

STUDY MANUAL
ENTREPRENEURIAL DEVELOPMENT (PEA 3)



ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA (ANAN)

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Recommended Further Readings

MODULE 1

1.00 THE NATURE OF ENTREPRENEURSHIP

1.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Appraise the definitions and theories of entrepreneurship;
- ii. Analyse the components of entrepreneurship;
- iii. Distinguish between entrepreneurship and traditional corporate management;
- iv. Interpret the role of entrepreneurship;
- v. Deconstruct the entrepreneurial vision, ethics and challenges.

1.02 Theories and Definitions of Entrepreneurship

The theoretical history of entrepreneurship; scholars from multiple disciplines in the social sciences have grappled with a diverse set of interpretations and definitions to conceptualize this abstract idea. Over time, some writers have identified entrepreneurship with the function of risk-bearing, others with the coordination of productive resources, others with the introduction of innovation, and still others with the provision of capital. Even though certain themes continually resurface throughout the history of entrepreneurship theory, presently there is no single definition of entrepreneurship that is accepted by all or that is applicable in every economy. Economists together with researchers on the borders of economic analysis, behavioural science and management science, have come to offer quite different views though not necessarily competing conceptualizations of entrepreneurial behaviour. There is a need to reconcile the various schools of entrepreneurship by recognizing the importance of all of them. Each school provides different insights into the many facets of entrepreneurial behaviour.

1. The "Great Person" School of Entrepreneurship:

The picture presented is usually one of power, success, and wealth, the image of our business elite. To be inspirational, these individuals must be able to present ideas, concepts, and beliefs that others find interesting, intriguing, or stimulating. This suggests that they are endowed with certain traits or qualities that differentiate them from others.

2. The Psychological Characteristics School of Entrepreneurship; Recognising Opportunities:

It is widely thought that one's needs, drives, attitudes, beliefs, and values are primary determinants of behaviour. People behave in accordance with their values far more often than not, despite variations in situations. Similarly, one's behaviour results from attempts to satisfy needs, be they for power, recognition, achievement, or acceptance and love.

This psychological school, which focuses on personality factors, believes that entrepreneurs have unique values and attitudes toward work and life. These, along with certain dominant needs, propel the individual to behave in certain ways. Entrepreneurs can be differentiated from non-entrepreneurs by personality characteristics.

3. The Classical School Entrepreneurship; Acting and Managing:

An examination of the origin of the term "entrepreneur" provides insight into the classical viewpoint which distinguishes between a "manager" and an "entrepreneur." The word derives from the French verb "entreprendre," meaning "to undertake" and was translated from the German verb "undertake."

4. The Management School of Entrepreneurship:

As in most fields of organisational study, entrepreneurship draws heavily from management theory. The management school suggests that an entrepreneur is "a person who organises or manages a business undertaking, assuming the risk for the sake of profit. In addition to risk-taking, the functions of an entrepreneur include supervision, control, and providing direction to a firm.

5. The Leadership School of Entrepreneurship; Reassessing and Adapting:

An entrepreneur is often a leader who relies on people to accomplish purposes and objectives. The leadership school of entrepreneurship is a non-technical side of the management school, which suggests that entrepreneurs need to be skilled in appealing to others to "join the cause." A successful entrepreneur must also be a "people manager" or an effective leader/mentor who plays a major role in motivating, directing, and leading people.

"Thus, the entrepreneur must be a leader, able to define a vision of what is possible, and attract people to rally around that vision and transform it into reality".

6. The Intrapreneurship School of Entrepreneurship:

The intrapreneurship school evolved in response to the lack of innovativeness and competitiveness within organisations. Intrapreneurs, to the limited extent that they possess discretionary freedom of action, can act as entrepreneurs and implement their ideas without themselves becoming owners. Alertness to opportunities is one dimension of intrapreneurial activity. Such strategic behaviour provides the means for extending the organisation's activities and discovering opportunities. This allows existing organisations to develop and diversify their activities in other areas.

Entrepreneurs are people who *own, operate* and take the *risk*. Whoever takes the decisions and the consequent risks is known as the Entrepreneur. The capacity and willingness to undertake conception, organisation, and management of an innovative venture, with all attendant risks while seeking profit as a reward is referred to as Entrepreneurship. Entrepreneurship is also viewed as a process through which individuals identify opportunities, allocate resources, and create value. The creation of value is often through identification of unmet needs or through the identification of opportunities for change. Entrepreneurship is therefore more than simply 'starting a

business'. Entrepreneurship involves not only the process that leads to the setting up of a business entity but also the expansion and development of an ongoing venture. Generally, entrepreneurship can be defined as the process of creating something different with value, assuming the accompanying financial, psychological and social risks and receiving the resulting social risks and the resulting rewards of monetary and personal satisfaction.

1.03 Essential Components of Entrepreneurial Ventures

Five elements in venture creation have been identified:

1. Entrepreneurial traits
2. A profitable business opportunity
3. Technical know-how of the entrepreneur
4. Business know-how of the entrepreneur, and
5. Entrepreneurial initiative.

1. Entrepreneurial Traits

The true entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the various other factors of production. He should be a pioneer, a captain of industry. The supply of such entrepreneurship is, however, quite limited and all are not endowed with such talent. The modern entrepreneur is one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic system as he deems necessary. He conceives a new industrial enterprise, displays considerable initiative, grit and determination in bringing his project to fruition. Thus, a successful entrepreneur must possess the following traits:

a. Mental Ability

Mental ability consists of intelligence and creative thinking. An entrepreneur should be intelligent and must have an analytical mind. He should have the capacity to engage in the analysis of various problems and situations to deal with them. The entrepreneur should

anticipate changes and must be able to study the various situations under which decisions have to be made.

b. Clear Objectives

An entrepreneur should have a clear objective as to the exact nature of the business, nature of the goods to be produced and ancillary activities to be undertaken. A successful entrepreneur must have the objective to establish his product in the market, make profit and render social service.

c. Business Secrecy

An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitors is a serious matter which should be carefully guarded against by an entrepreneur. Here the entrepreneur should be able to make a proper selection of his subordinates.

d. Human Relations Ability

The most important entrepreneurial traits contributing to his success are emotional stability, personal relations, consideration and tactfulness. In other words, maintenance of public relations or human relations most often makes the difference between success and failure of an entrepreneur. An entrepreneur must have good relations with his customers to gain their continued patronage and win their confidence in his product. He must also maintain good relations with his employees, if he is to motivate them to higher levels of efficiency. An entrepreneur who maintains good human relations with customers, employees, suppliers, creditors and the community in general is much more likely to succeed in his endeavours than the individual who does not practice good human relations.

e. Effective Communication

The “gift of the gab” is a must for a successful entrepreneur. Good communication also means that the entrepreneur can put his point across effectively and with clarity. Communication must be to the point, crisp and convincing. Communication ability is the secret of the success of most entrepreneurs.

f. Technical Knowledge

The entrepreneurs are dealing with situations where sophisticated technology is involved. The entrepreneur must have a reasonable level of technical knowledge. This is one trait which entrepreneurs can acquire if they try hard enough.

g. Decision making

Running a business requires taking several decisions. Hence, an entrepreneur should have the capacity to analyse the various aspects of the business for arriving at a decision.

h. Energy

As constant attention is required for the successful running of the business, an entrepreneur must have sufficient energy to work hard for long periods.

i. Risk-bearing

'No-risk, no business' or 'no-risk, no gains'. There is an element of risk in every business, hence an entrepreneur should be prepared to accept failure in its proper perspective and view failure as a challenge and opportunity.

Apart from these basic traits, Robert D. Hisrich identified few more entrepreneurial traits. In his opinion the entrepreneur must have adequate commitment, motivation and skill to start and build a business. It is his responsibility to determine if the management team has the complementary skills necessary to succeed. To Hisrich, the entrepreneur must possess the following traits in addition to those mentioned in the preceding paragraphs:

a. Motivation: An entrepreneur must build an efficient team, keep it motivated and provide an environment for individual growth and career development.

b. Self-confidence: Entrepreneurs must have the mental capacity to face any situation. They should also have the ability to inspire others. They must have the confidence in themselves and the determination to achieve their goals.

c. Long-term involvement: Entrepreneurs must be committed to long-term projects which require continuous and consistent involvement.

d. High energy level: Success of an entrepreneur demands the ability to work long hours for sustained periods of time.

e. Trouble-shooter: The entrepreneur must possess the trait of the proverbial “trouble-shooter”. He must have the ability to identify where a problem is and suggest on the spot solutions.

f. Initiative: The entrepreneur must have initiative, accepting personal responsibility for actions and above all make good use of resources. It is this trait which gives the entrepreneur the courage to risk and learn from failures.

g. Goal-setter: An entrepreneur must be able to set challenging, but realistic goals. This personal trait can go a long way in the all-round progress of a nation.

These personal traits make an entrepreneur a successful person. However, it must be stated that no entrepreneur possesses all these strengths. No entrepreneur is born with all these traits. It is possible for him to acquire these traits if the environment is suitable for this purpose.

Qualities of Entrepreneurs

Most people believe that to be an entrepreneur one requires a professor’s intelligence, a fortune-teller’s capacity to foresee the future, a rich man’s bank roll, a salesman’s persuasiveness, a financial talent for manipulating funds, an auditor’s precision, a political leader’s power and the magnetic personality of a film star. Since very few people possess even one or two of these qualities, no one believes he can be an entrepreneur. In fact, the only capacity essential for becoming an entrepreneur is a willingness to work hard. An entrepreneur is a person who takes risk of setting up his own venture for perceived reward. He is a person who initiates the idea, formulates a plan, organises resources and puts the plan into action to achieve his goals. Entrepreneurs have specific qualities; they have special strengths which they draw upon for their adventure into business. If you want to start and succeed in your enterprise, you are required to play different roles at different stages of your enterprise. Some of the essential qualities entrepreneurs must possess are briefly described below:

- i. Do you have a strong desire to be a winner? (NEED TO ACHIEVE): Most people dream of success and achievement, but do not take any action towards achieving these dreams. Entrepreneurs, on the other hand, have a strong desire to achieve a higher goal and make their dreams come true. For them, winning is achievement.
- ii. Do you have a quality of stick-to-it? (PERSEVERANCE): Once committed to a goal and a course of action, entrepreneurs become absorbed in it. They are not deterred by difficulties and problems that beset any project; they work hard until the whole project is successfully accomplished.
- iii. Do you prefer a middle of the road strategy when you have analysed a risky problem objectively and think you can solve it? (MODERATE RISK TAKER): Entrepreneurs are not high risk-takers; they are not gamblers. They choose a moderate risk rather than play wild speculative gamble. They love a moderate risk situation, high enough to be exciting, but with a reasonable chance to win.
- iv. Are you alert to opportunities? Do you seize and convert them to your advantage? (ABILITY TO FIND AND EXPLORE OPPORTUNITY): Entrepreneurial persons are quick to see and seize opportunities. They show an innovative turn of mind and convert difficulties into opportunities. But they are realistic too. They plan and anticipate carefully how to achieve their goals in realizing an opportunity.
- v. Are you unaffected by personal likes and dislikes while approaching problems? (ANALYTICAL ABILITY): Entrepreneurs are realistic. They have a matter of fact approach about business undertakings. They are not likely to let personal likes and dislikes stand in their way. When they require assistance, they select experts rather than friends and relatives to help them. They generally do not take an emotional attitude towards their business or a problem.

- vi. Do you find it important to know how you are doing, when you are working on a goal or a task? (USING FEEDBACK): Entrepreneurs like to have immediate feedback of their performance. They like prompt and accurate data and it does not make any difference whether the information they get is favourable or unfavourable. In fact, they are stimulated by unfavourable news to pour more energy into attaining their objective.
- vii. Do you welcome tackling an unfamiliar but interesting situation? (FACING UNCERTAINTY): Achievement oriented people tend to be optimistic even in unfamiliar situations. The odds may not be clear, but the circumstances may be appealing. Entrepreneurial persons in such situations see no reason why they cannot win through their abilities. They go ahead undeterred, sometimes even without guidelines and frequently make the best of whatever opportunities there are. As they begin to understand their environment they begin to calculate their chances very closely. Thus, paradoxically they present a picture of boldness in the face of the unknown and prudence in the face of the familiar. They usually win by applying their special insight and skill.
- viii. Do you have a dislike for working for others? (INDEPENDENCE): It is found that most entrepreneurs start off on their own because they do not like to work for other people. They like to be their own masters and want to be responsible for their own decisions.
- ix. Are you flexible in your decisions? (FLEXIBILITY): Most successful people after weighting the pros and cons of a decision tend to change if the situation so demands. They do not hesitate in revising their decisions. Successful entrepreneurs are persons with open minds, not rigid.
- x. Do you think ahead, plan your future and then work to make it come true? (PLANNER): Most successful people tend to set a goal for themselves and plan to achieve that goal in a certain time limit.

- xi. Are you comfortable while dealing with people at all levels? (INTERPERSONAL SKILLS): An entrepreneur is a person who, during his activities, comes across many types of persons with whom he has to deal. He must make them work for him, with him and help him to attain his objectives. Hence, he should be a person who likes working with people and who has skills of dealing with people.
- xii. Can you influence others? (MOTIVATOR): In the course of his career, an entrepreneur will be required in many situations to influence people and make them think in his way and act accordingly. He motivates people to act.
- xiii. Are you capable of working for long hours and tackling different problems at the same time? (STRESS TAKER): As a central figure in your enterprise, you will have to cope with many situations at the same time and make right decisions which may involve a lot of physical and emotional stress. All this can be done if you have the capacity to work long hours and keep cool under a lot of tension.
- xiv. Are you aware of yourself? (POSITIVE SELF CONCEPT): An achiever directs his fantasies towards the accomplishment of worthwhile goals and sets standards of excellence in what he is doing. This is based upon the awareness of his strength and weaknesses. He uses positive knowledge to support his thinking. He is rarely negative.
- xv. Do you tend to think ahead? (ORIENTATION TO FUTURE): Entrepreneurs show a high level of future orientation. They do not allow the past to obsess them. They are oriented towards present and future. "So, it was, but now what to do", this is their usual response.

No entrepreneur has all these qualities. But most of them will have many. So, the first step for a person aspiring for entrepreneurship is making an inventory of the traits he possesses. This self-awareness and analysis will help define his strength and help overcome his weaknesses.

1. A profitable business opportunity

For an entrepreneur to start a business, he or she must perceive that a profitable opportunity exists. Opportunity refers to the extent to which possibilities for new ventures exist and the extent to which entrepreneurs have the leeway to influence their odds for success through their own actions. Entrepreneurial opportunities tend to be higher in economies that are deregulated, where market mechanisms operate freely, and where entrepreneurs must face very few barriers to entry. Thus, government policies and procedures affect the business opportunity.

2. Business and Technical know-how of the entrepreneur

Ability to enterprise refers to the sum of technical and business capabilities required to start and manage a business. While "technical capability" refers to the technical skills, "business capability" refers to the knowledge and skills in various functional aspects of business such as business planning, product development, marketing, personnel management, general management, accounting, finance, etc.

Furthermore, as entrepreneurs face resistance from customers, investors, and several other stakeholders, they require some political and strategic planning skills to succeed in their endeavours. Without having the ability to enterprise, entrepreneurs may not be able to seize the opportunities available to them and successfully go through various start-up activities or manage the on-going business. Individuals with the necessary ability to enterprise, when combined with enhanced propensity to enterprise, will increase their chances of going into business.

3. Entrepreneurial initiative

A stream of research on entrepreneurship emphasizes the psychological and behavioural characteristics of entrepreneurs. The most common of these are the high need for achievement, capacity to innovate, internal locus of control, propensity for taking risks, and other key entrepreneurial characteristics. People that have an urge for excellence, willingness to take moderate risk, and desire to be independent are very likely to become entrepreneurs.

There is a relationship between opportunity, propensity to enterprise, and ability to enterprise. The process of developing competent entrepreneurs and increasing their likelihood to enterprise consists of developing plentiful business opportunities in the environment, enhancing people's propensity to enterprise, and developing their capability to enterprise. Competent entrepreneurs will be able to take advantage of most opportunities and respond to the needs of the environments.

1.04 Entrepreneurship and Traditional Corporate Management Compared

Contemporary definitions of entrepreneurial management tend to centre on the pursuit of an opportunity; their common characteristics are that they define entrepreneurial management as a “mode of management” that is proactive, opportunity-driven, and action-oriented. In this regard, entrepreneurial management style is evidenced by the firm’s strategic decisions and operating management philosophies. The entrepreneurial management tries to establish and balance the innovation abilities of the organisation with the efficient and effective use of resources. It can both initiate changes and react to changes quickly and flexibly. In the course of the entrepreneurial process, the entrepreneurial manager creates new value through identifying new opportunities, attracting the resources needed to pursue those opportunities, and building an organisation to manage those resources¹. An entrepreneurial manager seizes any promising business opportunity irrespective of the level and nature of resources currently controlled. Consequently, an entrepreneurial manager is someone who acts with ambition beyond that supportable by the resources currently under his or her control, in relentless pursuit of an opportunity.

The distinguishing factors between entrepreneurial management and traditional management consist of six different dimensions that define entrepreneurial management: Strategic Orientation, Commitment to Opportunity, Commitment to Resources, Control of Resources, Management Structure, and Reward Philosophy.

Strategic Orientation

Entrepreneurial firms base their strategies solely on opportunities that exist in the environment, using opportunities as a starting point for developing strategies. They tend to pursue new opportunities without regard to resources currently controlled, identifying the resources necessary to exploit an opportunity after they have assessed a new strategy. Administratively managed companies, on the other hand, tend to look more at the resources they already control when developing strategies.

Entrepreneurial Culture

While an outward focus on new opportunities in the environment is necessary to discover new opportunities, adjust its resource-base to new opportunities in the environment. The culture of an organisation is one of the key factors fostering entrepreneurial activities in organisations.

Growth orientation

Entrepreneurial management suggests that the main difference between an entrepreneurial and an administratively managed firm is that the former tend to favour rapid growth while the latter has a more careful attitude towards growth. Administratively, managed firms may also desire growth, but they suggest that it must be much slower and at a steady pace.

Resource Orientation

The traditional view of resources in entrepreneurship has been on resource ownership. An organisation's entrepreneurial capacity will be, to some extent, limited by its resource base which implies that direct ownership of resources should stimulate entrepreneurial behaviour and financial performance.

Management Structure

The management structure of an entrepreneurial firm is organised with multiple informal networks while administrative firms typically are organised as formalized hierarchies with clearly defined lines of authority. An entrepreneurial management structure is designed to access resources within the firm as well as through collaborative network relationships. It is suggested to be flexible and to create an environment where employees are free to create and seek new opportunities. An administrative management structure has organisational hierarchies that make them more inert and difficult to change. Built in control systems, well-defined roles of authority, and the mechanic organisation structure that characterize administrative firms are often hard to change.

Reward System

Entrepreneurial firms tend to base rewards and compensations on value creation while administrative firms base it on an individual's position in the hierarchy.

1.05 The Role and Significance of Entrepreneurship in Society

There is no doubt that the entrepreneurs were the people whose decisions primarily determined the rate of economic advance. It is always difficult to know how much importance we should attribute to entrepreneurs and how much to the economy in which he works; to the nature of market he supplies to the character of his labour supplies and the extent of the natural resources. It is somewhat difficult to determine whether the economic condition drives entrepreneurship or whether entrepreneurship boosts the economy. Is it that during hard

economic times, innovation is sparked, jobs are created, and the economy is stimulated? Alternatively, is it that during strong economic times, resources are available for research, resources are used for innovation, and the economy sustains?

It may depend on the type of entrepreneur, the “opportunity entrepreneur” and the “necessity entrepreneur”. As the names imply, each type of person starts his own firm for a different reason. The opportunistic entrepreneur attempts to capitalize on an apparent profit-making opportunity, while the necessity entrepreneur starts a business simply to survive because he cannot find work that suits his needs. Each has an important role in economic growth.

Economic growth relies on this entrepreneur to bring specialized knowledge into a system that does not currently exist and bring together innovation needs and innovation gaps. Because entrepreneurs will take risks where others, both individuals and firms may not, they are vital to continued stimulation of the economy.

In specific terms, the importance of the entrepreneur is as follows:

- i) **Employment:** Both types of entrepreneurs contribute to employment. The necessity entrepreneur creates his own employment because he could not find satisfactory employment in the control of others. The opportunity entrepreneur creates new jobs that result from new products and services.
- ii) **Productivity:** The entrepreneur contributes to productivity in a variety of ways: developing new inventions that increase the production capacity of current systems and processes, for example, technology that automates or replaces the need for manual labour, creating innovations that solve previously unsolved problems.
- iii) **Investment and Consumption:** On both the business investment and the consumer spending side, the entrepreneur plays an obviously vital role. As employment increases, productivity gains create more resources that are expendable by consumers.

As consumer needs increase, business owners may invest more heavily in capital equipment to meet demand.

For entrepreneurs to have any impact, they must be given an environment that is conducive for entrepreneurship; government can either fuel entrepreneurs or stop them in their tracks. Government incentives are necessary to entice people into entrepreneurship, which in turn creates jobs, innovate to improve lives, and contribute to economic growth.

1.06 Ethical and Other Challenges

Entrepreneurial failure can be traced to lack of ethical practices and several challenges. The most common are discussed as follows:

i. Entry Barriers

A major obstacle to starting a business is delay in business registration procedures and the rigidity involved. It takes several days to meet the requirements with the corporate affairs commission, ministries of commerce, tax and other regulatory bodies' requirements before commencement of business.

ii. Access to Credit

New entrepreneurs have difficulty securing bank loans and government grants or finding risk capital. Large firms have more access to available credit than start-ups. Seed entrepreneurial firms hardly receive grants support from government.

iii. Risk and Reward

The risks associated with reward are not adequately offset by the prospect of reward. There is the tendency to flock to ventures with quick yield with often no new ideas of doing the same business.

iv. Sole proprietorship

Enterprises are often financed and owned by single individuals, even in limited liability companies, family member's make-up the shareholders. Under these circumstances, enterprises die with the owner and in most cases, there is no succession plan.

v. Geographical immobility of Entrepreneurs

Enterprises tend to find their location in the urban centres and in most cases the home State or neighbouring States are given prominence over other factors. Besides, the rural areas are unattractive to entrepreneurs because of lack of infrastructures.

vi. Poor Record-keeping

Poor record keeping, and non-maintenance of simple accounts books have resulted in mass business failures and eventual collapse. Where records are kept they are hardly used for decision-making and control; except the records are legally required to be maintained.

vii. Managerial Capacity and Skills of Entrepreneurs

Education and training are not geared towards fostering entrepreneurship among youths/owner-managers. Enterprises are run with high-level of inefficiency.

viii. Multiplicity of Taxes

Entrepreneurial initiative is being discouraged through impact of state and local taxes as exemplified by such charges for business permit, ground rent, signboard and special charges in respect of chosen area of business. These costs are enormous to bear.

ix. Mortality

One long-term measure of an entrepreneur's success is the fate of the venture after the founder's death. Firms tend to exit with the death of the entrepreneur. On the death of the founder, the lack of a skilled replacement for the founder can lead to business failure.

x. Misuse of funds

The failure to properly use the resources available could cause business failure. Entrepreneurs who are guilty of these usually make one of two mistakes: they apply resources to the wrong uses or they maintain inadequate control over resources.

xi. Poor planning and controls

Those who do not plan, plan to fail. Many entrepreneurs fail because they do not anticipate predictable problems such as cash flow shortages and the loss of key customers.

xii. Inadequate delegation

Entrepreneurs who often hesitate to delegate work to people within the business because of his desire for control fosters a climate in which Managers and workers depends on the entrepreneur's decisions. When these happen, opportunities are lost. The employees and the organisation fail to develop. Other entrepreneurial hazards to be aware of and to avoid include: wrong choice of product, product obscurity, poor market assessment, poor assessment of technology, enterprise location problems, unawareness of competition(s), poor cost estimates and product pricing, and wrong financial structure and under-capitalization.

1.07 Review Questions

1. Schedule a visit to a Small and Medium Scale enterprises to interact on the elements of entrepreneurship.
2. Survey the differences between entrepreneurial firms and traditional corporate organisations with a view to distinguishing their core characteristics.
3. Generate class discussion on entrepreneurial ethics and challenges.
4. Determine the impact of entrepreneurship on economic development.

MODULE 2

2.00

THE ENTREPRENEUR

2.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Deconstruct the entrepreneurial personality;
- ii. Construct the features of the successful entrepreneur;
- iii. Design the key characteristics of the entrepreneur;
- iv. Appraise the various definitions of the entrepreneur.

2.02 The Entrepreneurial Personality

The entrepreneurial personality is based on the psychological characteristics or entrepreneurial traits theory: This theory emphasizes on personality factors of an individual. One of the proponents of this school is Kirzner (1979) who believes that entrepreneurs have distinct values and attitudes towards work and life in general. Therefore, the behaviour of an individual is determined by his/her attitudes, values, beliefs and drives (Mainoma & Aruwa, 2008).

This indicates that certain values and needs are pre-condition for entrepreneurship. This also shows that people who have certain characteristics will have a superior disposition to perform entrepreneurial activities than people that do not possess such characteristics. As claimed by the proponents of this theory, entrepreneurship can be conceived as 'alertness' to profit opportunities. Kirzner (1979) argues that entrepreneurs do not own capital; they only need to be alert to profit opportunities. This is because they own no assets and therefore, bear no uncertainty. For the entrepreneur who sees profit is discovering the existence of gain, which had not been seen by himself or by anybody else. However, critiques of the psychological school have seized this as a defect in Kirzner's conception. According to this criticism, mere alertness to profit opportunity is not sufficient for entrepreneurship. Cunningham and Lischeron (2002) recognised three basic entrepreneurial personality traits namely:

- i. **Personal Value** - such as honesty, duty, responsibility and ethical behavior

- ii. **Risk-taking tendencies:** One school of thought suggests that the role of the entrepreneur is that of a risk-bearer in the face of uncertainty and imperfect information; that an entrepreneur will be willing to bear the risk of a new venture if he believes that there is a significant chance for profit. Risk bearing is the key factor in differentiating entrepreneurs from managers (mill, 1984). That the primary task of an entrepreneur involves risk measurement and risk-taking (Palmer, 1971). However, other authors disagree with these opinions, they are of the view that risk-taking is inherent in ownership and that entrepreneurs are not necessarily owners,

Notwithstanding that most Literature on entrepreneurship have included risk-bearing as a major characteristic of an entrepreneur, it can be said that risk-taking is the desire to take moderate risk (uninsurable risk) by entrepreneurs in situation where they have some degree of control. Although many theories of entrepreneurship agree that there is an inherent component of risk, the risk bearer theory alone cannot explain why some individuals become entrepreneurs while others do not. **The need for achievement** is a specific value broadly held by many individuals in certain cultures. Enterprising individuals have a strong desire for achievement which stimulates them into action. When they accomplish something they consider worthwhile, their self-esteem is enhanced, and they are encouraged to seek other demanding assignments. Thus, enterprising people are constantly on the lookout for challenges. However, the need for achievement, isolated from other factors may be a weak predictor of an individual tendency to start a business. An entrepreneur that must succeed must also possess some skills essential for the effective and efficient operations of the venture.

According to Henri Fayol; the father of administrative management, three skills are considered as very basic to the good management of any business. These are the skills an entrepreneur must possess to succeed. These skills are:

i. Technical Skills

This is a competence and proficiency in the knowledge of the business. It is the possession of specialized knowledge and understanding in methods, processes, procedures and techniques. This is most required to be able to effectively run the venture. This skill includes:

- i. Writing.
- ii. Oral communication/presentation
- iii. Organizing
- iv. Coaching
- v. Monitoring environment
- vi. Technical expertise
- vii. Technology.
- viii. Being a team player.

ii. Human Relations Skills

This is proficiency in human relations enabling the entrepreneur to work effectively, building teamwork among subordinates. This skill is very important, as it will enhance the entrepreneur's interactions with his employees, customers, clients, suppliers, competitors and regulatory authorities. It can also be referred to as **Interpersonal Skills** which covers such areas as:

- a. Listening.
- b. Ability to organise
- c. Network building
- d. Management style
- e. Coaching
- f. Being a team player
- g. Leadership style.

iii. **Administrative/Conceptual Skill**

This skill enables the entrepreneur to see the business organisation as an integral unit and perceive the inter-relatedness of the various functions and activities. It can also be referred to as **Business Management Skills** which includes those areas involved in starting, developing, and managing any enterprise, such as:

- a. Planning and goal setting
- b. Decision making
- c. Human relations.
- d. Marketing
- e. Finance.
- f. Accounting.
- g. Management
- h. Control.
- i. Negotiation.
- j. Venture launch.
- k. Managing growth.

iv. **Personal Entrepreneur Skills**

These are skills that differentiate an entrepreneur from a manager. Such skills included in this classification are:

- a. Inner control/disciplined
- b. Risk taking
- c. Innovative
- d. Change oriented
- e. Persistence
- f. Visionary leader
- g. Ability to manage change

2.03. The Successful Entrepreneur

Successful entrepreneurs seem to recognise that there are certain factors which make it possible for some to become entrepreneurs, while others are not. Often, these factors are embedded in the individual's character; innate qualities that contribute to that vital confidence needed to step out. Some of these characteristics of a successful entrepreneur include:

i) Hard Work

Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one. The entrepreneur with his tedious, sweat-filled hours and perseverance, review business even on the verge of failure. Briefly, most of the successful entrepreneurs work hard endlessly, especially in the beginning and the same becomes their whole-life.

ii) Desire for High Achievement

The entrepreneurs have strong desire to achieve high business empires. This high achievement motive strengthens them to surmount the obstacles, suppress anxieties, repair misfortunes and devise expedients actions to set up and run a successful business.

iii) Highly Optimistic

The successful entrepreneur is not disturbed by the present problems faced by him/her. They are optimistic for the future that the situations will become favorable to business in future. Thus, they can run their enterprises successfully in future.

iv) Independence

One of the common characteristics of the successful entrepreneur has been that he/she does not like to be guided by others and to follow their routine. They resist being pigeonholed. They liked to be independent in the matters of their business,

v) Foresight

The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumers attitude, technological developments, and so on and take timely actions accordingly.

vi) Good organiser

Different resources required for production are divorced from each other. It is the ability of the entrepreneur that brings together all resources required for starting up an enterprise and produce goods and services.

vii) Initiative

He is ingenious, resourceful and alert to opportunities.

viii) Attitude

He/She must have a positive outlook toward people, showing a friendly interest in a pleasant and polite manner.

ix) Responsibility

He/She is willing and capable of assuming complete responsibility for the operation and success of his enterprise.

x) Leadership

He/She should not only be acceptable but also be able to inspire confidence and loyalty among his employees and business associates.

xi) Organizing Ability

He/She must be capable of perceiving and arranging fundamental issues in a logical order.

xii) Decisiveness

He/She must be able to react quickly and accurately when decisions are required.

xiii) Perseverance

He/She must remain steadfast in working towards his goal and not be easily discouraged by obstacles.

xiv) Physical Energy

He/She must be well above average in terms of maintaining a high level of energy.

xv) Industriousness

He/She must be capable of working hard for the long hours required in an independent business.

For the entrepreneur to be successful, Fasua (2006) enumerated the following factors below that will determine the success or otherwise, of the entrepreneur:

- i. A good knowledge of the business venture and the environment.
- ii. It is expected that the entrepreneur has a reliable and robust business plan on which a reliable research has been done.
- iii. Possession of relevant managerial skills. This is because, in developing countries, the reason for failure of most business is not inadequate funding, but lack of perfect managerial skills.
- iv. Good human relations and attitude to customers.
- v. Ability to effectively market Products.
- vi. Cordial relationship with employees and subordinates. This is needed for adequate and proper planning, control, organizing, staffing, motivation, effective communication and public relation.
- vii. Availability of raw material inputs and qualified manpower.
- viii. Ability for the identification of sources of funds. Some may have to get funding from friends and other unreliable sources. The fund to continue with the business (expand) is also needed. Therefore, the knowledge of where to get funds is essential for growth and expansion.
- ix. Availability of infrastructures. For companies engaged in manufacturing, there should be solid power supply, water supply and other social amenities that would enhance productivity.
- x. Availability of spare parts at fair prices and after-sales services. Machines must be serviced after some time. This is because, if they are not serviced, no production, resulting to no sales, and hence, no reward for the risk taken. For any machine, spare parts must be available at a relatively cheaper and affordable price.
- xi. Good location of the business and nearness to market is a salient factor. The marketing system should consider the accessibility of customers to the products.

- xii. Compliance with legal requirement, for example: paying of taxes and obeying other legal issues, in order not to allow the risk to be a waste.
- xiii. Good leadership. Leaders are essential while managers are necessary.
- xiv. Ability to turn threats into opportunities. Identify your weakness and build on them to be successful. You should be able to convert your threats into opportunities.

2.04 Definitions and Characteristics of The Entrepreneur

Definitions of the Entrepreneur

The term entrepreneur gets its origin from French words; “entre” meaning between and “Prendeur”, being the verb ‘to undertake’ (Suleiman, 2010). Therefore, the literal meaning of the word entrepreneur is someone who undertakes the risk in the economy between supplier and customer. The French people frequently use the word to mean ‘Go between’ or to mediate.

The first usage of the term in an economic context is attributed to Richard Cantillon, an Irish man, who lived in France. In his essay on the ‘Nature of Commerce’, Cantillon (1931) identified and associated the “risk bearing” function in an economy with the entrepreneur. He curved the concept ‘entrepreneur’ and postulates that the entrepreneur is the agent who buys products at some “certain” prices with a view to selling them at “uncertain” prices in the future.

Cantillon (1931) defines an entrepreneur as any individual who operates under condition where expenditures are known and certain, but incomes are unknown and uncertain. The uncertainty of income arises because future market demand is not perfectly predictable. Income in this context refers to sales revenue. Cantillon therefore, defined the entrepreneur by a unique constructive function, which is the bearing of non-insurable risks. Shortly thereafter, the French economist Jean-Baptiste Say (1800), added to Cantillon definition by including the idea that an entrepreneur shifts economic

resources out of an area of lower and into an area of higher productivity and greater yield. He describes the entrepreneurial function in the effective combination of factors of production and the provision of continuing management as well as risk bearing.

Many economists believe that an entrepreneur is by itself the fourth factor of production. By creatively organizing, entrepreneurs create new commodities and improve “the plan of producing an old commodity” (Marshall, 1994). Schumpeter (1955) views an entrepreneur as the coordinator of production and agent of change (creative disruption). As such, the entrepreneur is an innovator, the person who develops a new product, a new market, or a new means of production. Kirzner (1979) describes the entrepreneur not primarily as someone who initiates change, but who facilitates adjustment to change by spotting opportunities (alertness) for profitable arbitrage. Drucker (1985) on his part defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity.

Meredith, Nelson, and Neck (1991) define entrepreneurs as people who can see and evaluate business opportunities, gather necessary resources to take advantage of them and initiate appropriate actions to ensure success. Parker (2004) defines an entrepreneur as an individual with the ability to realize a specific vision from virtually anything, a definite human creative action. The fundamental skill, to “create,” therefore generating an idea and transforming into a viable growth - oriented business forms an unconditional and integrated attribute of entrepreneurship. In the United States for instance the entrepreneur is often defined as one who starts his own new and small business (Sulaiman, 2010). It should be noted however, that not every new small business is entrepreneurial or represents entrepreneurship. To be entrepreneurial the new venture must create a new satisfaction or new consumer demand (i.e. constituting value to consumer). Given the extent of literature in the subject area therefore, the question of who an entrepreneur is, has been shown to be particularly controversial.

From these descriptions therefore, an entrepreneur is any individual who can innovate, identify or perceive economic opportunities, assume all risks and create organisation to pursue them to generate profits for his personal gratification. From this definition, the entrepreneur is seen as an independent, self-sufficient and motivated individual who is willing to risk his/her idea to venture into personal business as the owner for profit motive. Thus, an entrepreneur is anyone who assumes the responsibility and the risk for a business operation with the expectation of producing benefits for oneself and for others.

Characteristics of the Entrepreneur

For someone to be known as an entrepreneur, he/she should possess the features below

- i. ***Seek out new opportunities*** - being always alert and always looking for chance to profit from change and disruption in the business environment.
- ii. ***Pursue opportunities with enormous discipline*** - act on the opportunities and make investments only if the competitive arena is attractive and the opportunity is ripe.
- iii. ***Pursue only the best opportunities*** - limiting the number of projects to pursue to avoid exhausting themselves and their organisations by chasing after every option.
- iv. ***Focus on execution*** - specifically adaptive execution. They get on with it rather than analyzing new ideas to death.
- v. ***Engage the energies of everyone in ones' domain*** - involving many people both inside and outside the organisation. They create and sustain network of relationships rather than doing it alone Sulairnan (2010)
- vi. **Having mindset of the means, ability and the desire for vision realization.** The means refers to access to resources especially capital, while the ability refers to having the physical and mental capacity to organise the available resources in

ways required to succeed. The desire refers to having the mindset to invest in those ideas that will produce desired results.

Furthermore, Fasua (2006) posited that the characteristics of the Entrepreneur can also be classified as follows:

Psychological Characteristics

1. He/She has a high need for achievement and success. He wants to succeed, never wants to be at the same level or with others.
2. He/She possesses strong desire for responsibility and independence. But, will never look for whom to blame, but himself or herself. He wants to get to his office at his own time and closes at his own time. He takes or assumes responsibility for all that he does.
3. Has a high degree of self-confidence. Without confidence, you cannot organise and control.
4. He/She does not like routine work; doing the same job every day. Such people do not resist the use of computer because it takes away jobs that are repetitive in nature.
5. He/She can tolerate failure. He/She is a risk taker. Doing a thing never done goes with associated risks that even if failure comes, are tolerated. He/She does not see failure at the end of the tunnel but sees failure as stepping-stones. He/She sees failure as a try.
6. Has internal locus of control. Has effective control of him or her and the environment. He is never shaken by anything that happens around him.

Sociological characteristics

1. They are goal oriented. They set a goal and work towards it.
2. They have capacity to adapt to changing conditions.
3. They have ability to organise men and other resources to achieve their goals.

4. They should know how to lead the people so that they do not run the business anyhow. The people should be motivated.

Economic characteristics

1. They are profit-oriented. The entrepreneur accepts profit as legitimate reward for enterprise as against salary.
2. They have risk-taking ability.
3. They can innovate and speculate.

From the foregoing, it can be summarized that an entrepreneur is characterized by being:

- i. An innovator/ creator or inventor
- ii. A risk taker
- iii. A resource coordinator
- iv. Imaginative
- v. A profit seeker as against salary
- vi. An employer of labour
- vii. Alert to opportunities
- viii. An owner manager
- ix. Resourceful

2.05 Review Questions

1. Differentiate between a Businessman and an Entrepreneur.
2. Survey the entrepreneurial characteristics of entrepreneurs within the communities.
3. Determine the significance of entrepreneurial characteristics to self-development.

MODULE 3

3.00 PLANNING THE NEW VENTURE

3.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Appraise the nature and content of business plans;
- ii. Evaluate the importance of Planning;
- iii. Design a Business Plan and a Financial Plan;
- iv. Analyse the legal considerations of an entrepreneurial business.

3.02 Nature and Content of Business Plans

Individuals and organisations plan to accomplish their business set objectives. The extent of your plan determines your level of performance. Setting the right goals and choosing the right means for meeting these goals help the business to avoid waste of resources. Business plan serves as a road map or blue print for action, and a strategy for realization of future operations of the business. A business plan provides a complete description of a business, steps and measures for success of business operations. It is a guide that explains its product or services, marketing and sales strategies, the management team, operations and predictions of financial forecasts. Business plan involves a check-list of items to be pursued and serves as a direction guide incorporating the goals of the business.

Several authors described business plan as foundation for business success, and a road map or blue print for action and a strategy for avoiding waste of resources. A business plan can be classified according to period, range, function and scope. In practice, it is difficult for anyone to separate plans even for purposes of analysis into some of these ways because the category into which they belong may depend on the type of business.

Business plan can be classified into:

1. **Corporate Plan:** A plan that covers the whole organisation and every functional aspect of the enterprise. Issues such as environmental assessment, corporate objectives and strategies of accomplishing the objectives such as profitability, returns on funds invested and avoiding business failure are discussed in a corporate plan.

2. **Strategic plan:** which entails seeking out a combination of resources by taking into consideration both internal and external opportunities as well as constraints to get best possible advantage over competitors. Issues considered specifically under the strategic plan include:
 - a. Improving market position
 - b. Improving capital base
 - c. Diversification of business activities
 - d. Increasing the rate of profit earnings

3. **Tactical plan:** which involves ascertaining the most efficient way of utilizing resources to achieve business goals. Tactical plan is normally a short-term plan.

Further classification of business plan:

- a. Short term plan ranges from one day to one year. It is usually described as an annual plan and considers issues such as revenue targets, cost reduction, market share and competition and manpower development.

- b. Medium term plan is the plan that runs from one year to five years. It helps an enterprise to speculate the desired position it intends to achieve in the future such as:
 - i. Maintaining the current position or level of operations.
 - ii. Business growth and expansion.
 - iii. Business continuity or extinction.

- c. Long term plan ranges from five years to infinitum and is often capital intensive.

A business plan serves as a working document and essential management tool as it sets out how the business will proceed and the strategies to be employed. A business plan is a step by step guide that is essential in ensuring that the business attain success in its operations. This plan can be classified into corporate plan which covers every functional aspect of the enterprise, strategic plan which deals with combination of resources to exploit internal and external opportunities; tactical plan which has to do with efficient way of utilization of resources to achieve goals of the enterprise. Also, the business plan can be described as short term, medium and long-term periods.

3.03 The Need to Plan

It is common for every business to plan. Confidence of any firm in meeting its objectives is assured by a plan by management. A business plan is therefore crucial for both those intending to begin a new venture or establish enterprise wanting to expand its operation or pursue a new endeavour. A plan guides a business on what it will do, what aim to achieve, how it will accomplish it; for a new business, it is a way to formalize, structure, and assess the validity return of the entrepreneur.

This section covers the following:

- i. Why a plan is important to a firm.
- ii. How a business plan relates to its successes?
- iii. How to utilize available resources efficiently and more profitably.
- iv. Entrepreneur's managerial capability in terms of human resources and capacity needs is easily determined through his plan.

Business plan is essential for several reasons:

1. Efficient Utilization of Resources

Resources are scarce, and to ensure efficiency in using them, business plan. Waste of materials and human capacities are avoided or controlled.

2. Market Analysis

Business plans are designed for businesses to know who their customers are, market target, probable market share and how to capture the market to meet sales projection. How the business will maintain and improve on its market or product image consistently. How will the customers discover about your product, its features and benefits?

3. Assessment of Competition

Your plan helps you to determine who are competing with your business. What competitive advantage do you have over them, and vice versa? Analyze each competitor, showing his strengths and weaknesses. Also, indicate alternatives to your product. Note, if there is another means customers can satisfy their needs without your type of product. How to stop your potential competitors from entering your market with similar products?

4. Control of Unforeseen Events

Events of the future and change that is inevitable in any human endeavour make a plan to be a necessity. Consideration of uncertainties arising from events results to decisions that make them certain, and even when the future is highly certain, some plans are usually necessary to accomplish an objective.

5. Focus on the Objectives

Business plans are usually directed toward achieving objectives. There are always interactions among various segments of an enterprise to consider the future of the business, and the need to revise and extend plans to achieve the objectives of the enterprise.

6. Control of Costs and Operation Gain

Planning minimizes costs of operation and ensures cost control. Efficiency and consistency are assured in business for easy decision making. There is no way to control without using plans as standards.

7. Measure of Performance

Planning entails a step by step guide towards performance. A plan acts as a blue print or a road map for business performance. Plan acts as standard to review performance.

8. Mutual Understanding within the Management Team

Mutual understanding among members of the management team is promoted when there is a recommended policy document outlining areas of activities.

9. Determination of Financial Needs and Application of Funds

Using a plan, a business can determine the amount, type and sources of financing of its operations and when it is required. Application of such funds is possible through a plan.

10. Overall View of Business

By preparing a plan, you get an integrated view of all the issues of your business. Such as identifying the clients of your venture, price strategy and defining the competitive condition under which you must operate to succeed.

Finally, the business plan process often leads to the discovery of a competitive advantage or new opportunities as well as deficiencies in the plan.

Plan as a road map towards business success helps it to measure performance, determination of financial requirements and cost control. It is a check-list of items depicting a goal setting activity and a device for monitoring compliance.

3.04 The Planning Process

Planning is a rational process for selecting future course of action aimed at achieving desired objectives. As a systematic, comprehensive and analytical process, it shows the depth and the sequence of how and what a business owner wants to adopt in dealing with issues concerning his business. Planning is an important ingredient for success of any business operation, and it is a continuous process. The process of planning often involves the setting of objectives and ways and means of achieving such objectives. These consider issues like policy formulation, rules and regulations, methods and procedures, etc.

The planning process is useful in several respects.

- i. Planning process allows an entrepreneur to evaluate a business idea in a time-tested and systematic process.
- ii. Planning is a process that enables a business owner to assess all potential eventualities and competitive scenarios so that the business can succeed.
- iii. It gives help and confidence to lenders in evaluating if their investments will be returned and with the expected level of returns.
- iv. As a rational process, determining a business set of objectives is effectively and economically done within a specified period.

A planning process can be described as a rationalistic and decision-making approach which involves the following elements:

- a. Resource Analysis
- b. Analyzing the operating environment
- c. Objective setting and strategy
- d. Opportunity and threat identification
- e. Analyzing competitors
- f. Measuring and controlling progress

a. Resource Analysis

In resource analysis, we identify the business strengths and weaknesses, and this includes cash flow projection, profit prospects, business health in terms of assets and liabilities, and funding requirements.

b. Analyzing the Operating Environment

We evaluate the external conditions and trends such as technological changes, government regulations and social trends. Effect of environmental factors on the survival of the business is usually considered. Appropriate measures and tactics to achieve the desired objectives economically are adopted. Is the environment fertile or not?

c. Objective Setting and Strategy

Plans are made to achieve certain objectives, set over a specified period. The objective may be to earn profit for its growth and development, to provide quality goods to its customers, to protect the environment and other objectives which are desired to be accomplished for the interest of the society such as contribution to the general welfare of the society and provision of welfare amenities. Areas such as sales volume, growth of earnings, return on investments and market share are usually considered in setting objectives of a business.

d. Opportunity and Threat Identification

A plan considers what and how opportunities and threats can be identified. What risk and benefits are derivable in the business? Issues that are usually raised concerning opportunity and threat identification include:

- i. Should a new product be introduced to meet up with demands?
- ii. What resources are available if a new product or service should be introduced?
- iii. How does the market for this be accessed?
- iv. Who else is in this market?
- v. What products or services are they supplying?

Opportunity identification is very necessary in considering which environment is fertile or not. Useful data are essential concerning decision on opportunity and threat identification.

e. Analyzing the competition and the market

If there are no competitions in business, there would be no market. Many market players know that competition exists and makes business an interesting one. So, businesses seek to gain shares in the market for their products. Planning to outwit one another evolve careful plan containing a thorough analysis of who your competitors are, their strengths and weaknesses, market share, relationship with customers, pricing, their product features, etc. Also, the analysis will consider the porter's five forces model to illustrate your industry structure, external forces and ability to be profitable such as:

- i. The bargaining power of buyers
- ii. The bargaining power of suppliers
- iii. Threats of new entrants to the market
- iv. The threat of substitute products
- v. The intensity of competitive rivalry

The market size and structure; its geographical spread and growth potential are considered.

f. Measuring and Controlling the Progress

Planning is a guide and it serves as established standard to judge progress in the business. A successful business carefully plans his goals and adopts the correct approaches to ensure that things work well to achieve those goals. These approaches are the component which constitutes what we regard as planning processes.

3.05 The Financial Plan

A business plan serves to raise money. The financial plan is a necessary part of a business plan. With it you develop an estimate of profit potential and how to manage your finances in order to achieve a desired future objective in your finances. Current financial status and forecasts of future financial requirements are considered. Achieving financial independence and financial freedom are also covered in the financial plan. A business financial plan is always and closely examined by potential competitors, existing competitors, investors, lenders, etc. Thus, the type and amount of financing planned, and its repayment terms as well as return on investment are projected.

This section addresses the following:

- i. What a financial plan really represents.
- ii. The need and reasons for financial planning.
- iii. The financial planning habits that can guarantee success.
- iv. Various sources of finance available to a business.
- v. Procedure for financing an enterprise.
- vi. How to use the knowledge to prepare for effective management of their resources.

Finance plays a central role in the management of any business. Every business action has a financial effect or implication on the enterprise. Therefore, financial plan helps the enterprise to control its financial future and management.

This involves:

1. Meeting financial goals and obligations.
2. Making rational financial decisions.
3. Taking advantages of financial opportunities.
4. Minimizing the impact of financial threats.
5. Become more cost effective.
6. Achieve financial independence and financial freedom i.e. disciplined spending and wise investment.

Comprehensive financial plan assures financial security and help the business to develop a life time strategy for increasing their net worth and creating wealth.

Sources of Fund for a Business

The sources of funds can be grouped into two: Internal and External Sources.

The internal sources are those available to the business within its control and advantage. Funds from these sources are from internally generated revenues of the business or from the owner himself.

The external sources are sources from outside the business.

Also, these sources of funds can be classified into short-term, medium term and long-term financing sources.

Short term finances are those repayable within 12 months or one-year period.

Medium term finances are offered for a period over one year up to five years. This period can also be extended more than 5 years depending on the agreement between the lender and the borrower.

Long-term finances generally have no terminal date and can last if the business is in existence.

Other sources of finance are:

1. Personal savings accumulated from personal earnings.
2. Borrowings from individuals and financial institutions.
3. Hire purchase financing where an arrangement for an equipment or asset can be used without the outright payment of its cost.
4. Lease financing agreement that allows a person to use an asset for a period in return for stated regular payments.
5. Trade credit which is created when a manufacturer, wholesaler or retailer buys materials, equipment, supplies from a person with the implied obligation to pay the invoice later. It is also regarded as supplier credit.
6. Government aid, where a business can raise fund through government established agencies, mandated to fund and encourage the growth and development of business.
7. Re-investment of part of profit of the business.

Procedure for financing a Business

1. Determining the immediate and future financing need.
2. Designating the sources of funds.
3. Selecting the sources that appeal to you.
4. Raising the fund through application to potential lenders.

Determining the Immediate and Future Financing Needs

The financial requirement for any business is always complex and requires a thorough analysis that will promote the business. It is important that your business borrows just the right amount of money to meet its needs. Borrowing too much will result in paying unnecessary charges. Too much loan may also cause you to be careless about controlling expenses. This makes the business to be less efficient and larger debt to be paid in the future. Too little amount may lead to inability to meet operating expenses. Therefore, the analysis of the financial requirements

should be calculated item by item, considering all the probable financial obligations such as amount for fixed capital, working capital and costs of organizing and promoting the business.

Designating the Sources of Funds

Projected sources of revenues should be compiled to enable a decision on which of the sources offers a better benefit be chosen. These sources could be classified as internal and external sources. Also, it can be short-term, medium term or long term.

Selecting the Sources that Appeal to You

Selecting from the sources requires a thorough evaluation of the potential sources of funds in terms of the following criteria: -

- i. Costs of obtaining funds.
- ii. Terms of repayment of the principal and interest payments.
- iii. Restrictions involved especially on future borrowings.
- iv. Risk involved in terms of higher charges in the future.
- v. Other considerations affecting the control and management of the business.

Raising the Fund through Application to Lenders

This is done when the intended borrower is satisfied with all the conditions the potential lender may pose for the loan to be granted.

Financing Agencies available in Nigeria

1. Small and Medium Scale Enterprise Development Agency of Nigeria (SMEDAN).
2. Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB).
3. National Directorate of Employment.
4. Small and Medium Enterprises Equity Investment Scheme.
5. Federal Mortgage Bank of Nigeria.
6. Microfinance Banks.
7. Bank of Industry (BOI).

8. Agricultural Credit Guarantee Scheme.
9. Nigerian Industrial Development Bank (NIDB).

The financial plan involves probable means of determining financial requirement and obligations of a business. Detailed financial analysis of raising funds to finance the business. This is the core of overall business plan projecting expenses and capitalization, cash flows-projections and break-even analysis.

3.06 Legal Considerations

Every business operates within legal bounds which dictate the rights and limitations of its operations. The companies are expected to comply with basic rudimentary information on what is required in law thereby avoiding being exposed to risk of unnecessary litigations. Therefore, it is important to note that certain essential factors, such as legal issues, should be considered before a business starts to operate.

This section will assist to know:

1. Forms of business enterprises in Nigeria.
2. The requirements of each type of business.
3. The operations of these businesses.

Forms of Business Enterprise

There are many ways by which a business can be established. This can be in form of sole proprietorship, partnership and companies (corporations).

a. Sole Proprietorship

This is usually an enterprise owned and run by one person. This is the dominant form of business in Nigeria. The reason is that it is very simple to register and sometimes, formal registration may not be necessary, especially where the person promoting the business intends to use his surname or forenames in carrying on the business. Many entrepreneurs in Nigeria do not want to combine with another person to run a business. The sheer quest for status,

independence, and lack of honesty and trust are responsible for lack of interest for a joint venture.

Advantages

1. He is the boss and his status gives him freedom to run the business the way he wants.
2. He is the one to decide in a matter concerning the operations of the business, such issues like hiring and firing staff/employees, expansion or contraction of the business, add or change the line of business without consulting anyone.
3. The business is easy to form, and the profits accruing there- from belong to the person alone.

Disadvantages

1. The liabilities of this form of business are unlimited. The person assumes all his liabilities. He is legally responsible for all his debts, legal suits, claims against the business and any damage or losses arising from the business activities either because of natural disaster or as a result of his personal performance.
2. His financial liability is not limited to the amount of his investment in the business but extends to his total ability to make payments.
3. Also, the rate of tax to be paid on earned income is higher than that required to be paid by a limited liability company.
4. His capital is limited to his capacity to raise money for his business.
5. The life span of the business depends on the life of the owner. The existence of the business depends on the goodwill of the owner to sustain it, and in most cases, any unfortunate events that befell on the owner may bring the business to an end.

b. Partnership

A partnership usually consists of more than two people but not more than twenty persons. This form of business is not a legal entity because it is not incorporated. Rather, it is made up of various individuals who collectively transact business in the understanding of sharing profits and losses equally. As a business of people with complementary skills and assets, joining their

resources together for their collective economic benefit, partnership firms register their businesses with the Corporate Affairs Commission, especially when the business name is different from the partners' names. A partnership operates with a written agreement called partnership agreement.

Advantages

1. Partners ability to raise capital can be enhanced more than that of the sole proprietor.
2. Pooling together of skills and talents of the partners assures the business of the possibility of success in its endeavours.
3. Each partner is liable for the debts of the firm, thereby spreading the liabilities of the business among themselves.

Disadvantages

1. The life of the business is limited, and the death and resignation of a partner, brings the partnership business to an end.
2. Disagreement among the partners may destroy the entire business, thereby ending the partnership.

c. Companies

This is a different form of business from partnership. Here, the registration is in the form of incorporation. If the entrepreneur meets all the requirements, including submission of a Memorandum of Association and an Article of Association, the company will be incorporated. The possession of Certificate of Incorporation gives the company the status of a legal person. The company can sue or be sued in law, own property in its name and raise funds for its operations through the issuance of shares. There are two main types of companies: Public and private companies. A public company must consist of more than 50 (fifty) persons, whereas in the private company, membership does not exceed 50 persons. Both companies can also be classified according to their modes of operation such as:

- i. Company limited by shares.
- ii. Company limited by guarantee.

iii. Unlimited company.

The minimum authorized share capital of a private company is ₦10,000 whereas a public company is ₦500,000.

3.07 Review Questions

1. Deconstruct the process for the preparation of a Business Plan and discuss the various components of the Plan.
2. Determine the impact of a Business Plan on the success of a firm.
3. Describe the difference between plan and planning
4. Critically review the relationship between: (a) Plan and Planning; (b) Business Plan and Cost Control.
5. Discuss the ways a Plan could aid a firm understand a full view of its activities.
6. Discuss the determinants and sources of fund available to a business
7. Relate the Business Plan and Planning Process with the following: (a) Competitors; (b) Market Threats; (c) Management Efficiency.

MODULE 4

4.00 ANALYZING ENTREPRENEURIAL OPPORTUNITIES

4.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Determine and appraise the sources of business opportunities;
- ii. Disaggregate the potential entrepreneurial opportunities;
- iii. Construct the steps of entrepreneurial decision making;
- iii. Examine International entrepreneurship opportunities.

4.02 Sources of Opportunity

The goal of this module is to examine the sources of entrepreneurial opportunities from the perspective of individual and environmental factors. Since opportunities define how the entrepreneur behaves and what kinds of entrepreneurship are manifested, entrepreneurial opportunity discovery and exploitation are two integral parts of the entrepreneurial process.

Shane (2003) states that the entrepreneurial process entails: the existence, discovery, exploitation of an opportunity, then the acquisition of resources, the development of an entrepreneurial strategy, and the organizing process. Furthermore, Schumpeter, an Austrian economist in defining entrepreneurship placed emphasis on innovation and wealth creation such as:

1. Introducing new products;
2. New production methods and exploring new markets;
3. New forms of organisation.

Wealth is created when such innovations result in new demands. From this point of view, one can define the function of the entrepreneur as one of combining various input factors in an innovative manner to generate value for 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.

Other sources of entrepreneurial opportunities include: Resource availability, changes in market structure, changes in government policy, changes in demography, new technology, etc.

4.03 Steps of Entrepreneurial Decision Making

There is no certain guideline for being an entrepreneur. It cannot be learnt in school, college or in university. Moreover, entrepreneurs are likely to come from families in which parents set high standard for their children's performance, encourage habits of self reliance and avoid being harsh. To become successful in the field of business or entrepreneurship is not an easy task. However, some steps can be followed to find out the appropriate business factors, which increase the chance of being a successful entrepreneur. The steps are discussed as follows:

1. Personal Determination

Here, you determine whether you have the person traits you need to succeed in business. Owning a business provides entrepreneurs the independence and the opportunities to achieve what is important to them, given the opportunity to use full potential, and contribute to society. Again, on the other side, this choice has uncertainty in income and future, high risk, high level of stress, low quality of life at the beginning.

2. Selecting Business

The second step is selecting the business that the person wants to enter. Choosing the business depends on personal attitude, for instance- some people choose to be entrepreneur because they want to be their own boss, others choose for making money, whereas some others choose for creating something new, others choose for proving themselves, and others choose because they are dissatisfied with their job.

It is better to select more than one or two businesses, because it will enhance the possibility of entering the business. The best way to choose the business is to determine what type of business interests you most. If you are interested in the business your chances of success are higher, you will learn quickly and can run the business to customers' satisfaction.

3. Analyzing the Viability of Selected Business

Another important part is analyzing the viability or feasibility of the selected options in various aspects. The first part is the social acceptance of the selected business. The success of the business, especially small business, vastly depends on the social acceptance of such business. Another deciding factors are demographic trends or the age, race, ethnicity and location of the target customers. This trend is important because the basis for any market is people; Technology, the application of science and engineering and knowledge to solve production and organisational problems, is another deciding factor. Other deciding factors are economic system and laws and regulations, etc. The last and the most important factor to be considered is financial aspect. Money required to start the business selected should be determined exclusively.

4. Planning

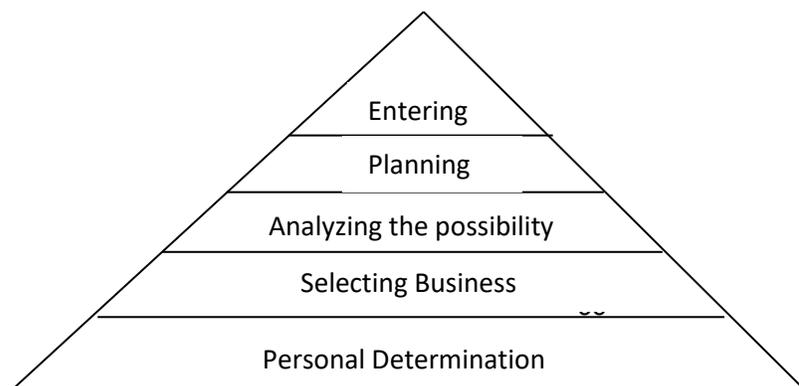
The most important step in the entrepreneurial decision making is planning. The work of planning is basically mental. It requires logical thinking. A proper planning will reduce the stress and hazardous of managing a new business and act as a proper guideline for the future operation. This planning process is quite different from the planning of management process. This planning includes planning about operation, marketing, management financing.

5. Entering the Business

The last step is entering or starting the business. This step includes another decision-making process, because there are three ways for entering the business. They are:

- i. Starting a new business
- ii. Buying an existing business
- iii. Doing business under other (organisation)

The above processes are presented in the following diagram:



4.04 Self Employment

Self employment is working for oneself rather than for another person or company. To be self employed, an individual is normally highly skilled in a trade or has a niche product or service for his or her local community. A self-employed person can work as an independent contractor, a freelancer or owner operator. Self-employment offers individuals a complete freedom to work without supervision. He can even work from home in this era of technology and medical doctors, an engineer operating a mechanic workshop, a dry-cleaning outfit, a travel agency, a contractor who his own construction outfit, etc.

Advantages of Self Employment

- a. Freedom to work without supervision. When you are your own boss, you are completely at liberty to operate as you wish. You are not accountable to anybody.
- b. Self employment offers opportunities for using ones' own talent for ones' benefit. You can use your ability and time in the most profitable manner through self employment.
- c. Working from home: As a self-employed person, you can work from any location particularly with telephone and computers making communication very easy. Young mothers can work from their homes taking care of their young children.
- d. Additional income for retirees. Self employment helps retirees to find something new to do that can earn them additional income and keep them busy.
- e. A self-employed individual owns all the profit of the organisation.

Disadvantages of Self Employment

- a. Uncertainty level of income: The income level of a self-employed person is dependent on his ability to convert his effort to profit. His income is dependent on how much he can earn.
- b. Long working hours: For the self-employed to succeed, often, he must work long hours since his income depends mainly on his effort.
- c. Financial responsibility: A Self-employed person is wholly responsible for all the finance of his lifestyle and that of the organisation. For instance, he must be able to raise funds

needed to run the organisation. Also, retirement plans, insurance coverage including health and life are fully paid for by the self employed individual.

- d. Isolation: Isolation often proves to be an important source of strain for the self employed individual. The environment of the typical self-employed individual is quite different from the corporate environment where professionals gain experience. For instance, a medical doctor in a teaching/general hospital when confronted with an unusual and complicated medical case would have his colleagues to rob minds with or refer to a specialist, but a self-employed doctor in his private clinic would not have anybody to discuss with but might choose to keep the patient on trial and error basis.

Wage Employment

In wage employment, an individual works in government or non-government organisations on a fixed wage or salary. A person in wage employment is an employee which means he is answerable to his boss. He is paid a wage periodically e.g. weekly, forth nightly or monthly depending on the employment contract. He is paid pre-agreed wage and might be entitled to some allowance e.g. overtime, leave, medical care, etc., depending on the employer. In wage employment, the employee is given a job schedule which is usually his daily routine.

Difference Between Wage Employment and Self Employment

Wage employment and self-employment are two career options available to potential employable people in any community. Their basic differences are shown below:

- i. A wage earner is an employee while a self-employed person is an owner of the business.
- ii. As an employee, a wage earner is paid a fixed wage or pre-agreed wage. But the self-employed person is the owner of all profit earned by the business.
- iii. A self-employed person works long hours to ensure that the job is brought to a conclusive end since his income will be dependent on work done. Wages earners are paid as periodically agreed whether the job is completed or not, so he can afford to work only the hours he is paid for.

4.05 Identifying Opportunities

The processes of identifying and selecting the right opportunities for new businesses are among the most important abilities of a successful entrepreneur. This module builds on existing theoretical and empirical studies in entrepreneurial opportunity identification and development. Theory building framework proposes a theory of the opportunity identification process. It identifies entrepreneur's personality traits, social networks, and prior knowledge as antecedents of entrepreneurial alertness to business opportunities. Entrepreneurial alertness, in its turn, is a necessary condition for the success of the opportunity identification triad: recognition, development, and evaluation.

Dubin (1978) provides a comprehensive method for theory building that is particularly relevant for applied fields such as management, marketing, and organisation theory. Dubin's five phases of theory are units (i.e. concepts) of the theory, laws of interaction (among concepts), boundaries of the theory (the boundaries within which the theory is expected to apply, system states of the theory (conditions under which the theory is operative, and propositions of the theory (logical deductions about the theory in operation, among others. This module will describe the above mentioned Dubin's theory of opportunity identification as follows:

Units of the theory

The units of the theory are the concepts, the building blocks, from which the theory is constructed. The units of the theory include- opportunity development, opportunity recognition, and opportunity evaluation. These concepts correspond to the principal activities that take place before a business is formed or restructured. While division into these three processes may facilitate explanation and analysis, in practice these three processes often overlap and interact with each other. For example, some development activity may occur before an opportunity is perceived (recognised) by others not involved in the initial development, though logically we would expect recognition to precede development. Opportunities may also be evaluated several times during the development process.

Units of the theory: the development process

1. **Opportunity:** In broad terms, an opportunity may be the chance to meet a market need (or interest or want) through a creative combination of resources to deliver superior value. But “opportunities” describe a range of phenomena that begin unformed and become more developed through time.

In its most developmental form, what may later be called an “opportunity” may appear as an “imprecisely-defined market need, or underemployed resources or capabilities”. The latter may include basic technologies, inventions for which no market has been defined, or ideas for products and services. Prospective customers may or may not be able to articulate their needs, interests, or problems. Even if prospective customers cannot do so, they may still be able to recognise the value to them in something new when they are presented with it and have its operation and benefits explained. Opportunities seen from the perspective of prospective customers represent value sought.

Underutilized or unemployed resources, as well as new capabilities or technologies may offer possibilities to create and deliver new value for prospective customers, even though the precise forms that new value will take may be undefined. For example, the technology to make a material combining properties of both metal and glass may be developed before there are known applications; new medical compounds may be created without knowledge of the conditions for which the applications might be efficacious. Opportunities arising from underutilized or unemployed resources, from technology or other types of proprietary knowledge or abilities, may be labeled “value creation capability”. As the market need becomes more precisely defined in terms of benefits and value sought by users, and resources become more precisely defined in terms of potential uses, the “opportunity” progresses from its elemental form and a ‘business concept’ begins to emerge.

This concept contains the core notions of how the market need might be served or resources deployed. As this business concept develops, it becomes more complex, including product/service concept (what is to be offered), market concept (to whom it will be delivered), supply chain/marketing/operations concept (how the product/service will be delivered to the market).

As this more precise and differentiated business concept matures, it grows into a business model, which juxtaposes market needs and resources. If the concept originated as a market need (value sought), the type and amount of resources required to address that need will be identified. If the concept arose from underemployed resources (value creation capability), the benefits and value that the capability brings to users and uses will become more clearly detailed.

A complete business model includes not only the detailed and differential business concept, but also a financial model, which estimates the value created and how that value might be distributed among stakeholders. As development progresses, that financial model gradually increases in detail and precision, laying the foundation for later cash flow statements and for identifying the major risk factors that could affect cash flow. As an opportunity develops into its most elaborated form, formal cash flows, schedule of activities, and resource requirements are added. These additions help the business idea to grow into recognised business plan.

2. Development of Business Opportunity

Opportunities begin as simple concepts that become more elaborate as entrepreneurs develop them. This process involves proactive efforts much like that of new product development, but the developmental process here gives rise to an entire business, not just a product. Put in another way opportunity could be recognised, largely as a process of discovering something already formed. Opportunity development is regarded as a continuous proactive process essential to the formation of a business.

4.06 Factors affecting the Process of Identifying Opportunities

There are several factors that influence the ways opportunities are identified and developed by entrepreneurs. The factors, among others, include:

1. Entrepreneurial alertness;
2. Information asymmetry and prior knowledge;
3. Discovery versus purposeful search;
4. Social networks;
5. Personality traits, including risk-taking, optimism and self efficacy, and creativity.

1. Entrepreneurial Alertness

Kerzner (1973) was the first to use the term “alertness” to explain entrepreneurial recognition of opportunities. Other authors argue that any recognition of opportunity by a prospective entrepreneur is preceded by a state of heightened alertness to information. They called this state entrepreneurial awareness (EA), and defined EA as “a propensity to notice and be sensitive to information about objects, incidents, and patterns of behavior in the environment, with special sensitivity to maker and user problems, unmet needs and interests, and novel combinations of resources”. Further, in keeping with several authors, they claimed that personality characteristics and the environment interact to create conditions that foster higher EA. Embedded in this line of thought is the notion that higher alertness increases the likelihood of an opportunity being recognised. Another school of thought is of the view that entrepreneurs are more alert to new opportunities and use information differently from managers.

2. Information Asymmetry and Prior Knowledge

People tend to notice information that is related to information they already know. Consequently, Shane (1999) postulated that entrepreneurs will discover opportunities because prior knowledge triggers recognition of the value of the new information.

Drawn on the Austrian economics argument that entrepreneurship exists because of information asymmetry between different actors another author, maintains that any given entrepreneur will discover only those opportunities related to his or her prior knowledge. In his three-stage study of opportunity recognition processes, Shane (1999) tested and confirmed a number of hypotheses, which could be summarized as follows:

1. Any given entrepreneurial opportunity is not obvious to all potential entrepreneurs (the rationale being that all people do not possess the same information at the same time).
2. Each person's idiosyncratic prior knowledge creates a "knowledge corridor" that allows him/her to recognize certain opportunities but not others. Three major dimensions of knowledge are important to the process of entrepreneurial discovery: prior knowledge of markets, prior knowledge of ways to serve markets, and prior knowledge of customer problems. There are two types of prior knowledge relevant to the opportunity identification process. The first is knowledge in an area or domain of special interest to an entrepreneur, an area that can be described in terms of fascination and fun (Domain 1). Driven by this special interest, an entrepreneur spends a lot of effort and time to engage in learning that advances and deepens his/her capabilities, thereby gaining profound knowledge about this topic of interest. The second type of knowledge refers to a different domain, Domain 2. Knowledge about this domain is accumulated over the years, while working in a certain job. In most cases, this job is not associated with the first domain of fun and fascination. It is, rather, a result of rational choice, often made on advice of other people (parents, mentors, friends).

After several years of experience in an industry associated with Domain 2, the entrepreneurs bring the two capabilities together. The integration of the two domains leads to the discovery of a new opportunity, a new market, or a new solution to customer's problems.

3. Discovery versus Systematic Search

A large part of the erstwhile literature on entrepreneurship implicitly assumed that recognition of opportunity is preceded by a systematic search for available opportunities. Many scholars view recognition of opportunities in different ways.

Some are arguing that people do not search for opportunities, but, rather, happen to recognise the value of new information, which they happen to receive. Another explains that: “what distinguishes discovery (relevant to hitherto unknown profit opportunities) from successful search (relevant to the deliberate production of information which one knew one had lacked) is that the former (unlike the latter) involves the surprise that accompanies the realization that one had overlooked something in fact readily available”. Whereas some reported that most entrepreneurs recognised, rather than sought the opportunities for the firms. Furthermore, some say that firms founded on “accidentally” discovered venture ideas and which had not been subjected to formal screening achieved breakeven sales faster than those firms that had undergone more formal search.

“Accidental” discovery may result from heightened entrepreneurial alertness while the entrepreneur is in a mode we call “passive search”. In that mode, the entrepreneur is receptive, though not engaged in a formal, systematic search process. One might hypothesize that, in a state of “passive search”, entrepreneurs with entrepreneurial awareness (EA) would be more likely than those with lower EA to experience an “accidental” discovery of an opportunity EA seems to be a more powerful determinant of discovery-accidental or purposive- than level of activeness search.

4. Social Networks

Entrepreneurs’ networks are important to opportunity recognition. Opportunity could also be recognised through weak-ties and strong-ties networks. Weak-ties (including casual acquaintances) are “bridges” to information sources which are not necessarily contained within and individuals strong-tie network (including friends and family). The

casual acquaintance is more likely to provide unique information than are close friends, because most people have more weak-ties than strong. Entrepreneurs, who have extended networks identify, significantly more opportunities than Solo entrepreneurs. Moreover, the quality of network contacts can affect other characteristics, such as alertness and creativity. Another form of opportunity recognition is known as socio cognitive framework. This include information gathering, thinking through talking, and resource assigning. Entrepreneurs evolve opportunities by pursuing the three cognitive activities (information gathering, thinking through talking, and resource assessing) through active interaction with an extensive network of people. This network includes the entrepreneur's inner circle (the set of people with whom an entrepreneur has long-term, stable relationships, they are not partners to the venture), "active set" (people recruited by the entrepreneur to provide necessary resources for the opportunity), partnerships (start-up team members), and a network of weakness-ties (a network used to gather general information that could lead to identifying an opportunity or to answering a general question).

5. Personality Traits

Some cognitive studies have focused on personality traits of entrepreneurs and their contribution to the success of entrepreneurial ventures. Two personality traits, however, relate to successful opportunity recognition. First, is the connection between optimism and higher opportunity recognition. Entrepreneurial optimism is related to self-efficacy. It is important to point out that optimism about one's ability to achieve specific, difficult goals (self-efficacy) is not related to optimism in the sense of higher risk taking. Moreover, entrepreneurs' optimism was an "inside view" of the potential success of the venture, largely based on the entrepreneurs' evaluation of the abilities and knowledge. Organisational contexts show that perceived self-efficacy leads optimism and a higher prosperity to see opportunities rather than threats in any given situation.

The second personality trait is that of creativity. Successful entrepreneurs discover opportunities that others do not see. Creativity is very important for opportunity identification.

However Solo entrepreneurs found it significantly more important than did the networked entrepreneurs. Entrepreneurs are seen to be more creative and are more likely to set aside time specifically to be creative. Entrepreneurs who are networked to opportunity sources may not need to be as creative as those who are not networked.

4.07 Revision Questions

1. Deconstruct the factors that affect the process of identifying opportunities.
2. Discuss and develop the concept of entrepreneurial awareness (EA)?

MODULE 5

5.00 FINANCING THE NEW VENTURE

5.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Distinguish between the different sources of finance available to businesses covering both internal and external sources;
- ii. Determine the advantages and disadvantages of the different sources of funds;
- lii. Appraise the factors governing the choice of different sources of funds.

5.02 Sources of Funding

Some sources of finance can be short term, which must be paid back within a year. Other sources of finance are long term, which can be paid back over many years. Internal sources of finance are funds found inside the business. For example, profits can be ploughed back to finance expansion. Alternatively, the business can sell assets (items it owns) that are no longer really needed to free up cash. External sources of finance are found outside the business, e.g. from creditors or banks. Three common ways a company may be able to raise finance are by paying smaller dividends (by increasing retained earnings), borrowing, and by selling more stock.

Similarly, sources of finance may be classified according to the time periods, which include: Short term and long- term sources. It may be grouped into equity and debt sources and formal and informal sources of finance.

1. Short-term Financing

These sources of finance have maturity period of less than one year. It includes:

- a) **Bank Overdrafts:** these are sources of short term debt. Short-term loan issues must be repaid within one year. Bank overdrafts are lines of credit that allow a firm to borrow over and above its deposit balance in the bank account, which is repayable anytime a

new deposit is made into the account up to a specified maximum but generally require that the loan balance be zero for one or more months during a year. Lines of credit are typically not backed by collateral.

- b) **Commercial paper:** this consists of promissory notes of large firms that are sold primarily to other businesses to mobilize funds in the short term usually not more than three months. Its financing cost is slightly less than the prime rate given to lowest-risk bank loans.

- c) **Factoring and pledging:** are used by smaller, less stable companies. Factoring is when a business sells to a factor (often a bank or a bank subsidiary) the right to collect the money it is owed (its receivables); in return for providing the business with cash in advance of the time payment is due the factor takes a percentage of the invoice value and may provide cover for bad debts. In Factoring, firms sell their invoices to a factor such as a bank. They do this for some cash right away, rather than waiting 28 days to be paid the full amount

- d) **Trade Credit:** This is a form of credit that arises when a firm purchase from suppliers for resale on credit terms. Trade credits may occur where suppliers deliver goods now and are willing to wait for several days before payment.

- e) **Certificate of Deposits (CDs):** They provide avenues for the transfer of surplus funds between banks, especially from commercial banks to merchant banks.

There are two variants of CDs: the negotiable CDS and the non-negotiable CDs. The negotiable CDs are negotiable with Central Bank of Nigeria.

- f) **Bank Acceptances (BAs):** This is a bill of exchange accepted by the drawee bank specifying that a certain amount will be paid after a specified period. The drawee bank

accepts the draft by writing on the draft 'accepted' with appropriate authorised signature across the face of the draft. By the acceptance, the drawee bank acknowledges its obligation to honour the draft on the due date and the draft can be discounted.

2. Long-Term Financing

Long-term debt frequently takes the form of a shares, retained earnings, bond issue or lease financing. The maturity period is usually more than one year. The sources of long term financing are:

- a) Retained Earnings:** A firm can finance projects by paying smaller dividends. By paying out less of its profits in dividends, the company can keep more of its profits as retained earnings and use them to fund its investments. Using retained earnings to finance projects appeals to businesses because they can avoid paying interest.

The major reasons for using retained earnings to finance new investments, rather than to pay higher dividends and then raise new equity for the new investments, are as follows:

- i) The management of many companies believes that retained earnings are funds which do not cost anything, although this is not true. However, it is true that the use of retained earnings as a source of funds does not lead to a payment of cash.
- ii) The dividend policy of the company is in practice determined by the directors. From their standpoint, retained earnings are an attractive source of finance because investment projects can be undertaken without involving either the shareholders or any outsiders.

iii) The use of retained earnings as opposed to new shares or debentures avoids issue costs.

iv) The use of retained earnings avoids the possibility of a change in control resulting from an issue of new shares.

b) Long term Bank Loans: A business can also choose to borrow money to fund its projects from banks. A firm can borrow from a bank for a period of over five years. Although a firm must pay interest if it borrows money, it can deduct the interest from its profits and therefore pay less in taxes. However, there are limits to how much a firm can borrow and too much borrowing could lead to bankruptcy.

c) Ordinary Shares (i.e. Common Equity): Selling ordinary shares stock is a third way companies can raise long term funds. Unlike a loan, the funds received from the sale of stock belong to the company and do not have to be repaid. Consequently, the firm does not have the expense of paying interest.

A company seeking to obtain additional equity funds may be an unquoted company wishing to obtain a Stock Exchange quotation, an unquoted company wishing to issue new shares, but without obtaining a Stock Exchange quotation, and a company which is already listed on the Stock Exchange wishing to issue additional new shares. The methods by which an unquoted company can obtain a quotation on the stock market are an offer for sale, a prospectus issue, a placing, and an introduction. An offer for sale is a means of selling the shares of a company to the public.

An unquoted company may issue shares, and then sell them on the Stock Exchange, to raise cash for the company. All the shares in the company, not just the new ones, would then become marketable.

Shareholders in an unquoted company may sell some of their existing shares to the public. When this occurs, the company is not raising any new funds, but just providing a wider market for its existing shares (all of which would become marketable) and giving existing shareholders the chance to cash in some or all their investment in their company.

When companies 'go public' for the first time, a 'large' issue will probably take the form of an offer for sale. A smaller issue is more likely to be a placing, since the amount to be raised can be obtained more cheaply if the issuing house or other sponsoring firm approaches selected institutional investors privately.

However, the firm must still earn a certain return on its investment to obtain the cash to pay dividends or devote to retained earnings. Businesses also may not want to issue stock because the costs of issuing stock, such as fees for legal and banking services, are usually higher than for issuing bonds.

Financial loss or gain can be greater with common stock than with preferred stock. Holders of common stock have residual equity in a company; that is, they have the last claim on the earnings and assets of a company and may receive dividends only at the discretion of the company's board of directors and after all other claims on profits have been satisfied. For example, if the company is dissolved, stockholders share in what is left only after all other claims have been settled. Dividends and equity conferred by common stocks have no fixed naira value; holders of such stock, therefore, benefit more from a company's prosperity or lose more from a company's adversity than do holders of preferred stocks.

d) Rights issues: A rights issue provides a way of raising new share capital by means of an offer to existing shareholders, inviting them to subscribe cash for new shares in proportion to their existing holdings. A company making a rights issue must set a price

which is low enough to secure the acceptance of shareholders, who are being asked to provide extra funds, but not too low, to avoid excessive dilution of the earnings per share

e) Preference shares: are in many ways like bonds. They are sold at a specified face value, or par; pay a stated amount each year; and, in the event of a company bankruptcy, carry a claim to a share in the liquidation of assets before that of ordinary shares. They also have certain features of ordinary shares: dividends need not be paid unless the firm has cash available for this purpose, and they will often be allowed to increase as profits of the firm increase. Straight bonds, on the other hand, pay a guaranteed and specified coupon rate each year.

Two other categories of preference shares are (1) redeemable share and (2) convertible share. Redeemable stock is issued with the stipulation that the corporation has the right to repurchase it. Convertible stock endows the stockholder with the option of exchanging preference stock for common stock under specific conditions, such as when the common stock reaches a certain price or when the preference stock has been held for a particular time.

Holders of preference stock take precedence over holders of common stock. Preference stock shareholders are usually entitled to receive a fixed dividend rate before any dividends are distributed to other stockholders. Preference stock shareholders typically receive a share of the proceeds from the dissolution of a company before holders of non-preference stock do. Some stocks have both preference dividends and preference assets. Although holders of preference stock may have to forego a dividend during a period of little or no profit, this is not true for two types of preference stock. One is cumulative preference stock, which entitles the owner to cumulative past-due and unpaid dividends.

Another type is *protected preference stock*, which the company issues after paying the preference-stock dividends and placing a specified portion of its earnings into a reserve, or sinking, fund to guarantee payment of preference-stock dividends.

From the company's point of view, preference shares are advantageous in that:

- i) Dividends do not have to be paid in a year in which profits are poor, while this is not the case with interest payments on long term debt (loans or debentures).
- ii) Since they do not carry voting rights, preference shares avoid diluting the control of existing shareholders while an issue of equity shares would not.
- iii) Unless they are redeemable, issuing preference shares will lower the company's gearing. Redeemable preference shares are normally treated as debt when gearing is calculated.
- iv) The issue of preference shares does not restrict the company's borrowing power, at least in the sense that preference share capital is not secured against assets in the business.
- v) The non-payment of dividend does not give the preference shareholders the right to appoint a receiver, a right which is normally given to debenture holders. However, dividend payments on preference shares are not tax deductible in the way that interest payments on debt are.

Furthermore, for preference shares to be attractive to investors, the level of payment needs to be higher than for interest on debt to compensate for the additional risks.

For the investor, preference shares are less attractive than loan stock because they cannot be secured on the company's assets, and the dividend yield traditionally offered on preference dividends has been much too low to provide an attractive investment compared with the interest yields on loan stock in view of the additional risk involved.

f) Debentures: Bonds that have no claim to specific assets if the firm defaults are referred to as debentures. Because of their risk, debentures carry a higher interest rate than secured bond issues. Occasionally, long-term bond issues are sold that provide the buyer with a claim to purchase ordinary shares of the issuing firm. Convertible bonds allow the owner to convert the bond into a specified number of shares.

Bonds with warrants attached allow the holder to purchase shares at a favourable price. From the company's viewpoint, convertible bonds will eventually become new shares, whereas bonds with warrants will remain debt but will (or should) also provide new equity money in the future. Debentures with a floating rate of interest are debentures for which the coupon rate of interest can be changed by the issuer, in accordance with changes in market rates of interest. They may be attractive to both lenders and borrowers when interest rates are volatile.

Loan stock and debentures will often be *secured*. Security may take the form of either a *fixed charge* or a *floating charge*. Fixed charge security would be related to a specific asset or group of assets, typically land and buildings. The company would be unable to dispose of the asset without providing a substitute asset for security, or without the lender's consent. Floating charge security has a floating charge on certain assets of the company (for example, stocks and debtors), the lender's security in the event of a default payment is whatever assets of the appropriate class the company then owns (provided that another lender does not have a prior charge on the assets). The company would be able, however, to dispose of its assets as it chose until a default took place.

In the event of a default, the lender would probably appoint a receiver to run the company rather than lay claim to a particular asset. Loan stock and debentures are usually redeemable. They are issued for a term of ten years or more, and perhaps 25 to 30 years. At the end of this period, they will "mature" and become redeemable (at par or possibly at a value above par).

g) Leasing: A lease is an agreement between two parties, the "lessor" and the "lessee". The lessor owns a capital asset but allows the lessee to use it. The lessee makes payments under the terms of the lease to the lessor, for a specified period. Leasing is, therefore, a form of rental. Leased assets have usually been plant and machinery, cars and commercial vehicles, but might also be computers and office equipment. There are two basic forms of lease: operating leases and finance leases.

Operating leases are rental agreements between the lessor and the lessee whereby the lessor supplies the equipment to the lessee, the lessor is responsible for servicing and maintaining the leased equipment, and the period of the lease is fairly short, less than the economic life of the asset, so that at the end of the lease agreement, the lessor can either i) lease the equipment to someone else, and obtain a good rent for it, or ii) sell the equipment second-hand. Finance leases are lease agreements between the user of the leased asset (the lessee) and a provider of finance (the lessor) for most, or all, of the assets expected useful life. Other important characteristics of a finance lease are i) the lessee is responsible for the upkeep, servicing and maintenance of the asset.

The lessor is not involved in this at all, ii) the lease has a primary period, which covers all or most of the economic life of the asset. At the end of the lease, the lessor would not be able to lease the asset to someone else, as the asset would be worn out. The lessor must, therefore, ensure that the lease payments during the primary period pay for the full cost of the asset as well as providing the lessor with a suitable return on his investment, and iii) it is usual at the end of the primary lease period to allow the lessee to continue to lease the

asset for an indefinite secondary period, in return for a very low nominal rent. Alternatively, the lessee might be allowed to sell the asset on the lessor's behalf (since the lessor is the owner) and to keep most of the sale proceeds, paying only a small percentage (perhaps 10%) to the lessor.

The attractions of leases to the supplier of the equipment, the lessee and the lessor are as follows:

- i) The supplier of the equipment is paid in full at the beginning. The equipment is sold to the lessor, and apart from obligations under guarantees or warranties, the supplier has no further financial concern about the asset.
- ii) The lessor invests finance by purchasing assets from suppliers and makes a return out of the lease payments from the lessee. Provided that a lessor can find lessees willing to pay the amounts he wants to make his return; the lessor can make good profits. He will also get capital allowances on his purchase of the equipment.

Leasing might be attractive to the lessee:

- i) if the lessee does not have enough cash to pay for the asset, and would have difficulty obtaining a bank loan to buy it, and so must rent it in one way or another if he is to have the use of it at all; or
- ii) if finance leasing is cheaper than a bank loan. The cost of payments under a loan might exceed the cost of a lease.

Operating leases have further advantages:

- i) The leased equipment does not need to be shown in the lessee's published balance sheet, and so the lessee's balance sheet shows no increase in its gearing ratio.

ii) The equipment is leased for a shorter period than its expected useful life. In the case of high-technology equipment, if the equipment becomes out-of-date before the end of its expected life, the lessee does not have to keep on using it, and it is the lessor who must bear the risk of having to sell obsolete equipment second-hand.

h) Mortgage: A mortgage is a special type of loan for buying property where monthly payments are spread over several years. Mortgages are a specific type of secured loan. Companies place the title deeds of freehold or long leasehold property as security with an insurance company or mortgage broker and receive cash on loan, usually repayable over a specified period. Most organisations owning property which is unencumbered by any charge should be able to obtain a mortgage up to two thirds of the value of the property.

i) Hire purchase: Hire purchase is a form of instalment credit. Hire purchase is like leasing, with the exception that ownership of the goods passes to the hire purchase customer on payment of the final credit instalment, whereas a lessee never becomes the owner of the goods.

Hire purchase agreements usually involve a finance house. The supplier sells the goods to the finance house, delivers the goods to the customer who will eventually purchase them. The hire purchase arrangement exists between the finance house and the customer.

The finance house will always insist that the hirer should pay a deposit towards the purchase price. The size of the deposit will depend on the finance company's policy and its assessment of the hirer. This contrasts with a finance lease, where the lessee might not be required to make any large initial payment.

An industrial or commercial business can use hire purchase as a source of finance. With industrial hire purchase, a business customer obtains hire purchase finance from a finance house to purchase the fixed asset. Goods bought by businesses on hire purchase include company vehicles, plant and machinery, office equipment and farming machinery.

j) Venture capital: Venture capital is money put into an enterprise which may all be lost if the enterprise fails. A businessman starting up a new business will invest venture capital of his own, but he will probably need extra funding from a source other than his own pocket. However, the term 'venture capital' is more specifically associated with putting money, usually in return for an equity stake, into a new business, a management buy-out or a major expansion scheme. The institution that puts in the money recognises the gamble inherent in the funding. There is a serious risk of losing the entire investment, and it might take a long time before any profits and returns materialise. But there is also the prospect of very high profits and a substantial return on the investment. A venture capitalist will require a high expected rate of return on investments, to compensate for the high risk.

A venture capital organisation will not want to retain its investment in a business indefinitely, and when it considers putting money into a business venture, it will also consider its "exit", that is, how it will be able to pull out of the business eventually (after five to seven years, say) and realise its profits.

k) Grants from charities or the government to help businesses get started, especially in areas of high unemployment.

l) Franchising: Franchising is a method of expanding business on less capital than would otherwise be needed. For suitable businesses, it is an alternative to raising extra capital

for growth. Under a franchising arrangement, a franchisee pays a franchisor for the right to operate a local business, under the franchisor's trade name. The franchisor must bear certain costs (possibly for architect's work, establishment costs, legal costs, marketing costs and the cost of other support services) and will charge the franchisee an initial franchise fee to cover set-up costs, relying on the subsequent regular payments by the franchisee for an operating profit. These regular payments will usually be a percentage of the franchisee's turnover.

Although the franchisor will probably pay a large part of the initial investment cost of a franchisee's outlet, the franchisee will be expected to contribute a share of the investment himself. The franchisor may well help the franchisee to obtain loan capital to provide his-share of the investment cost. The advantages of franchises to the franchisor are as follows:

- i) The capital outlay needed to expand the business is reduced substantially.
- ii) The image of the business is improved because the franchisees will be motivated to achieve good results and will have the authority to take whatever action they think fit to improve the results.

The advantage of a franchise to a franchisee is that he obtains ownership of a business for an agreed number of years (including stock and premises, although premises might be leased from the franchisor) together with the backing of a large organisation's marketing effort and experience. The franchisee can avoid some of the mistakes of many small businesses, because the franchisor has already learned from its own past mistakes and developed a scheme that works.

5.03 Sources of Government Finance

Government has various financing sources for business financing. Some of the sources are:

1. The Federal Government of Nigeria/Central Bank of Nigeria (CBN) Microcredit Schemes

The Federal government of Nigeria through the Central Bank of Nigeria launched N50 billion Micro Credit Fund (MCF) in 2008 to enhance the development of Small and Medium scale Enterprises (SMEs) and develop the informal and microfinance sector of the economy.

The guidelines stated further that where the state governments are unable to exhaust the fund set aside by the banks in any year, microfinance banks (MFBs) and non-governmental organisation/microfinance institutions (NGO/MFIs) may also borrow from the fund for on-lending to small and micro enterprises. It added that after each government must have passed its budget, the CBN would assess the amount set aside by the state for micro credit vis-a-vis the amount that banks are likely to set aside for the year and announce the amount available for borrowing by the MFBs and NGO-MFIs. States with wide distribution of MFBs and NGO-MFIs, according to the apex bank, would be encouraged to use the MFBs and NGO-MFIs in the administration of their micro credit funds.

The loans obtained are used for any of the following activities engaged in by small and micro entrepreneurs: Agriculture and agro-allied; cottage industries; trade/commerce; and services among others.

2. The Central Bank of Nigeria (CBN) and World Bank Small and Medium Enterprises Development Project Loan Scheme.

The Central Bank of Nigeria and World Bank small and medium enterprises development project loan scheme is a World Bank loan of \$270 million to existing and new enterprises. The Central Bank of Nigeria and World Bank manage the loan. The facilities available include loans for fixed assets acquisition and working capital finance, equipment leasing and urban mass transit, for new and existing small-scale enterprises. To obtain the loan, the enterprise must

have at least 51% Nigerian ownership and the cost of the project to be financed excluding land should not exceed \$2.5 million. An application is made to the Central Bank SME Apex Unit Debt Management Department through a participating bank.

3. World Bank SME II Loan Scheme

To promote the establishment of a new generation of viable investments and services as well as improve the quality range of financial, and extension services available to SMEs, the Federal Government negotiated for a financial assistance package from the World Bank in 1987. The loan package was approved in 1989 and the SME Apex Unit located in the CBN executed it. The total project cost was estimated at \$418 million including \$264.4 million (63%) in foreign exchange. The World Bank provided a loan of \$270.0 million or 65% of the total project cost (100% of the foreign exchange requirements and 4% of local costs). The balance of \$148 million was to be financed by the beneficiary enterprises and the participating Banks (PBs) from their own resources. The PBs are to bear the credit risk while the foreign exchange risk is to be borne by the Federal Government. Term loans provided under the programme have a maturity period of 15 years including a grace period of 3 years. The scheme also provided working capital to the beneficiaries with maturity period of 3 years and 1-year grace period. When the programme began, approval of projects and disbursement of funds were very slow because of inadequate publicity, lengthy and cumbersome approval processes, assumption of all credit risks by the PBs and the floating value of the Naira, which affected the viability of many projects.

4. The Bank of Industry (BOI)

The BOI emerged from the merger of the Nigerian Investment Development Bank (NIDB) and National Bank for Commerce and Industry (NBCI). The mandate of BOI is to provide financial assistance to small and medium-scale projects as well as the expansion, diversification, modernization of existing enterprises and the rehabilitation of ailing industries. BOI has several financing portfolios being management on behalf of CBN.

5. The African Development Bank Export stimulation loan

The African Export stimulation loan is a loan scheme introduced by the African Development Bank to stimulate export by encouraging the establishment of export-oriented agricultural production as well as intermediate or finished goods. The scheme is also meant to encourage the utilization of local raw materials in the production of goods for export. The loan is for the acquisition of fixed assets and working capital finance in the form of purchase of raw materials and spares parts for small and medium scale industries with total assets not exceeding \$6.5 million excluding land.

6. Small-Scale Industries Credit Scheme (SSICS)

This was introduced in 1971 as a revolving grant by the Federal and State Governments to assist in meeting the credit needs of small-scale enterprises on relatively more liberal conditions. The Federal Government pulled out in 1979 leaving the scheme under States' ministries of commerce to continue to administer or through development finance corporation/Investment Trust.

7. Bank of Agriculture (formerly Nigeria Agricultural Co-operative and Rural Development Bank (NACRDB)

The merger of former Nigerian Agricultural Co-operative Bank (NACB), the people's Bank of Nigeria and Family Economic Empowerment Programme (FEAP) gave birth to the Nigeria Agricultural Co-operative and Rural Development Bank.

The Bank was established to promote investments in the agricultural sector by advancing the complementary funds needed by entrepreneurs. This bank collaborates with the National Directorate of Employment (NDE) to provide fund for SMEs at very reasonable interest rate of about 8%.

8. Nigerian Export and Import Bank (NEXIM)

NEXIM was established in January 1990 to manage several credit facilities introduced specifically to boost Nigeria's non-oil export sector. It supports also SME exporters to have

direct access to international markets. The facilities offered by NEXIM include the Export Stimulation Loan (ESL), the Foreign Input Facility (FIF) and Refinancing and Rediscounting Facility (RRF). The ESL is funded by the African Development Bank credit loan. The ESL seeks to bring out the best in Nigerian Entrepreneurs who do not have facilities for producing for the international market but have initiatives. It is mainly for the acquisition of capital equipment required for export production. The RRF enables exporters to receive financing while waiting to collect export resource. FIF is designed to give manufacturers access to foreign exchange required to import machinery and vital raw materials which cannot be procured in Nigeria. Other products from NEXIM include Price Guaranty Facility (PGF), Export Credit Guarantee Facility (ECGF), Manufacturing-In-Bond Guarantee Facility (MBGF) and Mutual Export Guarantee Facility (MEGF).

9. The National Youth Service Corp (NYSC)/National Directorate of Employment (NDE) Scheme

NYSC collaborates with the NDE to train and provide finance for selected youth corps members to establish co-operative ventures at the end of the service year. The finance is sourced in collaboration with BOA.

10. Central Bank of Nigeria Development Finance Schemes

The Central Bank of Nigeria has initiated several programmes to support SMEs financing in Nigeria. The programmes include the:

- a) Agricultural Credit Guarantee Scheme and its products,
- b) Agricultural Credit Support Scheme,
- c) Micro Credit Fund,
- d) Microfinance Policy,
- e) Entrepreneurship Development Centres,
- f) NYSC Venture Prize Competition, and
- g) The setting aside of 1% of the budgets of the states for microfinance development.

11. Small and Medium Scale Industries Equity Investment Scheme (SMIEIS).

The Small and Medium Industries Equity Investment Scheme (SMIEIS) is an initiative of the Bankers' Committee. Commercial and Merchant Banks have agreed to set aside 10% annually of their profit before tax as their contribution to the development of small and medium-scale industries (SMEs) as equity investments in such industries.

5.04 Determinants of Choice of Sources of Finance

The advantages and disadvantages of each source of finance are considered in determining the appropriate source of funds to use. Some of the other factors include:

- a. Cost: the interest rates on long term debt are higher than short term debt.
- b. Risk: Short term credit are riskier than long term debt considering the time period for repayment and long-term stability of earnings to meet repayment obligations.
- c. Speed: A short term loan can be obtained much faster than long term credits as long-term credits require thorough examination.
- d. Flexibility: Short term sources are more flexible sources than long term sources. Long term sources can only be repaid early where a prepayment provision exists, and it is often expensive.

5.05 Review Questions

1. Categorise the various sources of finance in terms of time, equity and debt, internal and external sources.
2. Make a reasoned choice between debt and equity for a growing firm and at business start-up?
3. "Preference shares have the combined features of equity and debt capital". Discuss these features and debate the pros and cons of the application of Preference Shares for business funding in Nigeria.
4. Determine the factors that must be considered in the choice of sources of finance by a firm.
5. Construct the financing lifecycle of businesses.
6. NCA Ltd., an owner-managed company, has developed a new type of product, and has financed the development stages from its own resources. Market research indicates the possibility of a large volume of demand and a significant amount of additional capital will be needed to finance production. Advise the business on:
 - a) The advantages and disadvantages of loan or equity capital.
 - b) The various types of capital likely to be available and the sources from which they might be obtained.
 - c) The method(s) of finance likely to be most satisfactory to both Arusas Ltd. and the provider of funds.

MODULE 6

6.00 MANAGING THE NEW VENTURE

6.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Appraise a venture's internal structures to support growth;
- ii. Deconstruct the entrepreneurial governance;
- iii. Evaluate the various issues in managing and controlling venture's growth;
- iv. Analyse the barriers to entrepreneurship;
- v. Understand the valuation methods.

6.02 Internal Structure to Support Growth

Business organisations must grow to remain relevant and competitive. A firm is required to constantly search for and make use of knowledge of its changing market to identify and exploit growth opportunities. Businesses tend to grow to deliver their products or services better than competitors. But, the capacity of the firm to deliver resides in the range and quality products or services offered to the customers, the skills and the service offered by the staff, technical knowledge/ technology and customer/supplier relationships. Business growth means expanding firm's products and services or expanding its target markets, or some combination of each. Any increase in the volume of activities of enterprises is a clear indication of growth. Businesses grow for several reasons including to take advantage of a gap in the market, to gain a competitive advantage over rivals, and to win increased market share.

Just like other business empires, internal structures such as management skills and leadership abilities like technical skills, human relations skills, and administrative skills are very significant success factors to support business growth; these are the qualities that are applied to the affairs of the business. An Entrepreneur should know that his/her employees will contribute most significantly to the success or failure of the venture.

This is the most reason why an entrepreneur should be a skilled manager and an effective leader at the same time. To create enduring and growing ventures, entrepreneurs require the following internal structure to support growth.

- 1. Clarity:** An entrepreneur is required to be clear of her vision in life. This will help her to set challenging goals for the business. The starting point is to begin with personal values; what do one believes in and stands for. The greater clarity an entrepreneur has regarding values, vision, mission, purpose and goals, the greater the probability that her venture will grow and succeed.
- 2. Competence:** Even when goals are clearly defined, there is the need for an entrepreneur to constantly learn new skills and acquire experiences to permit making informed decisions. Formal and informal trainings are available locally and internationally to equip business owners and managers with special skills needed to create unique value to the society.
- 3. Reputation.** The most valuable asset a firm can develop is its reputation. Reputation is how the business is known by its customers. Building reputation around quality, reliability, and service is critical to the survival and growth of businesses.
- 4. Resilience:** There are numerous challenges confronting businesses especially at the initial stage. The ability to identify and remove obstacles with focus and speed is critical.
- 5. Creativity:** Successful businesses are innovative. The ability to think differently, faster and to figure out new and easier ways to produce and deliver products and services are very crucial to growth.
- 6. Concentration:** Entrepreneur's ability to avoid distractions and focus on what she does best is one of secret for success. Many people spend so much time copying others and jumping from one business to the next. They are unable to focus their energy, resources and time to what they are good at. Bill Gate can expand to automobiles and pharmaceuticals, but he chooses to concentrate his

attention to software and related businesses where he possessed special talent and advantages.

6. **Courage:** Many people tend to avoid risks and difficult endeavors. Many studies have shown that the courage to take the "first step" makes all the difference. This entails audacity to explore and venture into the unknown with no guarantee of success.
7. **Learning from failure and moving on:** As entrepreneurs target growth they sometimes fail. The ability to learn from the failure and venture out on the next exhibition makes entrepreneurs different from the "rest of the pack".
8. **Financial Discipline:** There are instances where entrepreneurs get carried away by short term financial successes. They tend to acquire assets and liabilities that contribute little or nothing to the business. In some cultures, they acquire more wives and invest massively in luxury items in an attempt to change their social outlook. This is one of common reasons why businesses stagnate and die eventually.
9. **Investment in people:** Businesses that grow consistently develop the capacity of managers and employees. Also, they tend to appreciate and reward the creative talents and efforts of their employees.

More so, some businesses reach their desired level of growth but struggle to sustain it. Sales are adequate, and the business is performing well, with a strong and experienced team or teams and production lines. The positive impact is that employees and staff are motivated to continue their history of success. The focus should be on business model innovation – developing a persistent competitive advantage through continuous improvement of the business model. An emphasis on innovative new products and plant quality has also helped companies to sustain their successes.

To sustain growth, the entrepreneur also needs to:

- i. Focus on your most productive areas for innovation
- ii. Provide sustained benefits for all stakeholders
- iii. Expand business-model innovation
- iv. Pursue higher potential business-model improvements
- v. Put in place: marketing plan and marketing strategies; a financial planning; a production plan; and a business plan.

6.03 Entrepreneurial Governance

An entrepreneur must take risks with his or her own capital to sell and deliver products and services while expending greater energy than the average business person to innovate. Faced with daily stressful situation and other difficulties, the possibility exists that the entrepreneur will establish a balance between ethical exigencies, economic expediency, and social responsibility, a balance that differs from the point at which the general business manager takes his or her moral stance, which is built on business ethics.

According to Gebler (2012), business ethics involves knowing what is right or wrong in a business environment and doing what is right regarding effects of products or services and in relationships with stakeholders. Business ethics is the applied ethics discipline that addresses the moral features of commercial activity. Business ethics otherwise referred to as corporate ethics represent a form of applied ethics or professional ethics that examines ethical problems that arise in a business environment Wikipedia (2012a). It applies to all aspects of business conduct. Although drawing more on their own value system, entrepreneurs have been known to be particularly sensitive to peer pressure and general social norms in the community, as well as pressures from their competitors. Entrepreneurs tend to depend on their own personal value systems much more than other managers when determining ethically appropriate courses of action. On the other

hand, entrepreneurs with a relatively new company who have few role models usually develop an internal ethical code for proper entrepreneurial governance.

Entrepreneurial governance is related to the organisational climate perceived to be supportive of laws and professional codes of ethics. Entrepreneurial governance is believed to be a form of applied business ethics that examines norms, principles, rules and regulations within a commercial context, the various moral or ethical problems that can arise in a business setting and any special duties or obligations that apply to persons who are engaged in commerce, of which the entrepreneur is inclusive. Business ethics is a normative discipline whereby particular ethical standards are advocated and then applied (Tabije, 2012).

Features of Business Ethics

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

1. Code of conduct: Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society.
2. Based on moral and social values: Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society and fair treatment to social groups amongst others.
3. Gives protection to social groups: Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.
4. Provides basic framework: Business ethics provide a basic framework for doing business. It gives the socio-cultural, economic, legal and other limits of business. Business must be conducted within these limits.
5. Voluntary: Business ethics must be voluntary. The businessmen including entrepreneurs must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

6. Requires education and guidance: Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
7. Relative Term: Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

Importance of Ethics in Business

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

1. **Provision of moral compass:** During times of fundamental change, values that were previously taken for granted tend to be strongly questioned. Many of such values are no longer adhered to. Leaders and staff at such periods are left with no clear moral compass to guide them through complex dilemmas about what is right or wrong in the business environment. It is at such moments of crises and confusion that the beauty of business ethics manifests since the ethics provide them with the moral compass to navigate the troubled times.
2. **Ethics implicitly regulate area and details of behaviour that lie beyond governmental control:** This is necessary because much as governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions, not all areas and details of business lie within such controls. For example, governments may establish minimum wage but how much a worker is paid beyond the minimum wage is expected to be addressed by business ethics.
3. **To meet stakeholder's expectation:** Stakeholders have the right to expect a business to be ethical. If business has no ethical obligation, other institutions

could make the same claim which would be counterproductive to the corporation (Duska, 2007).

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

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

6. **Others**

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

- i) Building long – term shareholder value, corporate financial stability and sustainability.
- ii) Consumer and customer approval and loyalty;
- iii) Promoting self-regulation and deterring government regulatory intervention; and
- iv) Enhancing corporate reputation.

The Need for Business Ethics in relation to Entrepreneurial Governance

The points below discuss the need for ethics in business in relation to entrepreneurial governance:

- 1. **Stop business malpractices:** Some businessmen/entrepreneurs engage in business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc. These business malpractices are

harmful to the consumers. Business ethics help to stop these business malpractices.

2. Improve customers' confidence: Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules.
3. Survival of business: Business ethics are needed for the survival of business. The businessmen/entrepreneurs who do not follow it will have short-term success, but they will fail in the long run when discovered by the customers.
4. Protecting employees and shareholders: Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.
5. Develops good relations: Business ethics are important to develop good and friendly relations between business and society.
6. Creates good image: Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticised by the society. The society will always support those businessmen who follow this necessary code of conduct.
7. Smooth functioning: If the business follows all the business ethics, then there will be absence of disruption in the relationship among employees, shareholders, consumers, dealers and suppliers. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.
8. Consumer satisfaction: Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics.

9. Importance of labour: Labour, i.e. employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. The employees must also be given proper welfare facilities.
10. Healthy competition: The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. They must not do cut-throat competition. Similarly, they must give equal opportunities to small-scale business.

Principles for Entrepreneurial Governance

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

1. Honesty

The virtues of honesty and truthfulness are the hallmark of ethical executives. Such entrepreneurs do not deliberately mislead or deceive others by misrepresentations, over-statements, partial truths, selective omissions, or any other means.

2. Integrity

In a nutshell, ethical entrepreneurs are principled, honourable and upright. They courageously fight for their beliefs. They exhibit personal integrity and the courage of their convictions by doing what they consider to be right even in the face of pressure to do otherwise.

3. Promise-keeping and trustworthiness

Ethical entrepreneurs make a very reasonable effort to fulfill the letter and spirit of their promises and commitments. They are trustworthy. They call a spade by its name.

They do not interpret agreements in an unreasonably technical or legalistic manner as a means of rationalizing non-compliance or creating justifications for escaping their commitments.

4. Loyalty

Ethical entrepreneurs are ever loyal to persons in their business organisation and the organisation they are working for. They demonstrate friendship in adversity, and support and devotion to duty. They do not divulge confidential information no matter what they personally stand to gain by so doing. Such executives ensure they do not compromise their right to independent professional judgment by guarding against undue influences and conflict of interest. They cannot accept another employment without providing reasonable notice to their former employer. They will ever refuse to seek cheap popularity with their new organisation through castigation of their former employers or engaging in any activities that take undue advantage of their previous positions.

5. Fairness

Ethical entrepreneurs are fair, just, and treat individuals equally. They tolerate and accept diversity, are willing to admit they are wrong and, where appropriate, are to change their positions and beliefs. They do not exercise power arbitrarily, and neither use overreaching nor indecent means to gain or maintain any advantage. They do not take undue advantage of another's mistakes or difficulties.

6. Concern for Others

Ethical entrepreneurs strive to achieve their business objectives in a manner that causes the least harm and the greatest positive good. They treat others the way they would like to be treated. They are caring compassionate, benevolent and kind.

7. Respect for Others

One of the traits of ethical entrepreneurs is respect for others. They show great respect for the human dignity, autonomy, privacy, rights and interests of all stakeholders in their decisions. They are imbued with the sense of courtesy. They treat all persons with equal respect and dignity irrespective of gender, race, socio-economic status and race.

8. Law abiding

Ethical entrepreneurs meticulously abide by laws, rules and regulations guiding their business activities.

9. Commitment to Excellence

Ethical entrepreneurs are sticklers to excellence. In the performance of their duties they are informed and prepared and always striving to increase their proficiency in all areas of responsibility.

10. Leadership

Ethical entrepreneurs appreciate the responsibilities and opportunities of their position of leadership. In keeping with this they strive to be positive role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

11. Reputation and morale

Ethical entrepreneurs appreciate the need to maintain their organisations' good reputation while at the same time building the morale of their employees. They do these by engaging in no conduct that might undermine respect and taking whatever actions are necessary to correct or prevent inappropriate conduct of others.

12. Accountability

Ethical entrepreneurs are willing to be held accountable for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

6.04 Managing and Controlling Growth

Usually, ventures start small because of limited knowledge of the market, shortage of capital and lack of skilled employees etc. It is expected that as the entrepreneur gains more skills, knowledge and acquire additional resources, the volume of activities of the business will expand. An entrepreneur may also capitalize on changes in the environment to expand his operations to exploit new opportunities. There are times

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

Theorists have shown that behavioral traits are significant influences on entrepreneurs' desire to grow his business. Some people inherently derive satisfaction from being excellent in what they do; they tend to have insatiable desire to grow and positively affect the world around them. Other people tend to be comfortable with average results while others are "easy come easy go". In explaining the pattern of business growth, many theories rely on "The life-cycle" approach.

This approach posits that just as humans pass through stages of physiological and psychological development from infancy to adulthood, businesses also evolve in predictable ways and encounter similar problems in their growth" (Bhidé, 2000). It is proposed that businesses pass through infancy, growth, maturity and then decline or even close shop. Some scholars suggest more or fewer stages of development. However, there is no consensus on the number of stages, or on how they are related. Moreover, the proposition that all businesses follow the set sequence is not at all supported by the empirical evidence. The main issue is that companies are started at one point and they need to be nurtured and managed to grow bigger and bigger. There are companies around the world that survive decades or centuries. The question is why some businesses survive and grow while others do not.

Researchers have shown that more than half of all businesses fail in less than two years of commencement. Also, a large number of those businesses that survive the first two years hardly grow. It is only few businesses that survive, grow, regenerate and even

create other businesses. Conventionally, people ascribe businesses success or failures to fate/chance or certain environmental conditions including family background. Even though one could not entirely rule out the influence of changes in the environmental factors, the entrepreneur's positive attitude, discipline, skills, competences, resilience and experience are real factors determining the transition of an enterprise from start up to a fully grown or diversifies venture.

There are two main types of business growth:

1. Internal Growth and
2. External Growth

1. Internal growth: Internal growth is typically a steady process of expansion from within the firm. The owner(s) of the business contribute more capital or plough back profits into the business to acquire new assets, employ more staff, build additional plant or deploy new technology. The main advantage of this approach is that the business can leverage its assets and experience over time. The main disadvantage is that it takes time, and rivals may be expanding and gaining competitive advantage as well. NASCO Nigeria plc. used this approach by expanding into the production of detergents and carpets. Thus, through hard work and careful planning owners can grow their businesses successfully.

2.External Growth: External growth can be carried out by seeking external finance, or by merger and acquisition. These approaches tend to rely on bringing external resources into the business to fund expansion. In this case, there is the possibility of changes in the ownership structure of the firm or changes in its gearing position. See topic 2 for more details on mergers and acquisition. Therefore, entrepreneurs are expected to create an environment that will fit the growth agenda of the firm. This entails continues assessment of structures, policies, procedures, systems, activities, decisions making, coordination, and communication networks.

All these factors are vital to achieving optimum growth. When a firm is better organised and managed, there are several alternative paths for controlling growth. They include:

- 1. Expanding Product Line or Service Offerings:** A firm may increase its products offerings by serving the existing market or discovering an entirely new market. This requires market research and intelligence to enable the firm to gauge the acceptability of the new products to the target market. For example, Dangote Group of companies' plc introduced Dangote noodles to its product lines to serve the existing large market for fast meals in Africa.
- 2. Opening new branches/division:** To expand to new market, entrepreneurs make efforts to set up branches in other locations. Opening new branches or divisions allows firms to expand to new locations, other local governments or states with new or existing products depending on market requirements. The key to creating and successfully operating in a new location is to ensure that a demand already exists, or the company is capable of stimulating demand in the new target market.
- 3. Exporting:** Many firms tend to remain domestic throughout their existence. Today, markets, customer taste, competition and knowledge are global. Regardless of the business one undertakes there are numerous opportunities for growth in the international market. Besides, exporting to other nations enables a company to have a unique competence (Porter, 1990). This is because, unlike broadening domestically, expanding globally is likely to leverage and re-enforce a company's unique position and identity. Lee Group of companies in Kano State exports rubber shoes to the United States. The volume of sales/profit generated by the company placed it as one of biggest and most successful manufacturing concerns in Northern Nigeria.
- 4. Innovation:** Innovation is the greatest source of sustained growth. Peters and Waterman (1994) observed that innovative companies are skillful at continually responding to changes in customers' needs and are better prepared to overcome new competitive or other environmental challenges. Innovation signifies continuous change in the way a firm serves its customers or conducts its business. This suggests

that without constant flows of ideas that reinvent work process, a business is condemned to obsolescence (Hamel and Valinkangas, 2003). Innovation can be bolstered when people are considered as assets, (not simply cost of production) and are given opportunities and reward for bringing good ideas (Fafawora, 1998). It is true that several businesses in Africa are informal or family operated. To be successful, there is the need for a shift towards modernization and employing global good practices for managing ventures. Sticking to traditional methods of operations whether in farms, shops or factories no longer work. Entrepreneurs are required to drive change process that will create unique value by tapping into the creative talents of members of the organisation. Mobile phone companies such as Nokia and Sony Ericson continually alter and improve their product features to create new value thereby retaining existing customers and attracting new customers worldwide.

5. **Creating and Maintaining Online Presence:** Today's world is divided not by ideology but by technology. When a firm employs modern information and communication technology it gains an edge over its competitors (Marco and Levien, 2004; Mitra, 2012). Instead of a firm setting up branches physically within and outside national borders, it can reach global market using internet. To be successful, a firm is expected to create and promote a website that is user friendly. Today, universities around the world conduct their businesses online by advertising programmes, admitting and registering students and receiving tuitions. In fact, some universities run online degree programmes to thousands of people annually. Also, there are businesses such as Amazon.com and e-bay that reach millions of people across the world mainly by using internet.
6. **Franchising and Licensing:** Franchising and licensing are used by companies that have successful products or services to expand to other markets more efficiently. Franchising is a growth strategy where a firm allows another firm or firms to use its successful business model. When a business reaches certain level of maturity, it can franchise its product offerings. In this case, a firm enters into a contractual relationship with other firms known as franchisees to conduct business under the

franchisor's trade name for a fee. United States has some of the most popular franchises in the world. They include McDonalds, Subway and 7-Eleven among others. Licensing however, is a contractual arrangement where a firm known as a licensor allows another firm called licensee to use its brand name, patent, or other proprietary right, in exchange for a fee or royalty. License agreement provides both firms to expand and drive mutual benefits. The licensor benefits from the knowledge, technology, skills, assets and other competencies of the licensee. It also allows the Licensor to enter foreign markets by using local firms. This arrangement is popularly used by manufacturing firms such as pharmaceutical companies, clothing, toys, technology-based firms etc.

- 7. Merger and Acquisition:** Formally the term “merger” applies to the consolidation of two or more companies about equal in size. Acquisition involves a larger firm taking over smaller ones. The two terms are however used interchangeably. Companies merge with or buy other companies to expand or consolidate their operations. In many cases, companies engaged in merger or acquisition to get access to real estate or other facilities; to get access to brand, trademarks, patents or technology and sometimes to get competent employees. But the most common reason is to acquire customers (Selden and Colvin, 2003). In advanced nations growth by merger and acquisition date as far back as 1889. In the 1990s, the tendency for companies to use merger and acquisition as a diversification strategy has even been more pronounced. The business could expand to other markets or produce more products by merging with one or more firms that produces similar or different products.

In Nigeria, merger/acquisition is used to better use resources and achieve greater adaptability to changing economic environment. The consolidation in the Nigerian banking sector where some banks merged, and others got acquired enabled banks to grow rather than operating independently. This has allowed the banks to respond to both local and international competitive challenges. Unity Bank Plc is created out of the merger of nine banks and Eco Bank took over Oceanic Bank plc which initially acquired intercontinental Bank plc.

8. Competition: In the global corporate scene, companies cannot afford to ignore the need to collaborate with other companies or competitors to create new value. This is not to undermine competition, but to allow firms to compete at one level and collaborate in another level with the aim of taking advantage of new market or developing new products which they could otherwise not achieve independently. Also, firms collaborate to take advantage of foreign markets. This explains why about 50% of North American based corporations use collaborations to gain access to new markets (Casseras, 1997). This form of alliance facilitates learning, access to modern technological advances and reduced transition time. The computer and photographic film industry are good examples of how an active alliance could help companies add superior value. The IBM's personal computer business relies on partnership with other companies such as Microsoft, Intel and recently Apple Computers (Casseras, 1997). IBM has more than 100 alliances worldwide. Again, the joint venture (Fuji Xerox) between Xerox, a photocopy machine company and Fuji, a camera film company, resulted in the creation of photographic film company second only to Kodak.

In a nutshell, managing and controlling business growth could be enhanced by modifying business model for quicker response to market needs as follows:

- i. Organise to learn what is working
- ii. Improve production systems
- iii. Design new business structures to ensure financing for expansion
- iv. Implement new technologies
- v. Integrate new employees
- vi. Establish priorities and focus on a few vital goals
- vii. Build team leadership.

6.05 Barriers to Entrepreneurship

The problem of many of ventures, which constitute barriers to entrepreneurship, remains lack of expansion, low technology and skills; and limited capital. In fact, significant numbers of youth that have low skills are either unemployed or are engaged in street hawking and road side petty trades because the ventures that are expected to absorb them do not frequently grow. Thus, there is the need to carefully address the binding constraints to growth of businesses to regenerate the economy. Some of the key barriers are as follows:

1. **Lack of coherent economic empowerment policy:** There is yet to be a comprehensive long-term agenda for youth development which would draw momentum from reliable data bank for skilled and unskilled; employed and unemployed youth in the country. There is almost total absence of coordination among various agencies concern with employment generation in the country.
2. **Technical constraints:** Although there are few vocational and other skills acquisition centers in the country, their number and competencies are inadequate to improve the technical capacity of many Nigerians. Also, the technical skills provided are skewed towards low technology and low skill trades.
3. **Deteriorating economic condition:** Due to weak economic policies that engender high inflation, high interest and exchange rates coupled with the smuggling of foreign cheap products into the country, many people consider it extremely risky to invest in agribusiness and manufacturing.
4. **Lack of productive culture:** People are accustomed to being dependent on parents, relative, friends and government. Without social re-orientation, it will be difficult to free the enormous talent and energies of people to think and act their way to financial independence.
5. **Low Access to finance:** This is the inability of an entrepreneur to generate the much-needed liquidity to run the day to day activity, secure capital for expansion purposes or to purchase capital equipment for production purposes. Even with the introduction of Micro Finance Banks and the consolidation of the banking sector, many businesses in Nigeria do not have access to finance.

6. **No access to Business Development Services:** Entrepreneurs require services such as tax planning and accounting, business plans, advice on marketing, production, IT systems, legal services etc. However, due to lack of access to finance and technical skills, many do not appreciate the relevance of the services and some cannot afford the services. Hence, they remain small.
7. **Lack of standard social amenities:** Nigerian businesses grapple with inadequate power, water, sanitation, security, rails and roads networks. This tends to increase the cost of doing business which drains resources required for expansion. An entrepreneur fails to maximize his/her set objectives in a situation where energy source is not stable, which will focus company result on generator, which is expensive to maintain. Other social amenities that can affect performance and inhibit growth of an enterprise are portable water, poor road network, and inefficient communication. The introduction of mobile telephony system in Nigeria has improved the later considerably.
8. **Low Access to Investments:** many companies that operate outside the extractive sectors find it difficult to attract foreign investment and foreign lending. The Federal Ministry of Commerce and Nigerian Investment Promotion Council have a unique role to play in this regard.
9. **Poor marketing ability:** The Entrepreneur's significant inability to effectively market products produced by the production department can force an enterprise to wind up. Also, its inability to create a good market share of enterprise products will jeopardize the existence of such venture.
10. **Bad succession plan:** An enterprise may stand against the continued existence of such company, because no sooner an entrepreneur dies, fewer may be the days of survival of such enterprise.
11. **Scarcity of raw material:** Availability of raw materials determines the survival of most production enterprise. Once raw material becomes scarce for an entrepreneur who is into production, the production line would stiffer serious starvation of material input required for production.

12. **Unfavourable government policies:** Unfavourable government policies usually have a negative impact on an entrepreneur's activities. This is because such policies may sometimes affect production cost or sometimes make it impossible to source raw material again. Such policies have the tendency of destabilizing enterprise focus. Even though the list of barriers to entrepreneurship is not exhaustive, it is pertinent to begin to consciously foster an environment that encourages entrepreneurs to invest in new technology and new activities which is critical to the economic growth of the country.

6.06 Valuation Methods

A problem confronting the entrepreneur when obtaining outside equity funds, whether from the informal investor market (the angels) or the formal venture-capital industry, is determining the value of the company. This valuation is at the core of determining how much ownership an investor is entitled to, for funding the venture. This is determined by considering the factors in valuation. This, as well as other aspects of securing funding, has a potential for ethical conflicts that must be carefully handled.

Big or small, business valuation is important for owners, so that they can better use some of these valuation methods to "speak" the language of finance-types. There are a lot of factors that go into determining the valuation of a company. Certainly, revenues are a big factor, but they are not the only factor in the valuation of a company.

Business valuation methods are the various ways to estimate the (somewhat) unbiased value of a business in terms of present value and the potential that a company has rather than just the current revenues. These are calculated using objective measures that look at all aspects of a business such as analysis of capital structure, earnings prospects, market value of assets, and sometimes an analysis of company management. This valuation is important to financial people and investors as it helps determine the economic value of a business and drive investment decisions.

Factors in Valuation

There are eight factors that, although they vary by situation, the entrepreneur should consider when valuing the venture (Fasua, 2008).

1. Nature and History of the Business

The first factor, and the starting point in any valuation, is the nature and history of the business. The characteristics of the venture and the industry in which it operates are fundamental to every evaluation process.

The history of the company from its inception provides information on the strength and diversity of the company's operations, the risks involved, and the company's ability to withstand any adverse conditions.

2. Economic Outlook

Secondly, the valuation process must also consider the outlook of the economy in general as well as the outlook for the particular industry. This involves an examination of the financial data of the venture compared with that of other companies in the industry. Management's capability now and in the future is assessed, as well as the future market for the company's products. Will these markets grow, decline, or stabilize, and in what economic conditions?

3. Financial Condition

The third factor is the book value ('net value,) of the stock of the company and the overall financial condition of the business. The book value (often called owner's equity) is the acquisition cost (less accumulated depreciation) minus liabilities. Frequently, the book value is not a good indication of fair market value, as balance sheet items are almost always carried at cost, not market value. The value of plant and equipment, for example, carried on the books at cost less depreciation may be low due to the use of an accelerated depreciation method or other market factors, making the assets more valuable than indicated in the book value figures. Land particularly, is usually reflected lower than fair market value. For valuation, the balance sheet must be adjusted to reflect the higher values of the assets, particularly land, so that a more realistic company-worth is determined. A good valuation should also value operating, and non-

operating assets separately and then combine the two into the total fair market value. A thorough valuation involves comparing financial position statement and comprehensive income statements for the past three years when available.

4. Future Earning Capacity

While book value develops the benchmark, the future earning capacity of the company, the fourth factor, is the most important factor in valuation. Previous years' earnings are generally not simply averaged but weighted, with the most recent earnings receiving the highest weighting. Income by product line should be analyzed to judge future profitability and value. Special attention should be paid to depreciation, non-recurring expense, officers' salaries, rental expense, and historical trends.

5. Dividend Paying Capacity

The fifth valuation factor is the dividend paying capacity of the venture. Since the entrepreneur in a new venture typically pays little if any dividends it is the future capacity to pay dividends rather than actual dividend payments made, that is important. The dividend- paying capacity should be capitalized.

6. Goodwill and other intangibles

An assessment of goodwill and other intangibles of the venture is the sixth valuation factor. These intangible assets usually cannot be valued without reference to the tangible assets of the venture.

7. Sales of Stock

The seventh factor in valuation involves assessing any previous sale of stock. Previous stock sales accurately represent future sales if the stock sales are recent. Motives regarding the new sale (if other than arriving at a fair price) and any change in economic or financial Conditions during the intermittent period should be considered.

8. Stock Market Prices

The final valuation factor is the market price of the stocks of companies engaged in the same or similar lines of business. The critical issue is the degree of similarity between the publicly traded company and the company being valued.

The most common business valuation methods which are also applicable to entrepreneurship are based on some understanding of accounting, which emanated from market approach, income approach and assets approach. There are four (4), namely:

- i) Market Valuation Method
- ii) Discounted Cash Flow (DCF) Method
- iii) Multiples Method
- iv) Comparable Transactions Method

i) Market Valuation Method

This is the simplest process to value publicly quoted firms that issue shares to the public for subscription. These include big firms registered on a stock exchange like the Nigerian Stock Exchange (NSE), New York Stock Exchange (NYSE). Since they are publicly quoted, it is easy to obtain data and information about their activities because they publish their financial reports annually. Also, market capitalization calculation can be used to determine the market value of a publicly quoted company by multiplying the company's stock price (the price of a single share) by the number of shares outstanding for the equity market value. Once the market value is determined, adjustment would be made for the disposal amount if the company to be sold. The price that buyers are willing to pay is not necessarily reflected in the share price. As a result, a company would sell for either a discount - a value under market value or a premium - which is a value higher than market value.

ii) Discounted Cash Flow (DCF)

This is the most reliable and thorough method to calculate the value of any firm. This is arrived at by calculating the Free Cash Flows (FCF) of a firm as well as the Net Present Value (NPV) of these Free Cash Flows. It can be done in two major ways:

1. Weighted Average Cost of Capital (WACC)
2. Adjusted Present Value (APV)

1 Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital (WACC) uses the discount rate (r) formula of

target equity ratio given as $\frac{E}{(D+E)}$ and the target debt ratio given as $\frac{D}{(D+E)}$

The formula for the discount rate (r) of the Weighted Average Cost of Capital (WACC) is:

$$r_{dWACC} = \frac{E}{(D+E)}(r_e^L) + \frac{D}{(D+E)}(1 - t)(r_D)$$

Where:

- D = Market value of debt
- E = Market value of equity
- r_D = Discount rate for debt = Average interest rate on long-term debt
- r_e^L = Discount rate for leveraged equity (calculated using CAPM)

The formula for the Capital Asset Pricing Model (CAPM) is given as:

$$r_e^L = r_f + \beta^L(r_m - r_f)$$

Where:

- r_f = Risk-free rate of return for a theoretical investment without risk
- r_m = Expected market return
- $(r_m - r_f)$ = Excess market return
- β^L = Leveraged Beta (Beta is a measure of Volatility/Risk)

Note: The risk-free rate comes from the Treasury bond rate at the time where the projections are being considered

2. Adjusted Present Value (APV)

The adjusted present value uses the Net Present Value (NPV), which calculates based on being financed only by equity. After the NPV is determined, APV then factors in the benefits of financing by considering the present value (PV) of any financing benefits like tax shields such as those provided by deductible interests.

The NPV formula is:

$$\frac{FCF_1}{(1+r_d)^1} + \frac{FCF_2}{(1+r_d)^2} + \frac{FCF_3}{(1+r_d)^3} + \dots + \frac{FCF_n}{(1+r_d)^n} = NPV$$

Where:

FCF = Free Cash Flows

r_D = Discount rate for debt = Average interest rate on long-term debt

Once the FCF is known, and then apply the CAPM calculated with the unleveraged beta.

$$r_e^U = r_f + \beta^U (r_m - r_f)$$

Where:

r_f = Risk-free rate of return for a theoretical investment without risk

r_m = Expected market return

$(r_m - r_f)$ = Excess market return

β^U = Unleveraged beta

iii) Multiples Method

This process is based on the combination of the methods below:

1) Price-to-Earnings Multiples: It is also known as Price Earnings (P/E) ratios. This is the most commonly used multiples as it compares a company's market capitalization to its annual income. To ascertain the value of the

company, its current equity value is divided by its recent net income to ascertain the price-to-earnings multiple.

- 2) EBITDA Multiples:** EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization, and it's an easy way to describe nontaxable and non-adjusted profits.

Once the EBITDA amount is calculated in a standard way, cost of outstanding debts is factored in to ascertain the enterprise value and then also look at which multiples are used for other companies in the industry to determine equity value. As a multiples method, the total calculated enterprise value is divided by EBITDA to determine the EBITDA multiples.

- 3) Earnings Multiples:** This method utilizes the earnings multiplier which is a good way to assign value to a stable and predictable business that is about to make an Initial Public Offer (IPO). The price value is based on multiples of the business's earnings potential and so prospective buyers can translate the purchase price into expected earnings and projected return on investment (ROI). It also has the distinct benefit of being a simpler basis to compare different businesses across industries and locations and provides a more tangible and simpler basis by which to compare different businesses in different industries or locations. It is easy to determine but faced with the problem of earnings data being calculated from historical financial information, the calculation needs the earnings to be precisely defined and calculated in the same way. Also, because of associated business risk, the multipliers can vary widely, and the right multipliers to earnings need to be applied.

4) Comparable Transactions Method

This valuation method relies to a certain extent on multiples. This method can be used if comparable transactions in that industry paralleled to a business with a similar model are gotten and subsequently compared with the relevant ratios and multiples such as Enterprise Value-to-EBITDA.

With the comparable transactions method, a key factor that helps to determine the valuation is focused at. This can be done by comparing the financial statements of similar companies and try to find a multiple that closely predicts the valuation. Once you know that, you can use that multiple to value the company being considered.

In conclusion, there are many different business valuation methods available. But, for most businesses, a combination of these different business valuation methods will be necessary to set a fair selling price.

6.07 Review Questions

1. Determine and demonstrate the key considerations for structuring new ventures.
2. Compare alternatives approaches to valuing new ventures.
3. Chose, select and demonstrate the internal structure that support growth of a firm.
4. Develop the concept of Entrepreneurial Governance
7. Explain the barriers to Entrepreneurship
8. Determine the essentials of the valuation methods.

MODULE 7

7.00

INTRAPRENEURSHIP

7.01 Learning Outcomes

On successful completion of this module, students should be able to:

- i. Determine the reasons for the interest in intrapreneurship;
- ii. Deconstruct the organisational environment conducive for intrapreneurship;
- iii. Analyse the differences between corporate and intrapreneurial cultures;
- iv. Evaluate the general characteristics of an intrapreneur;
- v. Construct the process of establishing intrapreneurship in an organisation.

7.02 Nature of Intrapreneurship

The term “intrapreneur” was coined in America in the late seventies. Several senior executives of big corporations in America left their jobs to start their own small businesses because the top bosses in these corporations were not receptive to innovative ideas. The executives turned entrepreneurs achieved phenomenal success in their new ventures. Some of them posed a threat to the corporations they left a few years ago. This type of entrepreneurs came to be known as intrapreneurs. Such corporate brain drain is a worldwide phenomenon and is not confined to the United States. Industrialists all over the world started devising ways and of stopping the flight of their brightest executives. In 1976 Norman Macras wrote in the London Economist that successful big corporations should become ‘confederations of entrepreneurs’.

The idea was promising and the opportunities awaiting entrepreneurs inside large corporations could be tremendous provided in could be made workable. An American management expert, Gifford Pnchot III wrote his famous book. Intrapreneruing in 1985 and used the term ‘intrapreneurs’ to describe the persons who resigned from their well-paid executive positions to launch their own ventures. Gifford Pinchot-III suggested that well-established companies should learn to make use of the entrepreneurial talents within to avoid stagnation and decline. Entrepreneurs introduce new products, services and processes which enable the company to grow and succeed in a changing environment.

What was, therefore, needed was a system and an organisation culture within a large organisation that would allow the executives to operate like entrepreneurs. These persons are driven not by monetary gain but by a deep desire of personal achievement. Therefore, companies should provide such people with adequate financial resources and the autonomy necessary for the development and application of their ideas. Pinchot suggested the creation of a system which will provide selected executives a status within the corporation like that of an entrepreneur in society. Such people are 'intra-corporate entrepreneurs' or 'entrepreneurs'. The notion of entrepreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organisation he-she needs to be sponsored and given adequate freedom to implement his ideas otherwise the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others.

The interest in entrepreneurship shown by existing organisations has resulted from a variety of events occurring in the United State on social, cultural and business levels. On a social level, there is an increasing interest in "doing your own thing" and doing it on one's own terms. Individuals who believe strongly in their own talents frequently desire to create something of their own. They want responsibility and have a strong drive for individual expression and more freedom in their present organisational structure. When this freedom is not forthcoming, frustration can develop that can lead to the individual becoming less productive or even leaving the organisation to achieve self-actualization elsewhere.

This new search for meaning and the impatience involved, has recently caused more discontent in structured organisations than ever before. When meaning is not provided within the organisation, individuals often search for an institution that will provide it. Intrapreneurship is one method for stimulating and then capitalizing on individuals in an organisation who think that something can be done differently and better.

Corporate Versus Intrapreneurial Culture

Business and sociological conditions have given rise to a new era American business: the era of the entrepreneur. The positive media exposure and success of entrepreneurs is threatening to some established corporations, as the smaller, aggressive, entrepreneurially driven firms are developing more new products and becoming dominant in certain markets. Recognizing the positive results that occur when employees of other large corporations catch the “entrepreneurial fever,” many companies are now attempting to create the same spirit, culture, challenges and rewards of entrepreneurship in their organisations. What are the differences between corporate and entrepreneurial cultures? Between, managers, entrepreneurs, and intrapreneurs.

The typical corporate culture has a climate and reward system that favors conservative decision making. Emphasis is on gathering large amounts of data as the basis for a rational decision and to use to justify the decision should the intended results not occur. Risky decisions are often postponed until enough hard facts can be gathered or a consultant hired to “illuminate the unknown”. Frequently, there are so many sign-offs and approvals required for a large-scale project that no individual feels.

Comparison of Entrepreneurs, Intrapreneurs, and Traditional Managers

	Traditional Managers	Entrepreneurs	Intrapreneurs
Primary motives Promotional and other	Traditional corporate Rewards, such as office, Staff, and power	Independence, Opportunity to create and money	Independence and Ability to advance in the corporate rewards.
Time Orientation	Short-term meeting quotas and budgets,	Survival and achieving 5-10-year growth of	Between entrepreneurial and traditional managers,

	weekly monthly, quarterly, and the annual planning horizons. Traditional Managers	business.	depending on urgency to meet self-imposed and corporate timetable. Intrapreneurs
Activity Delegates and supervises	More than direct involvement	Director involvement	Direct involvement more than delegation.
Risk	Careful	Moderate risk taker	Moderate risk taker
Status	Concerned about status symbols.	No concern about status symbols.	Not concerned about traditional corporate status symbols- desires independence.
Failure and mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and failures.	Attempts to hide risky projects from view until ready.
Decisions	Usually agrees with those in upper management positions.	Follows dream with decisions.	Able to get others to agree to help achieve dream.

Who serves	Others	Self and customers	Self, Customers and sponsors.
Family history	Family members worked for large organisations.	Entrepreneurial small business, professional, or farm background.	Entrepreneurial small-business, professional or farm background.
Relationship with others	Hierarchy as basic relationship	Transactions and deal making as basic relationship	Transaction within hierarchy

7.03 Climate for Intrapreneurship

How can the climate for intrapreneurship be established in an organisation? In establishing an intrapreneurial environment, certain factors and leadership characteristics need to be operant. The overall characteristics of a good intrapreneurial environment are summarised in Table. The first of these is that the organisation operates on the frontiers of technology. Since research and development are key sources for successful new product ideas, the firm must operate on the cutting edge of the industry's technology, encouraging and supporting new ideas instead of discouraging them, as frequently occurs in firms that require rapid return on investment and high sales volume.

Second, experimentation – trial and error – encouraged. Successful new products or services usually do not appear fully developed; instead they evolve. It took time and some product failures before the first marketable computer appeared. A company wanting to establish an intrapreneurial spirit must establish an environment that allows mistakes and failure in developing new innovative products.

Almost every entrepreneur has experienced at least one failure in establishing a successful venture. Third, an organisation should make sure that there are no initial opportunity parameters inhibiting creativity in new product development, Frequently in an organisation, various “turfs” are protected, frustrating attempts by potential intrapreneurs to establish new ventures, In one fortune 500 company, an attempt to establish an intrapreneurial environment ran into problems and eventually failed when the potential intrapreneurs were informed that a proposed new product and venture was not possible because it was the domain of another division. Fourth, the resources of the firm need to be available and easily accessible. As one intrapreneur stated, “If my company really wants me to take the time, efforts and career risks to establish a new venture, then it needs to put money and people resources on the line. Often insufficient funds are allocated to the task of creating something new, with available resources being committed instead to solving problems that have an immediate effect on the bottom line. Some companies like Xerox and AT & T have recognised this problem and have established separate venture.

Intrapreneurial Environment

- i. Organisation operates on frontiers of technology
- ii. New ideas encouraged
- iii. Trial and error encouraged
- iv. Failures allowed
- v. No opportunity parameters
- vi. Resources available and accessible
- vii. Multidiscipline teamwork approach
- viii. Long time horizon
- ix. Volunteer program
- x. Appropriate reward system
- xi. Sponsors and champions available
- xii. Support of top management

Capital areas for funding new internal ventures. When resources are available, all too often the reporting requirements become obstacles to obtaining them, causing frustration and dissatisfaction.

Fifth, a multidiscipline team approach needs to be encouraged. This open approach, with participation by needed individuals regardless of area, is the antithesis of the corporate organisational structure and theory. An evaluation of successful cases of intrapreneurship indicated that one key to success was the existence of 'skunkworks' involving key people.

Some companies can facilitate internal venturing by legitimizing and formalizing the skunkworks already occurring. Developing the needed teamwork for a new venture is further complicated by the fact that a team member's promotion and overall career within the corporation is related to his or her job performance in the current position, not to his or her contribution to the new venture being created.

Sixth, the spirit of intrapreneurship cannot be forced on individuals, it must be an on-volunteer basis. There is a difference between corporate thinking and intrapreneurial thinking, with individuals performing much better on the latter side of the continuum. Most managers in a corporation are not capable of being successful intrapreneurs. Those who do emerge from this self-selection process must be allowed the latitude to carry a project through to completion.

This is not consistent with most corporate procedures for new product introduction, where different departments and individuals are involved in each stage of the development process. An individual willing to spend the excess hours and efforts to create a new venture needs the opportunity and the accompanying reward of carrying the project through to completion. An intrapreneur falls in love with the newly created internal venture and will do almost anything to help insure its success.

The seventh characteristic is a reward system. The intrapreneur needs to be appropriately all the energy and effort expended in the creation of the new venture. These rewards should be based on the attainment of established performance goals.

An equity position in the new venture is one of the best methods for motivating and soliciting the amount of activity and efforts needed for success.

Eighth, a corporate environment favourable for intrapreneurship has sponsors and champions throughout the organisation who not only support the creative activity and resulting failures but also have the planning flexibility to establish new objective and directions as needed. As one intrapreneur stated, "For a new business venture to succeed, the intrapreneur needs to be able to alter plans at will and not be concerned about how close they come to achieving the previously stated objectives". Corporate structures frequently measure managers on their ability to come close to objectives, regardless of the quality of performance reflected in this accomplishment.

Finally, and perhaps most important, the intrapreneurial activity must be whole heartedly supported and embraced by top management, both by physical presence and by making sure that the personnel and the financial resources are readily and easily available. Without top management support, a successful intrapreneurial environment cannot be created.

Within this overall corporate environment, there are certain individual characteristics needed for a person to be a successful intrapreneur. As summarized in Table these include understanding the environment, being visionary and flexible, creating management options, encouraging teamwork while employing a multidiscipline approach, encouraging open discussion, building and coalition of supporters and persisting.

To successfully establish a successful entrepreneurial venture, the individual must be creative and have a broad understanding of the internal and external environments of the corporation.

The person who is going to establish a successful new entrepreneurial venture must also be a visionary leader-a person who dreams great dreams. The third needed characteristic is that the entrepreneur be flexible and create management options. An entrepreneur does not "mind the store" as is frequently taught in many business schools but is playful and a bit irreverent.

By challenging the beliefs and assumptions of the corporation, an entrepreneur can create something new in the largely bureaucratic organisational structure.

The intrapreneur must possess a fourth characteristic the ability to encourage teamwork and use a multidiscipline approach. To minimize the negative effect of any disruption caused, the entrepreneur must be a good diplomat.

A successful new entrepreneurial venture can be formed only when the team involved feels the freedom to disagree and to critique an idea to reach the best solution. The degree of openness among the team depends on the degree of openness of the entrepreneur.

Openness leads also to the establishment of a strong coalition of supporters and encouragers. The entrepreneur must encourage and affirm each team member, particularly during difficult times.

Last, but not least, is persistence, throughout the establishment of any new entrepreneurial venture, frustration and obstacles will occur. Only through the entrepreneur's persistence will a new venture be created and successful commercialization result. A distinction should be made between 'intrapreneurs' and 'entrepreneurs'. First, an entrepreneur is an independent businessman who bears full risks of his business whereas an intrapreneur is semi-independent and does not fully bear the risk of the business he develops and operates. Secondly, the entrepreneur himself raises the necessary capital from various sources and guarantees the return to people who give him finance.

On the other hand, the intrapreneur neither raises the capital himself nor guarantees any return to the suppliers of capital. Thirdly, an entrepreneur operates from outside an organisation whereas the intrapreneur is an 'organisation man' operating from within the organisation. Comparing the two, Pinchot writes an intrapreneur is any of the dreamers who do, those who take on responsibility for creating innovation of any kind within an organisation.

The intrapreneur may be the creator or inventor but is always the dreamer who figures out how to turn an idea into a profitable reality. Similarly, entrepreneur is someone who files the role of an intrapreneur outside the organisation. Both the entrepreneur and the intrapreneur are innovators and both perform the function of organisation and management. But the context within which the two operate and the degree of risk they bear are different.

7.04 Review Questions

1. In what way must a firm adjust its internal operating environment to encourage and enhance intrapreneurship?
2. Carefully distinguish between intrapreneurship, Entrepreneurship and Sole Proprietorship.
3. Norman Macras advocated that big firms should become “Confederations of entrepreneurs”. In what sense is the notion of intrapreneurship a means of fulfilling the goal.

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