a wider ownership of business enterprises within and among nationals
- To develop data base or data bank in business activity
- To raise revenue for purpose of financing other social, economic and political objective defined by the government
- To promote general pattern of distribution
- To raise the living standards of Nigerians
- To regulate by-laws and taxation with a view to equating the private and social costs.

2.6. Strategic importance of SMEs

Parallel with ownership reform and privatization, the number of SMEs is increasing. The strategic importance of SMEs is today acknowledged around the world for the following reasons according to Sunje, www.unece.org/indust/sme/ece-sme.htm. Small and medium-sized enterprises are contributing to employment growth at a higher rate than larger firms. In the EU economy about 99.9 per cent of the enterprises are SMEs, of which 93 per cent are micro enterprises. In 1992, there were 15.7 million SMEs.

SMEs in the private non-primary (i.e. non-farming) sector of the Community; the private sector and in particular SMEs form the backbone of a market economy and for the transition economies in the long-term might provide most of the employment (as is the case in the EU countries). A World Bank sector policy paper shows that their labour intensity is from 4-10 times higher for small enterprises;

Support for SMEs will help the restructuring of large enterprises by streamlining manufacturing complexes as units with no direct relation to the primary activity. And through this process the efficiency of the remaining enterprise might be increased as well;

They curb the monopoly of the large enterprises and offer them complementary services and absorb the fluctuation of a modern economy;

Through inter-enterprise cooperation, they raise the level of skills with their flexible and innovative nature. Thus SMEs can generate important benefits in terms of creating a skilled industrial base and industries, and developing a well-prepared service sector capable of contributing to GDP through higher value-added;

A characteristic of small industrial enterprises is that they produce predominantly for the domestic market, drawing in general on national resources;
The structural shift from the former large state-owned enterprises to smaller and private SMEs will increase the number of owners, a group that represents greater responsibility and commitment than in the former centrally planned economies;
An increased number of SMEs will bring more flexibility to society and the economy and might facilitate technological innovation, as well as provide significant opportunities for the development of new ideas and skills;

SMEs use and develop predominantly domestic technologies and skills;
New business development is a key factor for the success of regional reconversion where conventional heavy industries will have to be phased out or be reconstructed (especially in the field of metallurgy, coalmining, heavy military equipment, etc.).

Summary of module 2 study session 2

In this study session we have discussed the roles of government in supporting and regulating business activities in Nigeria. The study session listed various reasons for government regulation and support. We also listed the benefits of government regulations and support. Five regulatory authorities/agencies were briefly discussed particularly the Act that established them and the functions they are established to perform.

Self- Assessment Questions (SAQs) for study module 2 study session 2

1. The three levels of Regulation in Nigeria are ……….
(a) The Judiciary, Legislative and Executive (b) Federal, State and Local government
(c) Decree, Laws and Bye Laws (d) Federal, Judiciary and Executive
2. The organisation that is concerned with the registration of Business in Nigeria is...
(a) EFCC (b) Standard Organisation of Nigeria
(c) Corporate Affairs Commission (d) ICPC
3. An agency that is concerned with the investigation of all financial crimes is –
(a) CAC (b) SON (c) NAFDAC (d) EFCC
4. An Agency that is responsible for providing advice, educate to public on and against bribery and corruption is ………
(a) EFCC (b) ICPC (c) SON (d) CAC
5. One of the following is not the promotional / supportive roles of Government
(a) Tax holiday (b) Financial incentive
(c) Infrastructural development (d) Tax evasion
6.The ___ environment prescribes acceptable principles and guides in business relationship.
(a) Economic (b) regulatory/legal (c) judicial/executive (d) political and judicial
7. The ______________ was established by the Companies and Allied Matters Act (CAMA) 1990 as a corporate body with perpetual succession and a common seal.
(a) Corporate Affairs Commission (b) Standards Organisation of Nigeria
(c) National Agency for Food and Drug Administration Control
(d) None of the above.
8. The headquarters of the Corporate Affairs Commission is based in
a) Lagos. b) Abuja the Federal Capital Territory.
c).Port Harcourt d) All of the above
9. Establishing and maintaining companies‟ registry and offices in all the states of the Federation is a function of ----------------------.
(a) National Council (b) National Affairs Commission
(c) Corporate Affairs Commission (d) All of the above.
10. Ensuring that the use of narcotic drugs and psychotropic substances are limited to medical and scientific purposes is a function of _____________ .
(a) SON (b) EFCC (c) NAFDAC (d) CAC

Ques.	1	2	3	4	5	6	7	8	9	10
Ans.	B	C	D	B	D	B	D	B	A	B

List five reasons why you think government should regulate businesses in Nigeria.
Evaluate the relevance of NAFDAC in business operations in Nigeria.
List and discuss five (5) functions of EFCC.
Identify five ways you think government can support entrepreneurs in your environment.

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Module 2, Study session 3: Writing Business Plan and Feasibility Studies

Introduction

This study session introduces you to how to write a business plan and feasibility studies. The business plan is like the life plan for an individual. Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a product or provide a service. You also need to assess your competitive environment and understand how much money you need to start your business and keep it running until it is established. **Feasibility studies** will be required to address things like where and how the business will operate. They provide comprehensive details about the business to determine if and how it can succeed, and serve as a valuable tool for developing a good business plan.

Learning Outcomes for module 2 study session 3

After studying this module 2 study session 3 you should be able to:

3.1 Define and correctly use all the key words printed in **bold**
3.2 Discuss feasibility studies and its importance
3.3 Explain the components of feasibility studies.
3.4 Discuss business plan.
3.5 Explain the need for and benefits of business plan.

3.1 Feasibility studies and its importance

Feasibility studies comprise comprehensive, detailed information about ones' business structure, the products and services, the market, logistics of how one will actually deliver a product or service, the resources one needs to make the business run effectively, as well as other information about the business (Women in Business, 2010). **A Business Feasibility Study** can also be defined as a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes, and assessing the range of costs and benefits associated with several alternatives for solving a problem (Thompson, 2005).

The importance of Feasibility Studies: According to Women in Business (2010), the information you gather and present in your feasibility study will help you:

It serves as the standard or yardstick for assessing performance of envisaged business. It also helps to:

- List in detail all the things you need to make the business work;
- Identify logistical and other business-related problems and solutions;
- Develop marketing strategies to convince a bank or investor that your business is worth considering as an investment; and
- Serve as a solid foundation for developing your business plan.
- Provides important information necessary for accurate decision making in relation to proposed project. Even if you have a great business idea you still have to find a cost-effective way to market and sell your products and

services. This is especially important for store-front retail businesses where location could make or break your business.

3.1.1 Components of Feasibility Studies

Executive Summary: The Executive Summary is a summary of all key sections of the Business Feasibility Study and should work as a separate, stand alone document. Key points to remember include:
Write this document after the content section of Business Feasibility Study is completed. Although the Executive Summary is written last, it is presented first. The Executive Summary should be no more than one page long

Product/Service: Describe the enterprises, product at service in simple language. It describes how customers would use and buy the product or service.

Technology: As necessary, provide further technical information about the product or service. It describes additional or ongoing research and development needs.

Intended Market Environment
Target Market:
Define and describe the target market(s).
Distinguish between end users and customers.
For business-to-business markets, include:
What industry is the target market, who is the key players, frequency of product purchase, replacement needs versus expansion, purchasing process?
For business-to-consumer markets, include: Demographic factors, such as income level, age range, gender, educational level, and ethnicity.

Competition
Describe direct and indirect competition (as it pertains to the target markets only).
For key competitors, give market share, resources, product and market focus, goals, strategies, strengths and weaknesses. List all key barriers to entry.

Industry: Clearly define and describe the industry in which the enterprise operates. Include the size, growth rate, and outlook. Define key industry segments and state where enterprise fits in.
Business Model: Describe the proposed enterprise's business model. How will the business generate revenue (i.e. sell the product; charge licensing, retail sales)? Will there be recurring revenue?

Marketing and sales strategy: Lay out the basic marketing and sales strategies. Describe the pricing strategy and justification. Include the expected gross profit margins.

Production / operating requirements*:* Describe enough of how and where the enterprise will manufacture, source or create and deliver the final product or service to be able to estimate costs. Will space be owned or leased? Will renovations be required? At what cost?

Management and personnel : List the proposed key managers, titles, responsibilities, relevant background, experience, skills, and costs. Sketch personnel requirements: what people will be needed now, in a year, in the long term? What skills and qualifications are required and what financial implications result?

Regulations/environmental issues: Outline non-economic forces that might affect the prospects of the firm: Key government regulations and the enterprise's plans for compliance; any environmental problems on property, plans to address the problems, and their cost and Political stability, if applicable.

Financial Projections: Some core components of this part of the report are listed below: Balance Sheet Projections - Three Years & Highlight Inflows of Capital; Income Projections - Year I : Monthly or quarterly; years 2 and 3: Annually; Cash Flow Projections - Year I : Monthly or quarterly; Years 2 and 3: Annually,

Break-Even Analysis - When will the firm begin to turn a profit, and
Cost Benefit Analysis - Will the business provide a viable return on investment for the owner and/or the investors?

Capital requirements & strategy: How much funding (equity) will the firm need, and when? What projected revenue or assets does the proposed business have to secure the financing? What sources will provide the funding, i.e. investors, lending institutions etc? What ratio of debt to equity financing will occur? When will investors begin to see a return? What is the expected return on investment (R01)?

Final findings & recommendations

Recommendations from the feasibility study regarding the viability of putting the business idea into practice should be honest, short and direct. When making the findings or recommendations arising from the Business Feasibility Study discuss the viability of the proposed business venture in terms of:

- Market Viability
- Technical Viability
- Business Model Viability
- Management Model Viability
- Economic and Financial Model Viability
- Exit Strategy Viability

A significant component of the findings should related to the likelihood of success, projected return on investment and how any identified risk should be mitigated.

What is the importance of market analysis in a feasibility study?

- Market analysis is central in writing a feasibilty study as it enable the potential business owner to be aware of the market it intends to operate, it will give an estimated market potential, the shares of the existing marketers, extent of competition, the current strategies of the existing operators. Equipped with this information will enable the potential entrepreneur whether to continue or look elsewhere.

How many of the components of Feasibility Studies can you remember? Make a list of them

3.2 Business plan and its importance

The term "business plan" has different meanings to different people. Banks that release their own planning guidlines consider formal business loan applications to be **synonymous** with business plans. Venture capitalists see them as investment proposals, purely fund raising documents. Corporate managers think of them in terms of departmental budgets and **financial forecasts**.(Touchie, 2005).

According to Kuratko and Hodgetts (1998), the business plan describes to investors and financial sources all of the events that are likely to affect the proposed venture. Details are required for various projected actions of the venture, with associated revenues and costs outlined. A Business Plan describes a business opportunity. It is like a road map because it tells you what to expect and what alternative routes you can take to arrive at your destination. Planning helps you to work smarter rather than harder. It keeps you future-oriented and motivates you to achieve the results you want. Perhaps most importantly, the process of completing a Business Plan enables you to determine what commitment you need to make to the venture (Department of Trade and Economic Development, 2010)

3.2 1 Importance of Business Plan

When you think about what a business plan isyour mind probably goes right to the bank and the process of applying for business financing, as that is the most common use for business plans. But if you are creating this valuable tool only as a part of a required financing package, you are overlooking its most important function: planning (Cagan, 2006). Whether you are new to the world of entrepreneurship or a seasoned veteran, a properly crafted business plan can help solidify your vision. And when you are remaking an on-going venture, a written **strategy** (business plan) can help ensure its success. Taking cognizance of that, there are particular events that spur the need for a full-scale business plan. According to Cagan (2006), they include the following:

- You plan to launch a new business.
- Your business has grown substantially.
- You want to expand your existing business into new markets.
- You want to add a new product or product line.
- You are thinking about buying a business.

Other reasons why business plan is necessary according to Department of Trade and Economic Development (2010) are to:

- Control future risks
- Prepare for future uncertainty
- Control business environment
- Control business growth
- Avoid sales crises
- Avoid liquidity crises
- Avoid succession crises
- Ensure people development
- Ensure work space available
- Avoid stock buying crises

According to Timmons and Spinelli, (2004), developing the business plan is one of the best ways to define the blueprint, strategy, resource, and individual requirements for a new venture. A good business plan must be developed with a view to exploiting the defined opportunity, developing the opportunity and determining the resources required, obtaining those resources and successfully managing the resulting venture (Hisrich, Peters and Shepherd,2008).

Writing a business plan is time consuming and financial wastage. Discuss

- Writing Business Plan can be labourious and financially demanding, but it is really worth the trouble. A well writing business plan will enables an entrepreneur to control future risk, prepare for future uncertanity, control business growth, take charge of organizational growth and development. It allows for consistencies in decision-making.

3.3. Principles of Planning in Feasibility Studies and Business Plan

A plan must be:

Explicit*:* All steps completely spelled out.

I*ntelligible*: Capable of being understood by those who will carry it out.

Flexible: Capable of accepting change.

***Written*:** Committed to writing in a clear and concise manner.

Benefits of Planning

1. *Reduces 'firefighting'*: Many small business owners spend so much time 'putting out the fires' that they never have a chance to do anything else. By preparing a Business Plan you can anticipate problems that are likely to occur and decide how they should be handled in advance.

2. *Justifies your plans and actions:* Often, one decides to do something because it 'sounds' or 'feels' right. You may do something because that is the way that you have always done it. Preparing a Business Plan forces you to prove the validity, or at least consider the reasoning of your plans.

3. *Tests your ideas on paper:* It is much better to produce a Business Plan and find that the business is likely to be unprofitable than to start the business and find out the same thing.

4. *Indicates your ability and commitment:* A well-prepared Business Plan is an impressive document. It shows outsiders such as lenders and suppliers that you understand the business.

3.4 Components of a written plan

A written Business Plan should contain the following**:**

1. *The Business Idea*: An outline and description of the product or service and background on the industry.

2. *The Entrepreneurs*: A history of the founders of the business including their skills, abilities and proposed ownership structure.

3. *Business Objectives*:

· What the business intends to achieve including long range goals
· The advantage of the product or service over existing competitors
· The image and character of the business to be developed.

The product or service

Technical description of the business.

1. *Manufacturing:*
   · Description of process and machinery used
   · Patents and design registrations
   · Predictions on changes to the industry
   · Costs of materials, machinery, etc
   · Plant location and layout
   · Labour availability and costs.

2. *Retailing:* Goods to be sold; Location; Stocking policy and procedures; and Suppliers and potential suppliers and the sales terms.

3. *Service:*
   · Description of service
   · Qualifications necessary to enter the industry
   · Industry and/or legal controls
   · Processes and services to be offered

Financial information

1. *Capital Needs*: Fixed assets needed; Working capital needed; and Starting capital needed.
2. *Sources of Finance:*· Types of finance needed; and Owners funds to be used.
3. *Cost of Finance:* Set up costs; Current interest rates; Ability to meet borrowings and Current returns on owners funds.
4. *Financial Viability:*· Projected profit and loss accounts; Break even analysis; Projected balance sheets; Cash flow forecasts; Working capital needs; Budgets; Expenses/Sales/Income and Taxation.

The market

1. *Market Research:* Market size; Market description; Market trends; Customer profiles; and target markets then Preliminary sales forecasts and estimated market share.
2. *Competitive Position:* Competitors; Unique selling position; Quality of existing products or services and Marketing practices of competitors.
3. *Marketing Program:* Distribution channels; Sales outlets; Storage and transport of goods; Pricing policy; Packaging; Sales promotions and sales strategy; Advertising strategy and costs; Public relations.

Management and operations

1. *Personnel:* Numbers of staff needed; Skills necessary; Training programs.

Business organisation

1. *Form of legal organisation*: Sole Trader; Partnership; Company or Trust; Registration of business name; Organisation chart.

2. *Legal Considerations:* Licences; Federal and State taxes; Consumer Law; Business Law; Insurance.
3. *Premises:* Space required; Buy or rent contracts; Commercial lease requirements and problems; Availability of suitable premises.

Questions to be answered in a business plan

1. *Description of the business:*
   · What type of business are you planning (retail, wholesale, manufacturing, tourism, hospitality, service)?
   · What products or services will you sell?

· What type of business is it (new, part-time, expansion, seasonal)?
· Why does it promise to be successful?

2. *Marketing:*
· Who are your potential customers?
· How will you attract and hold your share of the market?
· Who are your competitors? How are their businesses prospering?
· How will you promote sales?
· Who will be your best suppliers and why?
· Where will the business be located?
· What factors will influence your choice of location?
· What features will your location have?
· How will your building contribute to your marketing strategy?
· What will your building layout feature?

3. *Organisation:*
· Who will manage the business?
· What qualifications will you look for in a manager?
· How many employees will you need and what are their job descriptions?
· What are your plans for employees' hiring, salaries and wages, benefits, training and supervision?
· How will you manage finances?
· How will you manage record-keeping?
· What consultants or specialists will you need?
· What legal form of ownership will you choose?
· What licences and permits will you need?
· What regulations will affect your business?

Summary and conclusion for module 2 study session 3

- Developing the business plan is one of the best ways to define the blueprint, strategy, resource, and individual requirements for an on-going venture.
- A properly crafted business plan can help solidify your vision.
- When you are undertaking a new venture (feasibility studies), or remaking an old one (business plan), a written strategy can help ensure its success.
- Business Plans and Feasibility studies are required as controlled process for identifying business problems and opportunities, determining objectives, describing situations, defining successful outcomes, and assessing the range of costs and benefits associated with several alternatives for solving a problem.

Self-Assessment Questions module 2 study session 3

1. The need for a business plan includes all except:
   (a) Planning to launch a new business
   (b) Expanding your existing business
   (c) Adding a new product or product line
   (d) Increasing your labour force
2. A plan must be ……………….
   (a) Readable (b) Accommodating (c) Explicit (d) Durable
3. One of the benefits of planning is ……….
   (a) It justifies your plans and actions
   (b) It increases “firefight”
   (c) It keeps ideas in your memory
   (d) It indicates your inability
4. A written business plan should have all the following except ___________
   (a) financial information (b) product or service
   (c) business objective (d) liquidation plan
5. The importance of feasibility study cannot be overemphasized as it –
   (a) provides comprehensive details about the business to determine if, and how it can succeed, and serve as a valuable tool for developing a good business plan
   (b) does not list in details all the things you need to make the business works.
   (c) does not identify logistical and other business related problems and solutions.
   (d) does not serve as a solid foundation for developing your business plan.
6. The type of business you are planning should be stated under -
   (a) Description of the business
   (b) Marketing
   (c) Organisation
   (d) All of the above
7. Which of the following question will be answered in a business plan under organization?
   (a) What products or services will you sell?
   (b) Who are your potential customers?
   (c) How will you promote sales?
   (d) Who will manage the business?
8. The following except ………… is a component of feasibility study. (a) Executive Summary (b) Product/Service (c) Acquisition (d) Technology

9. The importance of feasibility studies include
(a) Listing in details all the things you need to make the business works.
(b) Identifying logistical and other business related problems and solutions.
(c) Serving as a solid foundation for developing your business plan.
(d) All of the above

10. The need for a full-scale business plan according to Cagan (2006) is spurred by the following except one:
(a) You plan to launch a new business.
(b) You want to expand your existing business into new markets.
(c) You want to add a new product or product line.
(d) None of the above

Quts	1	2	3	4	5	6	7	8	9	10
Ans	**D**	**C**	**A**	**D**	**A**	**A**	**D**	**C**	**D**	**D**

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Module 2

Study session 4 Sources of Business Finance

Introduction

Funding is a very vital aspect of a business, therefore this study session discusses the various ways of raising capital for your business. It is not only for a business that is just starting up but also for an existing business. Apart from funds acquisition, management of funds in business is also reflected in the study.

Learning Outcomes for module 2 study session 4

At the end module 2 study session 4 you should be able to

4.1 Define and explain correctly all the key words in **bold**
4.2 Explain the criteria for acquisition and allocation of funds
4.3 List and explain the personal and family sources of funds
4.4 Define internal sources of fund
4.5 Identify the different classifications of external sources of funds
4.6 Explain the basic requirements for seeking a loan facility
4.7 Recognize how small and medium enterprises are funded in Nigeria
4.8 Identify the challenges of small and medium scale enterprises.

4.1 Acquisition and allocation of funds

Acquisition and **allocation** of funds is central to the success of any business venture. One of the main problems facing effective management of small scale enterprises is lack of basic financial management skills needed to guide the business venture. These skills include the ability to keep appropriate records of financial transactions, financial control, credit management, risk management, personal financial discipline of the entrepreneur and inability to see the business as separate from the owners. For a business venture to externally raise capital needed for its operation the financial institutions require a level of minimum compliance with the basic issues raised above. In addition, it is important that the entrepreneur avoid under or over estimation of the capital requirements for its operations, otherwise too large **capital** will lead to unnecessary high costs and inadequate capital will affect the growth of the business venture.

The United States (US) Small Business Administration (SBA) suggested the need for entrepreneur to answer the following questions so as to realistically determine the volume of capital needed for its operations:-

- Why do I need the capital?: -
- How much do I need?
- When do I need it?
- For how long will I need it?
- Where can I obtain it?
- How can I repay it?

- How will you determine your financial needs in the process of creating a business venture or expanding an existing one?
  - An entrepreneur must avoid under or over estimating the capital requirements for its operations, otherwise too large capital will lead to unnecessary high costs and in adequate capital will affect the growth of the business venture. Answers must be provided fo the following questions: Why do I need the capital?; How much do I need?; When do I need it?; for how long will I need it?; Where can I obtain it?; and How can I repay it?
  - Note that feasibility studies are prepared for new ventures while Business Plans are for new as well as existing businesses

4.2. Sources of funds for venture operation

Money is needed to operate and grow or expand a business. Business may need money to purchase equipment, **inventory**, create awareness, restructure or even renovation to be properly positioned to handle challenges. It is often a great challenge for new business ventures to find or accumulate the needed fund to commence or expand operation. Financing is the use and **manipulation** of money. Raising money for a business is one aspect of financing. There are different forms of raising funds open to the entrepreneurs. These sources vary in terms of the volume of fund that can be accessed, the cost of the funds and the security required to obtain the funds. The choice of individual entrepreneur will be determined by the following as suggested by (Olannye & Oyibi, 2002)

- Knowing the number of sources of funds available
- Risk involve
- The duration of financing whether it is short term or long term.
- The cost of borrowing from each source
- Government restrictions and institutional constraints
- The value and nature of assets as security or collateral

The various sources of funds for business ventures are classified under the following:

The Personal and family sources

The Internal sources

The External sources

4.2.1 The Personal and family

This source of finance is peculiar to a new venture, although it may also be applicable to an existing venture particularly loans from friends and relations as explained below

Personal savings: - It is expected that an individual that wants to start a business should be able to have saved part of the funds required for the business. This is necessary because relying on borrowed funds may be too dangerous for a new venture. It is also a way of motivating the owner to know that if the venture fails the life saving will be lost.

Loan from family and friends: - Family members often want to support other family members venturing into business, hence part of the venture funds are contributed in form of loans or gifts. Also, friends support through loans and sometimes gifts to encourage their friend that is starting a business.

4.2.2 Internal Sources

An internal source of funds is peculiar to an existing venture. The internally generated funds can emanate from the following sources

Retained profits: - It is an accepted practice to finance the fixed and working capital requirement from profits generated from the previous business activities of the venture.

Provisions: - Provision for tax and depreciation are another internal source of finance. Since business tax are payable a year after profits have been declared, this amount could serve as a source of fund for small business firm. Furthermore, annual provisions for depreciation represent cash retained by the enterprise over and above the normal undistributed profit.

Reducing current asset: - Reducing current assets is a source of fund and large amount of money could be made available for financing the activities of the venture.

4.2.3 External Sources

The external sources of funds are those that are obtained outside the venture. The external sources can be sub-divided into three namely; -

- Short- term finance
- Medium term finance
- Long term finance

A Short term finance: Short term financing involves obligation debts that have maturity date of less than one year. The typical example of short term finance includes goods purchased on credits, outstanding short term loans from banks/ accrued payment such as deferred taxation, salaries and wages etc. Some of the methods of short term financing are; -

(i) Open account or Trade credits/ Account payable: - It is a form of financing in which the seller extends credits to customers. The credit is reflected on the entrepreneur's balance sheet as accounts payable, and in most cases it must be paid in 30 to 90 days.

(ii) Account receivable financing: - It is a short term financing that involves either the pledge of receivables as collateral for a loan or the sale of receivables (factoring). Accounts receivables loans are made by banks, whereas factoring is done primarily by finance companies and factoring concerns.

(iii) Bank overdraft facilities: - An arrangement which allows a person who keep a current account with a bank the opportunity to draw above the balance in the account. The customers who overdraws his/her account pays both the overdrawn account plus the interest on the amount overdrawn.

(IV) Notes payable: - These are payments to banks (commercial) individuals or firms in which the maker of such notes endorses them in favour of the payee. A typical example of notes payable is a promissory note which is a short term marketable debt security in which the borrower promises to pay a stated sum on a stated future date, also known as one-name paper or commercial paper.

(V) Commercial draft: - It is a short term credit instrument, it is similar to a promissory note, except that the payee creates the draft in which the drawer indicates the time on the draft or sight draft requiring payment on presentation.

(VI) Bill of exchange: - A bill of exchange is a marketable short time debt security in which one party (the drawer) directs another party (the acceptor) or draw to pay a stated sum on a stated future date.

(VII) Loans from acceptance houses: - It is a method of borrowing on short term basis from banks; this method has the advantage of securing funds needed and at the required time. A letter of credit is a good example.

(VIII) Specialized Institutions: - Some specialized institutions were established to provide credit facilities to the small and medium scale enterprises, such institutions include microfinance banks, Cooperative banks, Agricultural development banks etc.

(IX) Factoring: - It is a method of short term financing, where debts are sold to a factor by an arrangement. A factor then assumes all the credit risks associated with the account receivables. Though costly, factoring has the advantage of converting an account receivable into cash and thus saves the seller the stress of pursuing payment.

(X) Discounting bills: - Similar to factoring in many ways, discounted bills are used by firms with lump sum of funds tied in receivables or marketable securities who require immediate cash. Instead of approaching their banks for loans, the **firms** approach finance houses to discount their receivables and marketable securities upfront by receiving cash lower than face value of the receivables.

(XI) Medium term Finance:- This type of finance fills the funding requirements of a firm in the medium term. In essence, medium term finance is not intended for long or short term use. By way of **durational** availability, medium term finance can refer to funds made available for use between two and five years. Generally, such funds are used for acquisition of small tools and light equipment with a few years life span. Medium term financing are debts, often obtained by borrowing. They have implications for interest payment.
The main sources of medium term finance are: -

(XII) Bank loans: The requirements for bank loans are usually tedious and cumbersome for young entrepreneurs to meet, this is not to say it is not possible. According to Kuratko & Hodgetts (2007) to secure a bank loan, an entrepreneur must be able to provide answers to the five mostly asked questions together with descriptive commentaries: -

- ***What do you plan to do with the money?*** Do not plan on using funds for a high-risk venture, Banks seek the most secure venture possible
- ***How much do you need?*** Some entrepreneurs go to their bank with no clear idea of how much money they need. All they know is that they want money. The more precisely the entrepreneur can answer this question; the more likely the loan will be granted.
- ***When do you need it?*** Never rush to the bank with immediate requests for money with no plan. Such a strategy shows that the entrepreneur is a poor planner, and most lenders will not want to be involved.
- ***For how long will you need it?*** The shorter the period of time the entrepreneur needs the money, the more likely he or she is to get the loan. The time at which the

loan will be repaid should correspond to some important **milestone** in the business plan.

- ***How will you repay the loan?*** This is the most important question. What if plans go awry? Can other income be diverted to pay off the loans? Does collateral exist? Even if a quantity of fixed assets exists, the bank may be unimpressed because it knows from experience that assets sold at a **liquidation auction** bring only a fraction of their value.

Credit unions: Credit unions are non-profit organizations and charge less interest than the banks do. It might be worth it to become a member of a credit union to quality for a loan.
The banks play a major role in the development process as they accept deposits and give out loans in the economy. There are 89 deposit money banks in operation under the supervision of the Central Bank of Nigeria. The recent increase in minimum paid-up capital for the existing DMBs from ₦1.0 billion to ₦25.0 billion will now enable the sectors play its pivotal role of supporting the growth SMEs in Nigeria.

The **cumulative** loans granted by **DMBs** to the economy from 1992-2001 amounted to 3,031,226.1 million or 3,031 trillion. Of the total amount, accumulated loans to SMEs during the period of ten years, 1992-2001 accounted for ₦426,826.8 million (₦426.8 billion or 14%) while other sectors took the lion share of ₦2,604.4 billion (or 86%0 during the same period (**Raw Material Research and Development Council** Publication 2005).

Table 5.1: DMBs Loans disbursement to SMEs and other sectors from 1992-2001

Year	Total Loan (1)	Loans to SMEs	% of Total	Loans to other Sectors	% of Total
1992	52,998.8	23,893.9	45	29,104.9	55
1993	73,245.8	20,362.9	28	52,882.9	72
1994	122,809.1	26,041.8	21	96,767.3	79
1995	171,758.2	41,534.1	24	130,224.1	76
1996	210,381.5	47,897.9	23	162,483.6	77
1997	275,273.5	48,022.2	16	247,251.3	84
1998	333,186.1	50,061.5	15	283,124.6	85
1999	402,338.8	48,480.5	12	353,858.3	88
2000	573,069.5	62,760.8	10	510,308.7	90
2001	796,164.8	57,761.2	77	38,403.6	92.7
Total	**3,031,226.1**	**426,826.8**	**14**	**2,604,409.3**	**86**

Source: Raw Material Research and Development Council Publication, 2005

From the above, it is easy to pinpoint that the commercial banks as one of the most viable sectors of the banking industry has performed grossly below expectation in the disbursement of loans to the small and medium enterprises. This could be as a result of the following:

- High interest rates
- Lack of collateral
- Poor track record
- Low level of education
- Poor business proposals

Equipment Leasing:- this is an arrangement between the owner of certain equipment and the user of the equipment with the agreement that the user will pay an agreed sum of money for making use of the equipment This is called “Rent.

Hire purchase: - Hire purchase normally require the seller or owner of goods to sell some items to the hirer or buyer on the terms that the hirer or buyer shall pay to the seller a number of installments until a final installment has been paid when the ownership will be transferred **automatically** to the buyer. Hire purchase can also be described as an arrangement in which the buyer acquires an asset by making a percentage cash deposit at the inception and pays the balance instalmentally at agreed rates and fixed dates. The buyer takes possession while the seller retains the ownership until the last **installment** is paid.

Finance Companies: These are asset-based lenders that lend money against assets such as receivables, inventory, and equipment. The advantage of dealing with a finance company is that it often will make loans that banks will not, although the finance houses charge higher interest rates.

Long term finance: - As the name suggests this type of finance require that funds will be at the disposal of the business venture for a very long period of time. The sources of funds that fall under this category include: -

(i) Equity finance/ Shareholders fund: - It is the money invested in the venture with no legal obligation for entrepreneurs to repay the **principal** amount or pay interest on it. The use of the equity funding thus requires no repayment in the form of debt. It does, however, require sharing the ownership and profits with the funding source. Since no repayment is required equity capital can be much safer and cheaper for new ventures than debt financing, although the entrepreneur must be ready to give up part of his ownership rights to the willing **investors**.

(ii) Bonds/ Debenture: - these are the instruments issued by a business venture, generally bearing its common seal, normally called on the face of it a debenture, and providing for the payment of or acknowledging the **indebtedness** in a specified sum, at a fixed date, with interest thereof. Debenture could be secured, mortgaged and unsecured. A debenture is said to be **secured** when specific assets of the venture had been pledged as collateral and the holder is given a right of lien on those assets. A right of lien is a legal right given to the bond holders through the trustee to sell the assets in respect of the loan in order to obtain the amount of money necessary to satisfy the unpaid portion of the interest or the principal. While **unsecured debentures** are bonds issued without the pledge of any specific type of collateral. Such bonds only have a claim on the earnings and not assets. In the case of liquidation of the venture the debentures holders are settled first before the preference shareholders.

(ii) Mortgage financing: - Mortgage institutions provides this type of finance, such finance is usually provided for acquisition of landed property for example purchase of land, purchase of already completed building, development of new building or renovation of an existing structure. The duration of payment is usually very long sometimes over 20 years.

- Identify any three realistic ways of raising capital for your new business
- Personal savings, loans from family members and loan from microfinance banks

4.3. Reasons why entrepreneurs will require Loan facilities

From our discussion so far you will agree with me that potential, new and existing entrepreneurs need loan to start or enlarge the volume of their operations in one way or the other. Generally entrepreneurs will require credit facilities for the following reasons:-

Normal operations: - An entrepreneur/small business owner may have to borrow part of the money to run the business, especially when fund available is not sufficient to profitably run the business venture.

Expansion purpose: - If the business intends to expand existing operation or acquire some highly sophisticated equipment, such business may be required to look outward to raise needed funds.

Financial difficulties: There may arise some financial difficulties as a result of general economic depressions which may require business venture to seek financial assistance from any of the sources already discussed. In addition, accumulation of high bad debts, temporary losses from operations and some more fundamental problems may cause a business to look outward for its finance.

- Mention three reasons why an entrepreneur requires a credit facility as suggested above.

Summary of module 2 study session 4

- In this study session, you have been exposed to the different ways of sourcing funds for business enterprises. These include criteria for acquisition and allocating fund.
- The internal and external sources of fund were described.
- The problem associated with fund for SMEs from banks were discussed.
- Long term funding in terms of equity, bonds/debentures and mortgage financing were highlighted.
- The unit is concluded with reasons why entrepreneurs will require loan facilities.

Self-Assessment Questions for module 2 study session 4

1. Sources of finance relate to
   (a) How individuals source for their income
   (b) How firms obtain funds for their dividend payment
   (c) How firm obtain funds for their retain earnings
   (d) How Firms obtain funds for the day to day running of their business

2. Sources of funds available to a firm can be categorized into...........group
   (a) Two
   (b) Four
   (c) Five
   (d) Three

3. Factors affecting the sources of business finance include all except.
   (a) Cost of finance
   (b) Government policy
   (c) Risk involved
   (d) Economic condition

4.Sources of funds obtained for a period between one day and three hundred and sixty five days is business
   (a) Medium term
   (b) Long term
   (c) Short term
   (d) All of the above

5........... are amount owing on service rendered to the firm for which payment has not been provided.
   (a) Prepayment
   (b) Short term loan
   (c) Unsecured credit
   (d) Accruals

6................ Is where the trade debtors are sold at discount to a finance house
   (a) Prepayment
   (b) Unsecured credit
   (c) Invoice discounting
   (d) Factoring.

7. The following are regarded as medium term sources of funds except
   (a) Hire purchase
   (b) Debenture
   (c) Lease arrangement
   (d) Factoring

8................... is a long term promissory note for raising loan capital
   (a) Debenture
   (b) Preference share
   (c) Retained earning
   (d) Term loans

9. The cheapest sources of long term finance is
   (a) Equity

(b) Preference share
(c) Debenture
(d) Convertible security

10. Debenture interest has to be paid
   (a) before paying any dividend to preference shareholders
   (b) before paying any dividend to ordinary shareholders
   (c) after paying dividend to preference shareholders
   (d) before paying any dividend to preference and ordinary shareholders.

Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**D**	**B**	**B**	**C**	**D**	**D**	**B**	**A**	**C**	**D**

Suggestions for further Readings

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Module 2

Study session 5: Ethics in Entrepreneurship

Introduction

In study session four you learnt of how to source funds for business enterprise.
In this Module, you will learn Ethics of Entrepreneurship and economic system and some desirable values that entrepreneurs should have based on societal norms, culture and virtues. There is no system of wealth creation without a system of values. People are prepared to accept others getting high pay and enjoying different lifestyle but only if they have the feeling that the system is fair and that the law is the same for everybody.
According to Microsoft Encarta (2008), ethics is a system of moral principles governing the appropriate conduct for a person or group of persons, organization and institutions. In

different aspects of human endeavors there are set of acceptable codes that guide conduct. In the public life for instance, Baugh (2008) argued that Aristotle first suggested the enthronement of fair play in political, economic and social relations, and noted that many forms of human association can obviously be found. However, the one is more suitable depends on circumstances, such as the natural resources, cultural traditions, industry, and literacy of each community. Aristotle did not regard politics as a study of ideal states in some abstract form, but rather as an examination of the way in which ideals, laws, customs and property interrelated his acceptance by insisting that masters should not abuse their authority, since the interests of master and slave are the same.

The Lyceum library contained a collection of 158 constitutions of the Greek and other states. Aristotle himself wrote the Constitution of Athens as part of the collection and after being lost, this description was rediscovered in a papyrus copy in 1890. Historians have found the work of great value in reconstructing many phases of the history of Athens. This brings to bear the essence of ethics in history. For instance, for as long as people have been living together in groups, the moral regulation of behavior has been necessary to the group's well-being. Although the morals were formalized and made into arbitrary standards of conduct, they developed, sometimes irrationally, after religious taboos were violated, or out of chance behavior that became habit and then customs, or from laws imposed by chiefs to prevent disharmony in their tribes. Such societal ethics are very important in entreupreship because they create confidence among the share holders that they investing under safe guidelines laid down by society.

Learning Outcomes for module 2 study session 5

At the end of this module 2 study session 5, you should be able to:

5.1 Define and correctly use all of the words printed in **bold**
5.2 Discuss the philosophical background of business ethics.
5.3 IDENTIFY CONCEPTS IN BUSINESS ETHICS
5.4 DISCUSS CORPORATE ETHICS POLICIES
5.5 EXPLAIN INTERNATIONAL BUSINESS ETHICS
5.6 STATE THE IMPORTANCE OF BUSINESS ETHICS
5.7 Explain the role of ethics in resolving conflicting interests in business.
5.8 Discuss different economic systems in the context of conflicting legal or cultural standards.
5.9 Explain social contract theory
5.10 Identify the arguments for and against adapting social contract theory to business.

5.1 Philosophical basis of business ethics

The British philosopher Bertand Russell has influenced ethical thinking in recent decades. A vigorous critic of conventional morality, he held the view that moral judgments express individual desires or accepted habits. In his thinking, both the ascetic saint and the detached sage are poor human models because they are incomplete human beings. Complete human beings participate fully in the life of society and express all of their nature. Some impulses must be checked in the interests of society and others in the interest of individual development, but it is a person's relatively unimpeded natural growth and self-realization that makes for the good life and harmonious society.

Today, there are numerous applications of relational ethics, such as exposing small vulnerable societies to possible exploitation by big governments and businesses when new anthropological discoveries are made and published about once unknown areas. Bodley (2008) puts it this way: "… in rare cases a researcher might decide not to work with a particular isolated and self-sufficient group because to do so might unavoidably introduce disease and open the way for exploitation by other outsiders. Small, self-sufficient societies may have difficulty defending themselves against more powerful groups. For example, information from anthropological work can familiarize governments and businesses with small-scale societies living in remote regions. This information can convince state and business interests to negotiate with the people of such societies about using their land for such projects as road or dam building, mining or large-scale farming. These so-called development projects can cause great hardships for people who live off the land".

Lastly, Maugh (2008) points out the ethical concerns over organ transplant. She argues that money is also a major issue. Access to transplantation is impossible without access to good primary medical care and good insurance, both of which are largely unavailable to the poor. To be placed on the waiting list, patients must show they can pay for the transplant. In 2005, a kidney transplant cost about $116,000 and a liver transplant as much as $250,000 in the first year after the surgery. Many insurance companies do not cover such costs, particularly for the new procedures, such as lung, pancreas or multiple organ transplants, which are still considered experimental.

Although, organs cannot be bought and sold legally in the United States, there is evidence that a black market in organs exists in China and other countries. Persistent allegations have been made of people travelling to China and paying for organ transplants. Human rights groups have reported evidence that the bodies of executed prisoners are the source for most of the organs transplanted in China. In the United States, where organ donation is voluntary, ethical questions arise over the nature of the consent and the use of incentives.

Business ethics on the other hand examines ethical principles and moral or ethical problems that arise in a typical business environment. It is primarily normative. The range, quality and quantity of business ethical issues reflect the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have redefined their core values in the light of business ethical considerations (e.g. BP's "beyond petroleum" environmental tilt). MTN Nigeria's social responsibility charter and Zinox computer's computerize Nigeria project.

5.2 An Overview of Concepts in Business Ethics

Philosophy of business is used to determine the fundamental purposes of a company. If a company's main purpose is to maximize the returns to its shareholders, then it could be seen as unethical for a company to consider the interests and rights of anyone else.

Corporate social responsibility details the ethical rights and duties existing between companies and the host society.

Fiduciary responsibility refers to issues regarding the moral rights and duties between a company and its shareholders. Other are: Corporate governance which is concerned with the quality of leadership of these organizations. Finally, Corporate manslaughter which mirrors the misuse of corporate ethics policies as marketing instruments.

5.2.1 Corporate Ethics Policies

Many companies have formulated internal policies pertaining to the ethical conduct of employees. These policies can be simple exhortations in broad, highly-generalized language (typically called a corporate ethics statement), or they can be more detailed policies, containing specific behavioral requirements (typically called corporate ethics codes). They are generally meant to identify the company's expectations of workers and to offer guidance on handling some of the more common ethical problems that might arise in the course of doing business. It is hoped that having such a policy will lead to greater ethical awareness, consistency in application, and the avoidance of ethical disasters.

An increasing number of companies also require employees to attend seminars regarding business conduct, which often include discussion of the company's policies, specific case studies, and legal requirements. Some companies even require their employees to sign agreement stating that they will abide by the company's rules of conduct.
Many companies are assessing the environmental factors that can lead employees to engage in unethical conduct. Not everyone supports corporate policies that govern ethical conduct. Some claim that ethical problems are better dealt with by depending upon employees to use their own judgments.

Others believe that corporate ethics policies are primarily rooted in utilitarian concerns, and that they are mainly to limit the company's legal liability or to curry public favour by giving the appearance of being a good corporate citizen. Ideally, the company will avoid lawsuit because its employees will follow the rules. Should a lawsuit occur, the company can claim that the problem would not have arisen if the employee had only followed the code properly?

Sometimes there is disconnection between the company's code of ethics and the company's actual practices. Thus, whether or not such conduct is explicitly sanctioned by management, at worst, this makes the policy duplications, and at best, it is merely a marketing tool. To be successful, most ethicists would suggest that an ethics policy should be given the unequivocal support of top management, by both word and example, explained in writing and orally, with periodic reinforcement. It must be something employees can both understand and perform. It should be monitored by top management, with routine inspections for compliance and improvements and backed up by clearly stated consequences in the case of disobedience. It must also remained neutral and nonsexist

5.3 International Business Ethics

While business ethnics emerged as a field in the 1970s, international business ethics did not emerge until the late 1990s, looking back on the international developments of that decade. Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values receive more emphasis in this field. Other older issues can be grouped here as well. Issues and subfields include:

- The search for universal values as a basis for international commercial behavior.

- Comparison of business ethical traditions in different countries.
- Comparison of business ethical traditions from various religious perspectives.
- Ethical issues arising out of international business transactions; e.g. international business prospecting, piracy, product counterfeiting, fair international trade deals, transfer pricing, globalization and cultural imperialism.
- Ethical issues on how firms exploit international differences in deciding on strategies such as outsourcing production (e.g. clothes) and services (e.g. call-centres) to low-wage countries and finally, the permissibility of international commerce with pariah states.

Having discussed the concepts and issues that are crucial in business ethics, its essence in the scheme of things will serve to highlight the desirability of the doctrine in today's increasingly chaotic business environment.

- Identify some ethical issues that may arise in international business

  - Ethical issues arising out of international business transactions are:- international business prospecting, piracy, product counterfeiting, fair international trade deals, transfer pricing, globalization and cultural imperialism.

5.4 Importance of Business Ethics

Although most contemporary philosophy is highly technical and inaccessible to non-specialists, some contemporary philosophers concern themselves with practical questions and strive to influence today's business culture. For instance, practitioners of feminist philosophy, environmental philosopher, and some areas of contemporary political philosophy seek to use the tools of philosophy to resolve current issues directly related to peoples' lives within those context. Separate areas of specialization, such as biomedical ethics and business ethics, have emerged within applied ethics. Biomedical ethics deals with questions arising from the life sciences and human healthcare and has two subspecialties: bioethics and medical ethics. Bioethicists study the ethical implications of advances in genetics and biotechnology, such as genetic testing, genetic privacy, cloning and new reproductive technologies. For example, they consider the consequences for individuals who learn they have inherited fatal genetic diseases, or the consequences of technology that enables parents to choose the sex of a baby. Bioethicists then offer advice to legislators, researchers, and physicians active in these areas. Specialists in medical ethics offer advice to physicians, other health care personnel, and patients on a wide variety of issues, including abortion, euthanasia, fertility treatments, medical confidentiality and the allocation of scarce medical resources. Much of the work in medical ethnics directly affects the everyday practice of medicine, and most nursing students and medical students now take course in this field.

Business ethicists bring ethical theories and techniques to bear on moral issues that arise in business. For example, what are the responsibilities of corporations to their employees, their customers, their shareholders and the environment? Most business students take courses in business ethics and many large corporations regularly consult with specialists in the field. Business ethicists also address larger topics, such as the ethics of globalization and the moral justification of various economic systems, such as capitalism and socialism.

5.4.1 Necessity of ethics in Business and society

There are several reasons why ethics is necessary in business namely:

To enhance competition: ethics enhance competition when standards are adhered to, for example the ethics of hardwork, thrift, frugality and self-improvement were responsible for the industrial revolution of the 18th century.

To preserve legitimacy: if a company produces illegitimate products that is claiming the values which they do not have, it will have to struggle to keep them in the market. A company, therefore, cannot afford to let the legitimacy of its products come into question.

To deter white-collar crime: these include offences such as petty theft, taking sick leave when a person is not sick, getting paid for overtime not worked, faking injury to receive compensation, taking care of personal business at the expense of company time, taking kick-back from suppliers and big time crimes in corporations and ministries.

To promote trust: ethics matter in promoting trust and preventing debilitating contacts. Successful company management, employees and shareholders build on network of trust, that binds management, employees and shareholders. Issues of fairness and division of spoils can divide a company and make it difficult to function and it can ruin an organization (Ogundele 2011).

- Business ethics is unnecessary as long as an entrepreneur can maximize profit Discuss

  - Business ethics is very necessary in order to maintain healthy competition, preserve legitimacy, deter white-collar crime, and promote trust.
  - Why is ethics necessary for business and society.(ITQ)

5.5 Ethics of economic system defined

This vaguely defined area, perhaps not part of but only related to business ethics, is where business ethicists venture into the field of political economy and political philosophy, focusing on the rights and wrongs of various systems for the distribution of economic benefits.

5.5.1 Conflicting interests

Business ethics can be examined from various perspectives, including the perspective of the employee, the commercial enterprise, and society as a whole. Very often, situations arise in which there is conflict between one or more of the parties, such that serving the interest of one party is detriment to the other(s). For example, a particular outcome might be good for the employee, whereas, it would be bad for the company, society or vice versa. Some ethicists see the principal role of ethics as the harmonization and reconciliation of conflicting interests. Controversial views on ethics are based on the following arguements against ethical behaviour by entrepreneurs:

1. That business and entrepreneurship is concerned with economic sector not ethical issues and should be judged on the basis of economic performance.

2. That expectation from entrepreneurs should be economic performance not ethical behaviour

3 That entrepreneurs are expected to provide goods and services required by the society and should be judged on the basis of quality of goods and services provided.

4. That the goal of business is profit not ethics

5. That ethical responsibility of business is today existing laws and other forms of business regulations.
6. Those who argued in favour of ethical behaviour have the following arguements:
7. That entrepreneurs exist in the society, therefore, they should uphold social norms and system
8. That society bestowed legal person on the business and approves entrepreneurship, it should support the society for its continued existence.
9. That entrepreneurial self-control in behaving ethically is better than that externally conrolled by the society.
10. That the entrepreneurs depend on society as much as the society depends on the entrepreneur in some repect, this interdependence should be respected.
11. To preserve the power bestowed on entrepreneurs, ethical behaviour is necessary for entrepreneurs (Ogundele 2007). On the balance, it is important that enterpreneurs and their organization should behave ethically.

5.5.2 Ethical issues and approaches in different economic systems

Philosophers and others disagree about the purpose of a business ethic in society. For example, some suggest that the principal purpose of a business is to maximize returns to its owners, or in the case of a publicly-traded concern, its shareholders. Thus, under this view, only those activities that increase profitability and shareholder value should be encouraged, because any others function as a tax on profits. Some believe that the only companies that are likely to survive in a competitive marketplace are those that place profit maximization above everything else. However, some point out that self-interest would still require a business to obey the law and adhere to basic moral rules, because the consequences of failing to do so could be very costly in fines, loss of license or company reputation. The noted economist Milton Friedman was a leading proponent of this view.

Other theorists contend that a business has moral duties that extend well beyond serving the interests of its owners or stockholders, and that these duties consist of more than simply obeying the law. They believe a business has moral responsibilities to so-called stakeholders, people who have an interest in the conduct of the business, which might include employees, customers, vendors, the local community or even society as a whole. They would say that stakeholders have certain rights with regard to how the business operates, and some would suggest that this includes even rights of governance.

Some theorists have adapted social contract theory to business, whereby companies become quasi-democratic associations, and employees and other stakeholders are g-iven voice over a company's operations. It posits that conflicting interests are best resolved by formulating a "fair agreement" between the parties, using a combination of 1) macro-principles that all rotational people would agree upon as universal principles, and 2) micro-principles formulated by actual agreements among the interested parties.

Critics say the proponents of contract theories miss a central point, namely, that a business is someone's property and not a mini-state or a means of distributing social justice.
Ethical issues can arise when companies must comply with multiple and sometimes conflicting legal or cultural standards, as in the case of multinational companies that operate in countries with varying practices. The question arises, for example, ought a company to obey the laws of its home country or should it follow the less stringent laws of the developing country in which it does business? To illustrate, United States law forbids companies from paying bribes is a customary, accepted way of doing business. Similar problems can occur with regard to child labour, employee safety, work hours, wages, discrimination and environmental protection laws.

Summary of module 2, study session 5

You have learnt in this study session the philosophical background of business ethics and you have been expose to THE VARIOUS CONCEPTS IN BUSINESS ETHICS

CORPORATE ETHICS POLICIES HAVE BEEN FORMULATED TO GUIDE AND REGULATE THE BEHAVIOUR OF DIFFERENT ORGANIZATIONAL MEMBERS.

INTERNATIONAL BUSINESS ETHICS RECOGNIZES CULTURAL DIFFERENCES WHICH MAY ALSO AFFECT DIFFERENCES IN BELIEFS, HENCE ORGANIZATIONS THAT ENGAGE IN CROSS BORDER BUSINESS MUST BE FAMILIAR WITH ETHICAL ISSUES IN DIFFERENT SOCIETY.

THE IMPORTANCE OF BUSINESS ETHICS WERE DISCUSSED AND the role of ethics in resolving conflicting interests in business.

Different economic systems in the context of conflicting legal or cultural standards were discussed and arguments for and against adapting social contract theory to business.

Self- Assessment Questions for module 2 study session 5

Theory

1. Discuss the philosophical basis of business ethics?
2. Lists the concepts of business ethics you learnt in study session?
3. What are the requirements of corporate ethics policies?
4. Explain the necessity of ethics in international business?
5. Examine the importance of ethics in enterpreuship?

1. Corporate social responsibility is about:
   (a) the ethical rights and duties between a company and its host societies.
   (b) Moral rights and duties between a company and its shareholders
   (c) Quality of leadership of organizations
   (d) Misuse of corporate ethics policies
2. Fiduciary responsibility refers to:
   (a) the ethical rights and duties between a company and its host societies.
   (b) moral rights and duties between a company and its shareholders
   (c) quality of leadership of organizations
   (d) misuse of corporate ethics policies
3. Corporate governance refers to
   (a) the ethical rights and duties between a company and its host societies.
   (b) moral rights and duties between a company and its shareholders
   (c) quality of leadership of organizations
   (d) misuse of corporate ethics policies
4. To be successful, an ethics policy should be ………….
   (a) Explained in writing and orally
   (b) Something employees can do
   (c) Backed up by financial incentives
   (d) Backed up by statements of consequences of disobedience.
5. In international business ethics …. is emphasized.
   (a) good public relations
   (b) the legal framework
   (c) country risk
   (d) cultural relativity of ethical values
6. Business ethicists apply ethical theories to:
   (a) increase profits
   (b) increase production
   (c) moral issues in business
   (d) funding issues

7. Corporate ethics policies are meant to offer to workers on the common …… problems that might arise in the course of their duties.
   (a) funds, health (b) guidance, moral
   (c) incentives, office (d) admonition, performance

8. Conflicting cultural standards can occur with regard to:
   (a) child labour (b) discrimination (c) paying bribes (d) all

9. In international business ethics …. is emphasized.
(a) good public relations
(b) the legal framework
(c) country risk
(d) cultural relativity of ethical values

10. Business ethicists apply ethical theories to:
(a) increase profits
(b) increase production
(c) moral issues in business
(d) funding issues

11. _______ is a system of principle governing the appropriate conduct for a person or group.
(a) law (b) risk (c) ethics (d) management.

12. _________ bring ethical theories and techniques to bear on moral issues that arise in business.
(a) political (b) cultural (c) religious principles (d) business ethics

13. Business ethics brings ………………… and ……………….to bear on moral issues that arise in business
(a). ethical theory and technique (b). moral and justification
(c). technique and justification (d). ethical theory and moral

14. The argument in favour for the business ethic that a business has moral duties that extend well beyond serving the interests of its stockholders is:
(a) stakeholders are entitled to dividends
(b) stakeholders have interest in the conduct of the business
(c) all stakeholders contribute directly to the profits of the company
(d) stakeholders own the company

15. Under social contract theory:
(a) stakeholders are given a voice over a company's operations
(b) a company should develop neighbouring communities
(c) a company should discharge its responsibilites to government
(d) a company should pay workers well

Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
Ans.	**A**	**B**	**C**	**B**	**D**	**C**	**B**	**D**	**D**	**C**	**C**	**D**	**D**	**C**	**A**

MODULE 3

Study session 1 Some Successful Nigerian Entrepreneurs

Introduction

You learnt many things about ethics and entrepreneurship in the operation of an economic system in last study session.

You will learn in this study session the historical development of some successful Nigerian entrepreneurs. In discussing this topic, we shall adopt the reductionist approach which is a way of analysing problems and things by dividing them into simpler parts. In effect, there is a need for you to have an understanding of the origin of Nigeria, the development of entrepreneurship in Nigeria and the peculiarities of Nigerian business environment and Nigerian entrepreneurs. This is important because the Nigerian entrepreneurs, unlike their counterparts in other parts of the world, face challenges that are peculiar only to the Nigerian business environment. Also opportunities exist that have not been tapped in the Nigerian business environment. Thus, to be able to survive and compete successfully in the global market, the Nigerian entrepreneur needs to do a thorough SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis and so has to sharpen their knack for recognizing good opportunities as they emerge in the business environment (Miranda, 2010).

Learning Outcomes for module 3 study session 1

At the end of this module 3 study session 1you should be able to:

1.1 Define and correctly use all the key words printed **bold**
1.2 Explain the origin of contemporary Nigeria
1.3 Describe the development of entrepreneurship in Nigeria.
1.3 Differentiate between the ordinary entrepreneur and social entrepreneur.
1.4 Identify and discuss notable Nigerian entrepreneurs and social entrepreneurs.
1.5 Describe the peculiarities of Nigerian business environment as it affects the Nigerian entrepreneur.

1.1 An Overview of The evolution of Contemporary Nigeria

Nigeria is a country strategically located in the west coast of Africa. Nigeria sits on the Gulf of Guinea sandwiched to the north by Niger, the east by Cameroon and the west by Benin. Nigeria is so strategically located that foreign companies located in the country market their products from Nigeria to other neighboring countries like Benin Republic, Cameroon, Chad, Congo, Gabon, Ghana, Mali, and Niger. The present-day Nigeria was amalgamated by the British in 1914. Prior to then, Nigeria existed in parts as the Northern protectorate, Southern protectorate and Lagos Colony. These structures were created in consonance with the desires of the local people and convenience of the British colonial government. Nigeria gained its independence in 1960, after about 60 years of British rule. Since independence the internal political structure have changed severally first from a three region structure to twelve states created in 1967. In 1976 it was further divided into 19 states. Presently the country has a total of 36 states and a federal capital in Abuja (African Ventures, 2003; Dixon-Ogbechi, 2003).

Abuja is the political capital, Lagos is the commercial capital, Port-Harcourt (the oil city) is the 'oil capital'; while in the past Kano was regarded as the groundnut and cotton capital. With regards to governance, Nigeria has experienced quite a bit of turbulence. For instance from its independence in 1960 to 1966 it experienced democratic dispensation. However, it experienced the military rule from 1966 to 1979 after which there was democratic dispensation for about four years before the military regime resumed from 1983 to 1991. Again there was another short spate of democratic regime which lasted for only three months with Chief Ernest Shonekan as the first interim President. The interim democratic regime was subsequently overthrown by General Sanni Abacha who remained as Head of State till his death in 1999. After this event, in May 29, 1999, General Olusegun Obasanjo was sworn in as the democratic President; since then, the democratic government has been in place up-to-date. In terms of size, geographically, Nigeria is fairly large with an area of 923,300 square kilometers, in fact, in West Africa, Nigeria is fourth in area.

In terms of population; Nigeria is a giant with an estimated population of over one hundred and fifty million, it is a giant because its population is greater than the combined population of the remaining 15 countries of West Africa! By virtue of this large population, though Nigeria is an emerging market, it is considered the single largest market in Africa. Also, because the Nigerian government approved minimum wage rate at below one U.S dollar per hour, investors usually take advantage of the large quantity of skilled and cheap labour in the country (African Ventures, 2003).

Geographically, most of Nigeria is flat but there are some mountains that run along the Cameroonian border. Nigeria has luxurious tropical rainforest in the interior, which opens out onto the central grasslands of the Jos plateau, while to the east it has the soggy, mosquito-infested swamplands of the Bight of Benin, which hold Nigeria's most precious commodity, the 'black gold' i.e. oil. Though, Nigeria has extraordinary biological diversity, it is facing environmental disaster. For instance, there is rapid deforestation due to the bad habit of cutting down trees by both the people and government in the guise of development of certain areas. This notwithstanding, there are still a number of reserves and national parks some of which are: the Yankari National Park and the Gashaka Game Reserve which are home to over 600 species of birds. Okomo Sanctuary and Cross River National Park have quite a number of animals such as - chimps, hippos, elephants and baboons – and even a few gorillas. With regards to climate, the Nigerian climate is varied and differs substantially from region to region. For instance, the north is hot and dry with one long rainy season from April to September, while the south is hot and wet with the rainy season lasting from March to November. Temperatures are slightly lower and humid in the tropical regions of the south; however, during the Harmattan season, especially between December and January, there is relief from the humidity. It should be noted that these climatic conditions are greatly influenced by the current global climatic change (African Ventures, 2003; Dixon-Ogbechi, 2003).

1.2 Development of Entrepreneurship in Nigeria

Though the evolution of entrepreneurship can be simply traced to the advent of trade by barter system, modern entrepreneurship in Nigeria started with colonialization. These colonialists brought in foreign products and used Nigerians as their middlemen. Mostly, these middlemen were retailers or sole proprietors. , The growth of entrepreneurship in

Nigeria during the colonial days was slow because of the value attached to formal education. For years, formal education was exclusive to few privileged Nigerians and those who got educated got employed in the civil service. Employment in the civil service was lucrative given the salary and other benefits accruable to the position. Thus there was no strong incentive for the enlightened Nigerians to pursue entrepreneurial paths. For the few who attempted to embark on entrepreneurial activities, the foreign entrepreneurs adopted competitive business strategies that were inimical to the development of indigenous entrepreneurs. One of such foreign companies is the United African Company (UAC). The UAC was responsible for a considerable percentage of the Nigerian import and export trade. It adopted the unwholesome policy of dealing directly with the producers instead of using the services of the middlemen i.e. the indigenous entrepreneurs, thereby hindering their skills acquisition and consequently the development of entrepreneurship in the country (Bizcovering.com, 2010).

Given this unconducive business environment, many indigenous businesses died. However, with the passage of time, formal education in Nigeria ceased to be for only the privileged, it became available to more people especially in the Western part of Nigeria with the free education strategy of Chief Obafemi Awolowo. This led to an increase in the number of educated people to the extent that both the public and private sectors could not cope with the employment needs of Nigerians. Thus, the rate of unemployment increased drastically and has continued to date. To curb this negative trend, the Nigerian government started developing economic programs aimed at encouraging individuals to become entrepreneurs and also promulgated a number of laws, Decrees and Acts to assist in this regard. Consequently, the Nigerian government established agencies e.g. National Directorate of Employment (NDE) with programmes such as: Open Apprenticeship Scheme and Graduate Employment Programmes and also established financial institutions such as The Peoples' Bank of Nigeria, Funds for Small-Scale Industries (FUSSI) and cooperative societies, and National Poverty Alleviation Programme (NAPEP) to assist in entrepreneurial development in Nigeria (Bizcovering.com, 2010; UNILAG GST Module 1, 2007). Some of the laws promulgated by the Nigerian government to assist entrepreneurial development are: law for the incorporation of companies in Nigeria as contained in Decree 51 of 1968; the Nigerian Enterprises Promotion Decree (1972); tariff protection for the furniture, textile and automobiles and also the granting of tax holidays to some groups of manufacturers.

Recently, government has emphasized the need for entrepreneurial development in its 7-Point Agenda by emphasizing wealth creation through poverty alleviation and promotion of a formalized self employment sector so that artisans, farmers, traders and small and medium scale enterprises can be helped to acquire entrepreneurial skills. It has even gone a step further by formulating policies that entail including entrepreneurship as a course in all Nigerian universities. This step has further contributed tremendously to the development of entrepreneurship in the country (UNILAG GST Module 1, 2007).

1.3 Entrepreneurship versus Social Entrepreneurship

Entrepreneurship is simply the creation of a new business. A business is any undertaking that produces goods and services that satisfy human needs and wants. Thus, any business that fails to satisfy the needs of the society within which it operates cannot survive because the society is made up of people who will consume its products/services. Most businesses are created for the purpose of making profit, in which case they are referred to as profit making businesses. Organisation can also be established for purposes other than profit making in this case they are called not-for-profit or non-profit- making businesses. Given this we can infer that since businesses are created by entrepreneurs then there are two broad categories of entrepreneurs namely: the entrepreneurs that are motivated to create businesses for the purpose of making profit i.e. the profit oriented entrepreneurs whom we simply call entrepreneurs and the non-profit oriented entrepreneurs who are called social entrepreneurs. In the earlier study session we exhaustively discussed the concept 'entrepreneur' and examined its various definitions. Here we shall discuss briefly the **social entrepreneur.**

Osalor (2010) defined social entrepreneurs as individuals who identify public problems and apply business acumen to resolve them. According to him, the social entrepreneur instead of only creating a venture to make profit, he simultaneously strives to contribute to societal development and regulate positive change by creating social and economic values. Hence, the success of the social entrepreneur is measured both in terms of profit and in terms of their effect on the community via social development. Note that the distinction between the entrepreneur and social entrepreneur does not lie only in the purpose they are pursuing but also in the degree of risk-taking. For while, the risk of the ordinary entrepreneur is limited to financial security, that of the social entrepreneur is limited to financial security, social activism and passion. Thus, though there may be elements of danger involved in social entrepreneurship, it has very high risk pay- off in terms of the benefits to t society (Osalor, 2010). It should be noted also that Nigeria like any other country has its own fair share of entrepreneurs and social entrepreneurs.

- Differentiate between entrepreneurs and social entrepreneurs
    - The entrepreneurs that are motivated to create businesses for the purpose of making profit i.e. The profit oriented entrepreneurs whom we simply call entrepreneurs while the non-profit oriented entrepreneurs are called social entrepreneurs.

1.4 Notable Nigerian Entrepreneurs and Social Entrepreneurs: An Overview

Some notable Nigerian entrepreneurs are:

1.4.1 Aliko Dangote

This Nigerian entrepreneur was born in 1957. He created the Dangote Group and is considered to be one of the richest men in Africa. The Dangote group is a big organization that is into export, import, manufacturing, real estate and philanthropy. Some of the products it deals with are: spaghetti, macaroni, sugar, salt, rice textile materials, while the Group is also into transportation, packaging, and even security. The Dangote Group imports sugar, rice, fish, and cement, fertilizer and building materials. While it exports cotton, cocoa, cashew nuts, sesame seed, ginger and gum. Aliko Dangote has contributed tremendously to the economic development of Nigeria and has greatly assisted in reducing the rate of unemployment in the country by providing employment to Nigerian graduates and even other categories of labour (Africansuccess.org, 2008; Nairaland.com, 2010).

1.4.2 Chidi Anyaegbu

This entrepreneur is regarded as 'King' of the transport industry. He founded the Chisco Transport Limited which is one of the biggest in the Nigerian transport industry. Over the years, Chisco Transport Limited grew to become the Chisco Group. The Chisco group is into variety of businesses such as: oil and gas, finance, hospitality, real estate, import and export. Apart from this he has also contributed tremendously to the development of the nation through various philanthropic activities. For instance, he established a foundation to take care of his philanthropic interests and also built a Faculty of Business building for Transport Studies at the Nnamdi Azikiwe University, Awka (Prince Society, 2009; Nairaland.com, 2010; Onyima, 2010)

1.4.3 Chris Ejiofor

This is an entrepreneur in the importation and marketing of car or auto batteries. He established Dimaps Batteries and has written extensively about usage and maintenance of batteries in Nigeria.

1.4.4 Mike Adenuga Junior

This entrepreneur was born in 1953. He has business in various industries such as banking, oil and telecommunications. He owns the Consolidated Oil Company, which is the first indigenous company to strike crude in December 1991. Consolidated Oil Company is into crude oil drilling, refining and marketing. He also owns the Equatorial Trust Bank and created one of the main telecommunications companies in Nigeria (Globacom), against all odds. Globacom Limited was created after he failed to penetrate the telecommunications industry in 1999 with his first telecommunications company- Communications Investment Limited, (CIL) because his conditional license was revoked. However, in 2002 he won the bid for the Second National Operator (SNO) license. This was a better strategic business option for him because the SNO has a wider range of operations and this gave Globacom the right to serve as international gateway for telecommunications in Nigeria and also operate: digital mobile lines, fixed wireless access phones and also operate as a national carrier. This entrepreneur was able to achieve these entrepreneurial successes because he has a unique flair for risks and tenacity of purpose (Africansuccess.org, 2010; Nairaland.com, 2010).

1.4.5 Obateru Akinruntan

This entrepreneur comes from the Royal family in Ondo State, Nigeria. He is a king in Yoruba land i.e. an Oba hence he has the appellate HRH (i.e. His Royal Highness); and also a graduate of Business Administration from Lead City University Ibadan. He created the Obat Oil and Petroleum Limited in 1981, a company that is into the marketing of petroleum nation-wide, and has the largest privately owned oil depot and jetty in Africa. His business interests have grown steadily over the years to become the Obat Group which has interests in petroleum, fishery, construction, tourism and hospitality, shipping, consultancy services and water purification and production (Obateru, 2010; Nairaland.com, 2010).

1.4.6 Paul Okafor

This Nigerian entrepreneur established Elbe Pharma, an organization that deals with the importation and marketing of pharmaceutical products such as Amalar anti malaria tablets, Solotone multivitamin etc. nation-wide.

1.4.7 Poly Emenike

This is also an entrepreneur in the pharmaceutical industry. He established Neros Pharmaceutical which imports and markets pharmaceutical products nation-wide.

1.4.8 Razaq Okoya

This Nigerian entrepreneur created the Eleganza industries. An organization that has contributed tremendously to national development through its assortment of consumer products such as biros and coolers manufactured and marketed nation-wide (Nairaland.com, 2010).

1.4.9 Uche Uche Ohafia

This is another notable Nigerian entrepreneur in the shipping industry. He created the Trans Atlantic Shipping Agency Limited. The company is into air freight, shipping line agency and charter services, import and export agency, collateral management and warehousing services among others.

Social entrepreneurs

And some notable Nigerian social entrepreneurs as identified by Osalor (2010) are:

1.4.10 Ada Onyejike

This is a female social entrepreneur who contributed to social development by launching the Girl Child Art Foundation (GCAF) in the year 2000. This Foundation is concerned with enlightenment and empowerment of the Nigerian young women between the ages of 8-25 years on issues such as: polygamy, child trafficking, and child marriage through music, art and dance; with the ultimate aim of engineering progressive change in the Nigerian society.

1.4.11 Cletus Olebune

This is a social entrepreneur who focuses on the development of tourism in Africa. He created an enterprise that promotes tourism in Africa by informing the world about events taking place in Africa. He has also used written communication to educate and impart knowledge which will help Nigerians in the different aspects of their lives and boost productive engagements thereby improving Nigeria's world ranking.

1.4.12 Durojaiye Isaac

He is the social entrepreneur with the slogan "Shit business is Good Business". In 1999, he established the DMT Mobile Toilets in Lagos. Prior to that period, Lagos State did not have enough public toilets to cater for its teaming population. In order to help solve the social problem created by this inadequate toilet facilities in Lagos State, Durojaiye established the DMT Mobile Toilets, which is an organization that manufactures, hires out and maintain moveable toilets in Lagos State. Thereby promoting environmental sanitation and creating job opportunities in Lagos State.

1.4.13 Gabriel Uriel Ogunjimi

This is a social entrepreneur in the area of information technology. He was interested in promoting employment opportunities for Nigerians. To this effect, he established the Landmark Internship International, organization that helps meet Nigeria's social and economic challenges by using the internet to network globally with social enterprises in need of local talents.

1.4.14 Joachim Ezeji

Ezeji contributed to the social development of Nigeria by helping in the development of community water infrastructure across the country through enhancing access to potable water in remote Nigerian communities. To achieve this aim, in the year 2000 he established the Rural Africa Water Development Project (RAWDP) which has tremendously assisted in improving the standard of living of millions of Nigerians by giving them access to clean potable water.

1.4.15 Rochas Okorocha

This is a social entrepreneur interested in poverty alleviation of the less privileged in the Nigerian society. To this effect, he founded the Rochas Foundation which is concerned with helping Nigerian children to become self sufficient thereby breaking the cycle of poverty in the nation (Osalor, 2010).

Though as can be seen above we do have some entrepreneurs and social entrepreneurs in Nigeria, they are still not adequate in number given its population of over 150 million. Perhaps this underdevelopment of the entrepreneurial class is responsible for the current status of the nation as a developing nation. For instance, China and India that were previously in the same developmental class as Nigeria are now developing rapidly following the flourishing of their entrepreneurial class (Sogbesan, 2009). Recently, the Nigerian government recognized the importance of entrepreneurship to national development; this is because apart from creating employment, and producing innovative goods and services, entrepreneurs and social entrepreneurs also create wealth and generate social capital that is needed for national development (Osalor, 2010). Consequently, the Nigerian government has taken steps to encourage the development of entrepreneurship through the formulation of various policies. This is why entrepreneurship as a course has been introduced into the curriculum of all Nigerian universities.

1.5 The Nigerian Entrepreneur and Peculiarities of Nigerian Business Environment

Though, starting a small business in Nigeria is much the same as starting a business in any other part of the world, the Nigerian entrepreneur, unlike other entrepreneurs, faces some challenges that are peculiar only to businesses established in Nigeria. This is because the Nigerian business environment is very complex, uncertain and dynamic and as such, a lot of factors operate at cross purposes in Nigeria. For example; many decisions that lack rationality are made on a continuous basis; also various goverrnmental and macro-economic policies which affect businesses are made and sometimes reversed instantly as was the case in 1998 when the then Head of State General Abdulsalaam Abubakar increased workers' salaries and reversed it again after a few months on the ground that "he was ill advised"! Thus, to survive in the Nigerian business environment, the Nigerian needs to identify and have a thorough understanding of the mechanics, elements, dynamics, and functioning of the Nigerian business environment. While bearing in mind that the Nigerian economy is primarily a mixed economy. A mixed economy is midway between a free market economy i.e. capitalist, and a pure planned economy i.e. socialist (Isimoya,1998; Dixon-Ogbechi, 2003).

Also, given its large population, there is ample business opportunities for entrepreneurs. A business opportunity exists when there are unmet needs backed up with effective demand. Effective demand is demand that is backed-up by purchasing power. That is, people have demands for a product and they are ready/willing to part with their money (or other means of exchange) in exchange for the product that can satisfy such needs and wants. Nigeria as a nation is blessed with some of the factors of production. For instance Nigeria has plenty of land, but has shortage of capital and skilled labour and high-level manpower while it has a fairly adequate number of entrepreneurs. However, it lacks adequate entrepreneurial ability because the quality of entrepreneurship that is still largely low. Other peculiar problems faced by Nigerian entrepreneurs are: Financial Problems, Infrastructural Problems, Low standard of Business Ethics and Political Instability though the situation seems relatively stable since the advent of the current democratic dispensation in 1999. Thus, in analysing and scanning the business environment for entrepreneurial opportunities, the Nigerian entrepreneur has to bear in mind the peculiar problems in the Nigerian business environment.

What are the peculiarties of the Nigerian business environment that are confronting the Nigerian entrepreneurhsip? (ITQ)

Summary of module 3, study session 1

The study session adopted the reductionist's approach to examine the concept of the Nigerian entrepreneurs. To this effect it gave an overview of the evolution of contemporary Nigeria by looking at its geographic location and size and how the present day Nigeria was amalgamated by the British in 1914. It also discussed the development of entrepreneurship in Nigeria from its beginning during the colonial days to date. It examined at the distinction between the business entrepreneur and the social entrepreneur while giving examples of each using discussing some notable Nigerian entrepreneurs and social entrepreneurs. Finally, the study session discussed briefly the peculiarities of the Nigerian business environment as they affect the Nigerian entrepreneur.

Self- Assessment Questions (SAQs) for module 3 study session 1

Multiple Choices.

1. The evolution of entrepreneurship in Nigeria and most parts of world can be traced to:
   (a) Barter (b) Colonial rule
   (c) Foreign business (d) United Africa Company (UAC)
2. The direct dealing with the producer by UAC in the pre-independent era –
   (a) Hindered skills acquisition and consequently the development of entrepreneurship in Nigeria.
   (b) Encouraged local manufacturing of product
   (c) Increased the welfare of Nigerian entrepreneurs
   (d) Increased the growth of international business
3. An entrepreneur who creates a venture to make profit as well as strives to contribute to societal development and regulate positive change can be described as –
   (a) capitalist entrepreneur (b) social entrepreneur
   (c) Responsible entrepreneur (d) Entrepreneur
4. The prominent entrepreneur who is visible on food, cement, transportaiton and other related businesses in Nigeria and abroad is -
   (a) Mike Adenuga Jr. (b) Christ Ejiofor (c) Aluko Dangote (d)Chidi Anyaegbu

5. The founder of Chisco Group is -
   (a) Chris Ejiofor (b) Chidi Anyaegbu
   (c) Uche Uche Ohafia (d) Chetus Olebune
6. The social entrepreneur who is interested in poverty reduction of the less privileged with a foundation to assist-children is
   (a) Aluko Dangote (b) Rochas Okorocha
   (c) Poly Emenike (d) Mike Adenuga Jr.
7. One of the major advantages facing typical Nigerian entrepreneurs is the –
   (a) Large market made available by high population
   (b) Constant change in policy
   (c) The opportunity to buy one's way though
   (d) The high rate of unemployment
8. An entrepreneur will continue to be relevant in society as long as –
   (a) His business is making profit (b) his business is paying tax
   (c) His business is meeting needs (d) his product is popular

9 Non Profit Making Entrepreneurs are also called…………
   (a) Loss entrepreneurs (b). Social entrepreneurs
   (c). Political entrepreneurs (d). Non profitable entrepreneurs

10 . The Nigerian entrepreneur who created the Eleganza industries is………
   (a). Razaq Okoya **(**b). Dangote group (c). Uche Uche Ohafia (d). Ada Onyejike

Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**C**	**A**	**C**	**C**	**B**	**B**	**A**	**C**	**B**	**A**

THEORY QUESTIONS

1. Briefly describe evolutionary processes in Nigeria.
2. List the major functions of a social entrepreneur.
3. What are the peculiar challenges confronting the Nigerian Entrepreneur.
4. List at least Nigerian Social Entrepreneur and describe the the area of business of any of them.

Module 3

Study session 2 Economic Development through Entrepreneurship

Introduction

In the previous section you learnt about some Successful Nigerian Entrepreneurs. In this section, you will learn in this study session the importance of entrepreneurship in economic development and also the the roles of entrepreneurs in nation building. You will also learn about vision 20-20-20 especially the objectives of the vision

Learning outcomes for module 3 study session 2

At the end of this module 3, study session 2, you should be able to-

2.1 Define and use correctly all the key words printed in
2.2 Discuss the importance of entrepreneurship to economic development
2.3 List the roles of entrepreneurship in nation building
2.4 Discuss the roles of entrepreneurship in economic development.
2.5 Discuss Vision 20-20-20

2.1 Importance of Entrepreneurship in economic development

Entrepreneurship and economic development in a nation rest on the tripod of entrepreneurial enabling environment, a sound entrepreneurial education that promotes and sustains entrepreneurial undertakings and a heightened entrepreneurship spirit or mind-set amongst a people. According to them, in developing or underdeveloped economy, development is a function of an enabling environment. By an enabling environment, we are not referring only to the physical infrastructure existing in any given society (water supply, roads, electricity, security, communication system, etc), but the legal and social functions inclusive.

One of the conditions of serious consideration under enabling environment is the ethical and legal platforms under which business transactions take place. The problem of infrastructural development in Nigeria must be seen as rooted in society's neglect of its basic ethical practices and legal commitments. The legal system in a country, the enforcement of the law, and the respect accorded the rule of law promote what is considered as right or wrong in a firm's interactions with its various stakeholders. For us to provide adequate explanation about entrepreneurship and economic development, we must, as a matter of national concern, properly define Nigeria's role in the global economy on the basis of her factor endowments. The global economy is like a stage where each nation must play her own part. Every nation, either small or large, is uniquely endowed with resources. In Nigeria, for instance, we have oil, coal, tin, etc. Michaels Porter of Harvard University, USA in his article "the competitive nations" argues that a nation's competitive advantage is a function of endowment (a nation's position in factors of production of which knowledge and skills are component parts) related to supporting industries, the state and structure of rivalry firms and the demand conditions in that country. The management of these resources must be in a strategic manner. It is widely accepted that Nigeria is endowed with factors of production (human resources), its demand condition is great (as a result of its large population), it has abundant natural resources (oil and gas, iron, coal, tin, etc.) and of course very fertile land for agriculture. In spite of these factor endowments, Nigeria is still classified as one of the poorest countries in the world due to lack of adequate entrepreneurship.

2.2 Entrepreneurship and Nation-Building

The basic role of entrepreneurship in nation building is not just increasing per capita output and income, it also includes:

i) Initiating and constituting change in the structure of business and society. The change is accompanied by growth and increased output which allows for wealth distribution.

ii) Product evaluation process: This is the process for developing and commercializing an innovation. This stimulates economic development of a nation.

iii) Iterative synthesis: The intersection of knowledge and social need that starts the products development process.

iv) Innovation: Innovations are of various degrees or uniqueness. These include:

- ✓ Ordinary innovations.
- ✓ New products with little technological changes.
- ✓ Technological innovations.
- ✓ New products with significant technological advancement.
- ✓ Breakthrough innovations.
- ✓ New products with some technological change.

Developing entrepreneurs is a way of mobilizing individual and group talent, energy and time to promote economic and social goals. Entrepreneurs find out business opportunities, coordinate resources and innovate. In order for them to be able to function and play his roles that will impact on the nation, needs to be flexible and adaptable to changes in the economy. Entrepreneurs view changes as opportunity. They look at problems to see opportunities. Their role in nations building cannot be overstated.

- List the roles of entrepreneurship in nation building
    - Initiating and constituting change in the structure of business and society; Product evaluation process; Iterative synthesis and innovation

2.3 Roles of Entrepreneurship in economic development

The importance of entrepreneurship development in economic development has been an established fact in the literature. Ritter (1998) painted this picture about entrepreneurs and economic development thus:

"Entrepreneurship is scarce for many types of economic activities in most countries and at most times, particularly for new activities requiring relatively new types of technical and market knowledge. The contribution of entrepreneurship to the process of economic development is clear. Entrepreneurs are dynamic force in an economy, envisioning the possibilities of new types of economic activity and doing everything necessary to realize their visions. As a result, entrepreneurs give birth to new enterprises, new commercial activities and new economic sectors. They generate jobs for others; they produce goods and services for citizens; they introduce new cost-cutting or product-improving production technologies and improved or lower-cost outputs; they earn foreign exchange through exports expansion or the substitution of imports; they save, raise funds, and invest. They also generate the income and wealth that permit the collection of taxes by governments for expenditure on human development (education, health, and social services), physical infrastructure and public goods generally. They promote the process of learning and adapting to changing circumstances as technology changes, market evolve; and policies change".

Recognizing the important roles of entrepreneurs, both developed and developing nations have shifted attention to their development. The need to create and ensure appropriate environment for operations of the enterprises cannot be over emphasized.
Ritter (1998) noted that for entrepreneurship to progress the institutional environment, the system of laws, the regulatory environment, and basic political and economic stability have to exist and be consistent; absence of the enabling environment will deter the entrepreneur. Nnanna (2003) acknowledged that SMEs are the bedrock of industrial development; they provide large scale employment as they are often labour intensive and they rely more heavily on local raw materials. Zakar (2006) classified the benefits of SMEs and entrepreneurs into three broad categories – benefits to the nation, benefits to the society and benefits to the individual. Olayiwola and Ogundele (2008) also pointed out the roles of entrepreneurs as engine of growth and development. The study highlighted the following roles among others**:**

Explain the importance of entrepreneurship in economic development (ITO)

Setting corporate ethical standards

Corporate ethical behavior involves both knowing what is rights and wrong and behaving accordingly. Ethics emphase standards of moral behavior, that is behavior that is accepted by society as right versus wrong. Organizational ethics begins at the top hence entrepreneurs must uphold high ethical standard since behaving ethically have a positive influence on the success of the business. Although ethical codes vary greatly, they can be broadly classified as compliance-based and integrity-based. Compliance-based ethics codes emphasize preventing unlawful behavior, by increasing control and by penalizing wrong doers. While on the other hand, integrity-based ethics codes defines the organization's guiding values that create an environment that supports ethically sound behavior, and stress a shared accountability among employees.

Employment Creation

Secondly the entrepreneur is expected to create employment for the increased population and also to prevent rural-urban drift (Olayiwola, 2007). This will also reduce the high rate of criminal activities in the economy and bring about secured society.

Improved Standard of Living.

Thirdly the entrepreneurs are expected to improve the standard of living of the people through quality products/services and also through a well motivated workforce employed by the MSMEs. Improving standard of living must be the responsibility of the entrepreneurs as healthy people will bring about a wealthy economy.

Increase in government Revenues

Fourthly entrepreneurs will also bring about an increase in the government revenues in the areas of value added taxes, company income taxes and income taxes of the employees of these small businesses.

Utilization of local resources

The domestic entrepreneurs are also expected to look more inward by sourcing for the raw material locally and rely more on the employment of domestic experts.

Development of domestic /Indigenous technology

The entrepreneurs are also expected to develop indigenous industrial machinery and equipment, evolve a management approach in consonance with the indigenous culture. Most technologically advanced countries also started from somewhere.

Supplier of raw material for larger industries

The entrepreneur should also provide the larger industries with raw materials for the expanded output. This will reduce the cost of production, reduce the price level and increase the level of economic welfare.

2.4 Entrepreneurship Activity and Stages of Economic development

The type of entrepreneurship activity differs at different stages of economic development. The literature identified two sets of entrepreneurial activity namely Necessity – driven self –employment activity which is said to be associated with the stage of low levels of economic development, as the economy may not be able to sustain a high number of jobs in high productivity sectors. As the economy develops, more jobs are created and employment opportunity would also be available hence necessity driven entrepreneurship will give way to a more opportunistic –driven entrepreneurship activity. This tends to pick up, introducing a qualitative change in overall entrepreneurial activity

The study of Porter, Sachs and MacAthur (2002) identified three stages of economic development which include factor-driven economies, efficiency-driven economies and innovation driven economies. Each stage is associated with different entrepreneurship activity. Bosma et al (2009) relate each of the three stages to the entrepreneurial activity

2.4.1 Entrepreneurship in factor-driven economies

Lewis, (1954) noted that economic development consists of changes in the quantity and character of economic value added and that these changes result in greater productivity and rising per capita income. The study by Gries & Naude (2008) pointed out that the increased productivity and the accompanying rise in per capita income often coincide with migration of labor across different economic sectors in society, for example from primary and extractive sectors to the manufacturing sector, and eventually, services . Countries with low levels of economic development typically have a large agricultural sector, which provides subsistence for the majority of the population who mostly still live in the countryside. The study by Olayiwola (2007) pointed out that the high rate of rural-urban drift was as a result of the rural dwellers willing to take up an increased job expected to be created which unfortunely is not the case in Nigeria. This situation changes as industrial activity starts to develop, often around the extraction of natural resources. As extractive industry starts to develop, this triggers economic growth, prompting surplus population from agriculture to migrate toward extractive and emergent scale-intensive sectors, which are often located in specific regions. The resulting oversupply of labor feeds subsistence entrepreneurship in regional agglomerations, as surplus workers seek to create self-employment opportunities in order to make a living (Bosma, et al., 2009).

2.4.2 Entrepreneurship in efficiency driven economies

As the industrial sector develops further, institutions start to emerge to support further industrialization and the build-up of scale in the pursuit of higher productivity through economies of scale. Typically, national economic policies in scale-intensive economies shape their emerging economic and financial institutions to favor large national businesses. As increasing economic productivity contributes to financial capital formation, niches may open in industrial supply chains that service these national incumbents. This, combined with the opening up of independent supply of financial capital from the emerging banking sector, would expand opportunities for the development of small-scale and medium-sized manufacturing sectors. Thus, in a scale-intensive economy, one would expect necessity-driven industrial activity to gradually fall and give way to an emerging small-scale manufacturing sector (Bosma, et al., 2009).

2.4.3 Entrepreneurship in Innovation - driven economies

As an economy matures and its wealth increases, one may expect the emphasis in industrial activity to gradually shift toward an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. The industrial sector evolves and experiences improvements in variety and sophistication. Such a development would be typically associated with increasing research and development and knowledge intensity, as knowledge-generating institutions in the economy gain momentum. This development opens the way for the development of innovative, opportunity seeking entrepreneurial activity that is not afraid to challenge established incumbents in the economy. Often, small and innovative entrepreneurial firms enjoy an innovation productivity advantage over large incumbents, enabling them to operate as 'agents of creative destruction.' To the extent that the economic and financial institutions created during the scale-intensive phase of the economy are able to accommodate and support opportunity-seeking entrepreneurial activity, innovative entrepreneurial firms may emerge as significant drivers of economic growth and wealth creation (Henrekson, 2005).

The various roles and activities of the entrepreneurs are inspiring, positive and they will obviously enhance the well being of the society. For the entrepreneur to operate effectively and efficiently, the institutional environment, the legal framework including the regulatory environment, political stability, consistent economic policies have to exist. The absence of these variables may hinder or deform entrepreneurship roles and activities. In other words entrepreneurship alone is not capable and sufficient to generate the desired development;

it must be supported by appropriate legal and orderly institutional environments. In the Cuba economy according to Ritter 1998 even though there is willingness on the part of the people to establish businesses, the legal and regulatory environment does not permit such initiatives.

- Identify different stages of economic development.
  - Factor –driven economy
  - Efficiency- driven econmy and
  - Innovative- driven economy

2.5 Entrepreneurial and functional education

Ekong and Williams (2003) have reported that there have been extensive calls for entrepreneurial education in Nigeria. In 1983, the Federal Government of Nigeria urged training institutions in the country to reorient their programmes towards vocational relevance for the production of graduates that possess relevant skills for self-employment and self-reliance. It is, however, observed that entrepreneurial education depends on a functional education environment that provides motivation for the acquisition of relevant skills and knowledge for entrepreneurial practices. In other words, training programmes in Nigerian educational institutions, at all levels, should emphasize practical experiences in related fields. This is important because, it is only through the inculcation of favourable values, skills and competencies towards specific discipline that could be utilized in real life situation.

Parkin (1994) in line with recent observations and reports from scholars like Obanya (2003) and Williams (2002), have emphasized that entrepreneurship education must develop the intellectual and favourable values, skills and competencies. This is because entrepreneurship education posits that the purpose of education is to acquire the skills of understanding life situation, adapting to it, acting to influence it, and contributing to development through useful employment. In other words, entrepreneurial and functional education should be able to:

- ensure that technical and vocational education are made integral part of education for all;
- ensure that training in specialized technical and vocational skills are predicated on a sound general education, complemented with a sound general exposure to technical and vocational education;
- expose learners to the versatility of knowledge to meet the challenges of dynamism of nature of the world of work;
- provide equal opportunities for both men and women to acquire technical and vocational education;
- explore relevant methods, strategies and techniques of making technical and vocational education affordable through informal and non-formal approaches.

Super (1983) described the entrepreneurship and functional education curriculum as that which is learner-centred. In other words, the learning experiences involve interpretation of occupational needs of the learners and assisting them to acquire integrated occupational knowledge, skills and values about the real world through investigative or research experiences. In other words, the curriculum process of the entrepreneurial and functional education should be based on the assumption that human beings have natural potentials for learning when they are made aware of the relevance of what is to be learnt; that through action- learning is facilitated;and that self-initiated learning promotes lasting skills acquisition.That is to say, that creativity in learning is enhanced by self-evaluation.

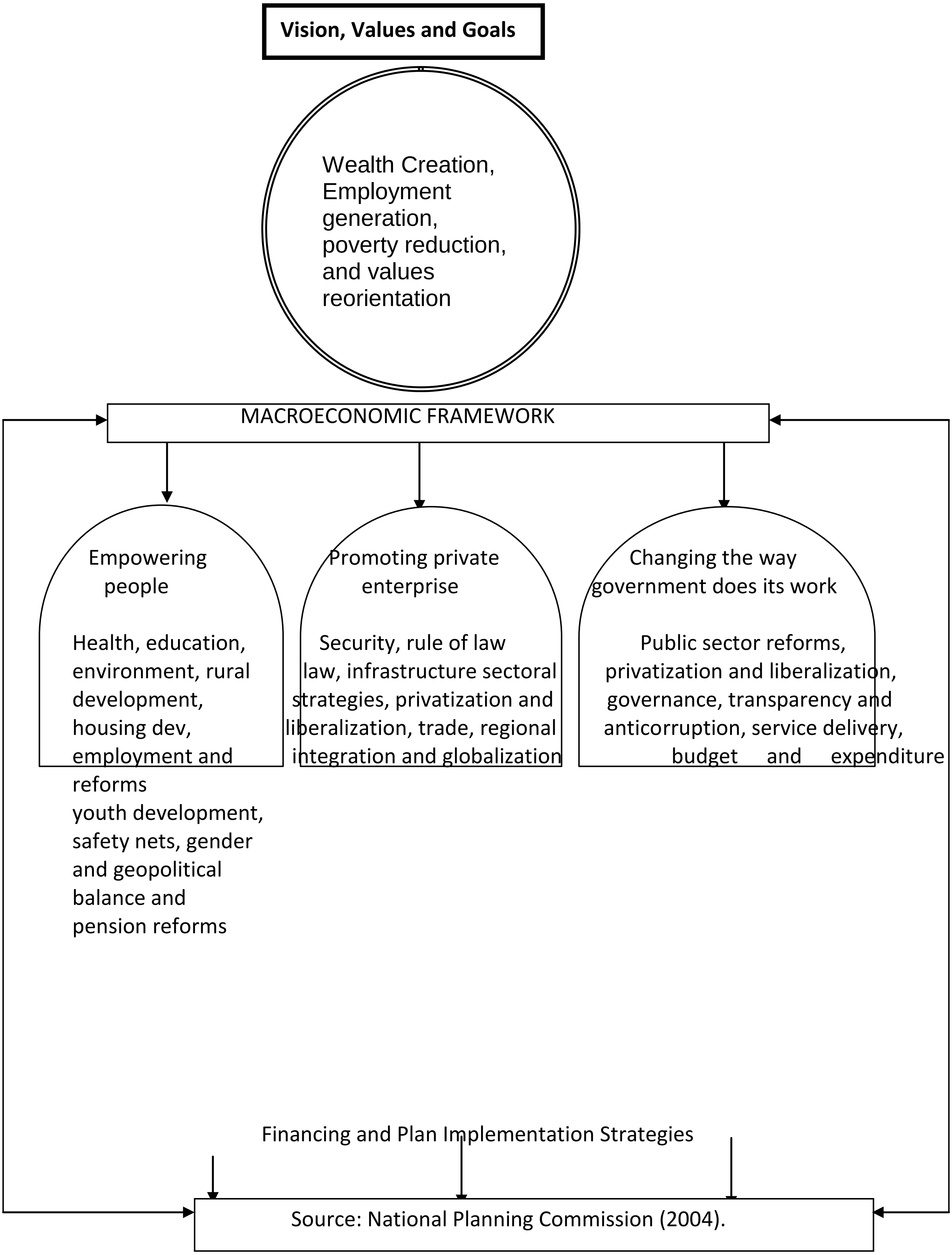
The gains in entrepreneurial and functional education include the assistance that individuals would get to develop needed activities in job performance; encouraging individuals to utilize available instructions to use entrepreneurial and functional education to provide the stepping stone to other lucrative jobs and life-long occupations, facilitate better job performance through effective and efficient acquisition of relevant skills, equipping learners with various industrial functions which are multidimensional in nature that include design, development, construction, production, management and research functions; helping individuals to develop good work habits, readjustment and operating within the established work rules, and assisting the general workforce be aware of existing vocations in the job market that let them make appropriate choice of vocation and develop autonomy in the world of work thereafter.

2.6 Vision 20-20-20

The Vision 202020, in Nigeria, as a strategy for development and progress. It is built on the philosophy of the NEEDS document. NEEDS stands for National Economic Empowerment and Development Strategy. The strategy came into operation in 2004. One of the major pillars of NEEDS is growing the private sector which also involves youth empowerment. Figure 1 below represents the structure of NEEDS where wealth creation, employment generation, poverty reduction and values reorientation, all of which affect entrepreneurship and ethical principles. As indicated, empowering people and youth development is central to entrepreneurship. The emphasis of Vision 2020, however is that Nigeria aims to be among the top 20 industrialized nations in the world by 2020 A.D. This is a positive challenge to entrepreneurial and functional education in Nigeria. For instance, the vision sets out a 7-point Agenda that will drive the process of achieving national objectives that have implications for entrepreneurial and functional education.

The goals of the vision include; wealth creation,employment generation; poverty reduction, and values reorientation.The macro-economic framework of the vision, on the other hand, focuses on empowering the people, promoting private enterprise, and changing ways which government does its work. Financial and plan implementaton strategies are also developed to fast track the policies.

Fig.1 NEEDS at a Glance



The success of entrepreneurial and functional education cannot be realized without challenges. One of the most fundamental challenges is that of leadership. Adeyemo(2009) described it as enviable leadership in which political leaders engage in healthy rivary over the provision of amenities for the citizens, as manifested by first Republican political leaders. For instance in the then western Region Obafemi Awolowo built the legacies of the Odu'a Group of companies, the first television station in Africa, industrial Estates, and the Liberty Stadium, Ibadan, using revenue from cocoa.The Northern Region under Ahmadu Bello, built the Northern Nigerian Development Corporation through which he developed industrial estates , established the New Nigerian Newspapers, and the Bank of the North, among others, from revenue generated from groudnuts and cotton. In the Eastern Region Micheal Okpara used proceeds from palm produce and coal to establih the Eastern Nigerian Corporation and the defunct African Continental Bank. These initial steps in the areas of entrepreneurship have not been complemented by comparable successes by subsequent military and civilian administrations. We have had industries that never took off such as the iron and steel industry, paper mills etc. Others performed so poorly that they had to be sold off. Examples include the Nigrian Airways and Vehicle assemby plants to mention a few. This is why NEEDS envisages "changing the way government does its work" as an integral part of its programme.

- List the goals of vision 20- 20-20
    - wealth creation, employment generation; poverty reduction, and values reorientation

Summary of module 3 study session 2

You have learnt in this study session the importance of entrepreneurship in economic development.

You have also learnt something about the different stages of economic development requiring different entrepreneurial activities

The role entrepreneurship in nation building was also highlighted

You also learnt the roles of entrepreneurship in economic development such as employment creation, improving standard of living and many more..

Self-assessment Questions for module 3 study session2

1. Entrepreneurship and functional education curriculum is :
   (a) self-centered
   (b) learner-centered
   (c) tutor-centered
   (d) theory-centered
2. The fundamental assumptions of the curriculum of entrepreneurial and functional education are at the following except:
   (a) human beings have natural potentials for learning.
   (b) through action learning is facilitated
   (c) self-initiated learning promotes lasting skills acquisition
   (d) self-evaluation does not enhance creativity in learning.
3. The gains of entrepreneurial and functional education include all except.
   (a) helping individuals develop good work habits
   (b) assisting the workforce to be aware of existing vocations in the job market
   (c) assurance of success in business
   (d) facilitate better job performance
4. Scholars that have contributed to the topic of entrepreneurial and functional education include all except
   (a) Obanya (b) Asika (c) Williams (d) Super
5. The goals of entrepreneurial and functional education are all except.
   (a) creat job for all
   (b) training in technical and vocational skills are complemented with sound general education
   (c) provide equal opportunities for both men and women to acquire technical and vocational education
   (d) expose learners to the versatility of knowledge
6. The goals of Vision 202020 include all except –
   (a) wealth for all
   (b) employment generation
   (c) poverty reduction
   (d) values orientation
7. The macroeconomic framework of NEEDS does not include –
   (a) empowering people
   (b) government to create more jobs
   (c) promoting private enterprise
   (d) changing the way government does its work.

8. As an economy matures and its wealth increases, the emphasis on industrial activity gradually shift toward an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. This is called……..
   a. Entrepreneurship in Innovation driven economies
   b. Entrepreneurship in efficiency driven economies
   c. Entrepreneurship in factor-driven economies
   d. All of the above

9 The Nigerian economy is primarily a _________ economy.
(a) socialist (b) capitalist (c) mono (d) mixed

10 Which of the following is not a peculiar problem faced by Nigerian entrepreneurs
a. Financial Problems b. Infrastructural Problems
c. Low standard of Business Ethics and Political Instability
d. Inadequate Raw materials

Ques.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	**B**	**D**	**B**	**C**	**D**	**D**	**B**	**A**	**D**	**D**

THEORY QUESTION

1. Why is importance of entreprenership in the economic development of a nation.
2.What are the different roles perform by the entrepreneur in the economic development in any society.
3.What is the linkage between entrepreurship and functional education.
4.In what ways is vision 20-20-20 relevant to entreprenership in Nigeria.

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