



UNESCO-NIGERIA TECHNICAL &
VOCATIONAL EDUCATION
REVITALISATION PROJECT-PHASE II



NATIONAL DIPLOMA IN BUSINESS ADMINISTRATION AND MANAGEMENT



INTRODUCTION TO ENTREPRENEURSHIP BAM 126

YEAR I- SEMESTER II

THEORY

VERSION 1: JULY 2009

GENERAL OBJECTIVES

- + Understand the basic concept of entrepreneurship**
- + Understand the roles of entrepreneurship in personal and national growth and development**
- + Know how to set business goals**
- + Know how to identify business opportunities**
- + Know how to draw single business plan**

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WEEK 1

OBJECTIVE:

1.0 UNDERSTAND THE BASIC CONCEPT OF ENTREPRENEURSHIP

1.1 MEANING OF ENTREPRENEURSHIP

Entrepreneurship can be defined as “the wiliness and ability of an individual or group of person to search for investment opportunities, establish and run a business unit successfully”.

Entrepreneurship as concept that has a lot to do with how several activities are carried out in an organization for effective operation, e.g.

- ❖ To identify business opportunities
- ❖ To make choice of business opportunities
- ❖ To decide on the form of business organization
- ❖ Selection of blending of the enterprise resources for maximum utilization
- ❖ Good leadership, motivation of employees, coordination of monitoring
- ❖ Assume risk of different dimension etc.

Entrepreneurship can also be defined as “ the process of generating ideas and venturing into business risk created by dynamic environment and making the best opportunities for profit purpose.” Entrepreneurship connotes action rather than starts event. It involves taking action necessary to analyze business opportunities to launch and /or grow a business, to finance to the venture and possible to harvest it.

i. Who is an Entrepreneur

For the purpose of this course, an entrepreneur can be defined as action oriented and highly motivated individual who has the ability to see and evaluate business opportunities , and gather the necessary resources, to take advantage of them , to initiate appropriate action , to ensure success and to take risks to achieve goals.

An entrepreneur may also be define as a creative thinker , an innovator, who volunteers to take risk and invest money. In the process, he create jobs, solve problems, adds value and seeks excellence.

Activity 1:1

✚ Try to arrange to meet at least 2 local entrepreneurs that you know in your community and compare their performance.

He or she is known as one who assumes the responsibility and risk for a business with the expectation of making a profit. The entrepreneur generally, decides on the product, acquires the facilities and brings together the labour force, capital and production materials. If the business succeeds, the entrepreneur reaps the reward of profits, if it fails he or she takes the loss.

An entrepreneur is also seen as an individual who creates some sort of innovate economic activity that did not previously exist. He or she provides and services through new business or b attempting to revitalize existing businesses , and thereby, make good out of any necessary situation.

FAMOUS ENTREPRENEURS

Figure 1.1: Aliko Dangote



Aliko Dangote (born April 10, 1957) is a businessman based in Nigeria. He is the owner of the Dangote Group, which has operations in Nigeria and several other countries in West Africa. A wealthy supporter of erstwhile President Olusegun Obasanjo and the ruling People's Democratic Party (PDP), Dangote controls much of Nigeria's commodities trade through his corporate and political connections. With an estimated current net worth of around US\$ 2.5 billion, he was ranked by Forbes as one of the richest black African citizens ^[1] and the third richest person of African descent in the world behind Mohammed Al Amoudi (\$9.0 billion) and Oprah Winfrey (\$2.7 billion.) ^[2]

The Dangote Group, originally a small trading firm founded in 1977, is now a multi-trillion naira conglomerate with operations in Benin, Ghana, Nigeria, and Togo. Dangote's businesses include food processing, cement manufacturing, and freight. The Dangote Group dominates the sugar market in Nigeria, as he is the major sugar supplier to the country's soft drink companies, breweries, and confectioners. Dangote Group has moved from being a trading company to Nigeria's largest Industrial group, including Dangote Sugar Refinery (the most capitalized company on the Nigeria Stock Exchange, valued at over \$3 billion with Aliko Dangote's equity topping \$2 billion), Africa's largest Cement Production Plant: Obajana Cement, Dangote Flour amongst others.

Figure 1.2: Mrs Nkechi Ali- Balogun



When Mrs Nkechi Ali- Balogun entered into public relations, she made up her mind that one day she would lead the association. Today, she is the chairman of the Lagos State

Chapter of the Nigerian Institute of Public Relations (NIPR). Recently, in a chat, she told Daily Sun what motivated her into the job of public relations.

“When I joined the NEXIM Bank, I said to myself that I would one day lead the association because right from childhood, I have had the knack for interpersonal communications”, she explained.

Background

I had my secondary education at the prestigious Mary Mount College, Agbor, Delta State where I was brought up by white Reverend Sisters. I hold Bachelor of Arts degree from University of Lagos, a Postgraduate Diploma in Marketing from University of Nigeria, Nsukka, and an MBA in management from the same university. My foray into public relations started in 1994 when I had the opportunity of heading the PR departments of two Nigerian reputable banks: Nigerian Export-Import Bank (NEXIM Bank) and Equitorial Trust Bank.

Figure 1.3 Bill Gates



William Henry "Bill" Gates III (born October 28, 1955) is an American business magnate, philanthropist, author, and chairman of Microsoft, the software company he founded with Paul Allen. He is ranked consistently one of the world's wealthiest people and the wealthiest overall as of 2009. During his career at Microsoft, Gates held the positions of CEO and chief software architect, and remains the largest individual shareholder with more than 8 percent of the common stock. He has also authored or co-authored several books.

Gates is one of the best-known entrepreneurs of the personal computer revolution. Although he is admired by many, a number of industry insiders criticize his business tactics, which they consider anti-competitive, an opinion which has in some cases been upheld by the courts. In the later stages of his career, Gates has pursued a number of philanthropic endeavors, donating large amounts of money to various charitable organizations and scientific research programs through the Bill & Melinda Gates Foundation, established in 2000.

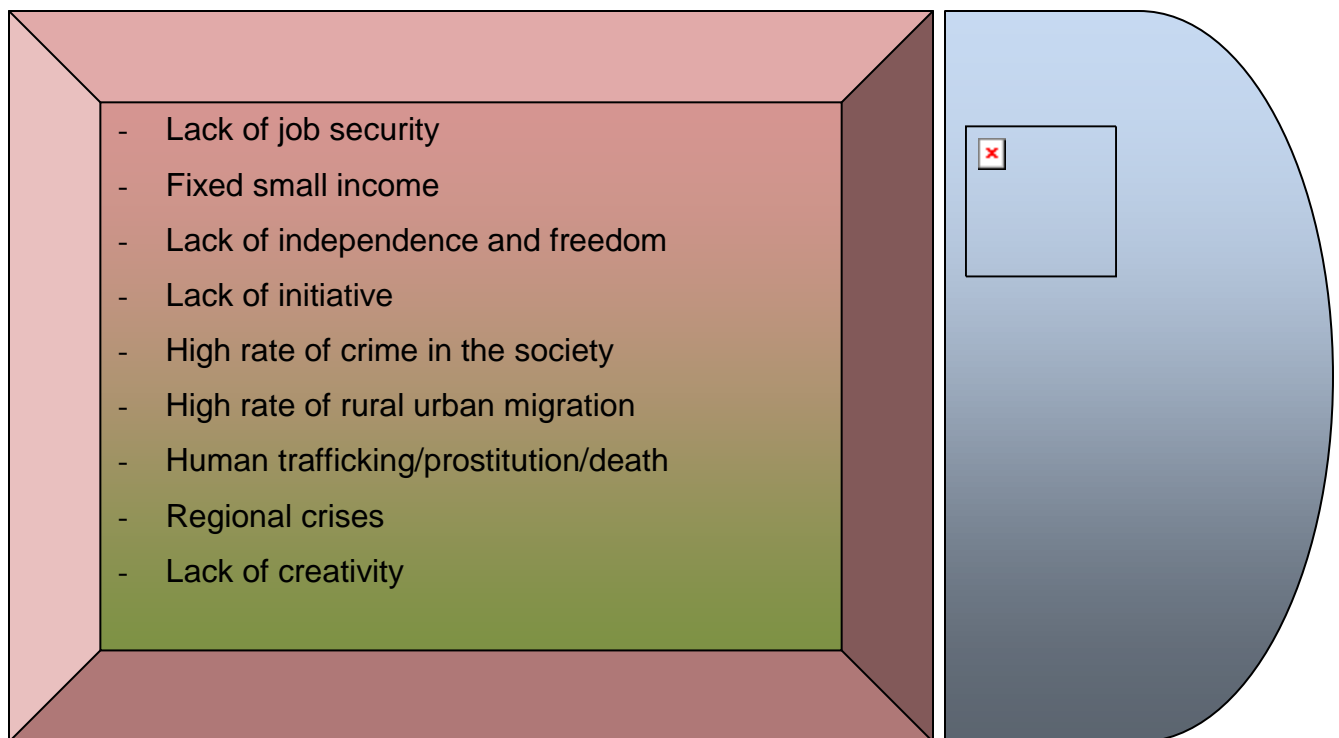
ii. Definition of an enterprise

In its wider sense, an enterprise is any identified idea that is translated into a planned and satisfactorily implemented activity. In its narrower sense, it refers to a business venture or undertaking. Practically all projects and undertakings can be referred to as enterprises if the five steps mentioned in the above definition are followed, i.e. idea identification, planning, implementation, successful completion of an activity and accepting the reward.

iii. Wage Employment

Wage employment is a situation where a person called a servant is employed by an employer called master under a contract of service to do work for the master and in which the servant is under his control and direction. The servant is always provided with tools to do the work and directed on how the work should be done. And the master pays him salary usually at the end of every month.

There are many graduates of various disciplines who are seeking for jobs in the Nigerian labour market and the labour market no longer has enough jobs for them. Even the few that are employed also face many challenges. Some of the consequences of over reliance on wage employment are:



Lack of job security: The wage earner can lose his job anytime. There is no assurance that the employer will continue to employ him. This situation can lead to frustration and poverty where the job is the only source of income for the family.

Fixed small income: The income of the wage earner is fixed and small when compared with what successful entrepreneurs earn from their business. The income cannot adequately take care of an average family in Nigeria as there are so many needs to be met.

Lack of independence and freedom: There is no independence and freedom as the wage earner is under the control and direction of his master. The employer can transfer or redeploys him anytime. The wage earner has no time of his own, except when he is on leave.

A wage earner lacks creativity and initiative as he is always engaged in the same kind of duty and has no much time to think.

Over reliance on wage employment has resulted in youth restiveness in some regions of the nation and some have decided to engage in armed robbery, since they could not get employment from the labour market.

Over reliance has also led to some evil acts like human trafficking, prostitution etc. there is also mass exodus of youths from the rural areas to the urban cities in search of jobs and this has led to neglect of the agricultural sector and other lucrative businesses.

iv. Definition of Self Employment

Self-employment is a situation whereby one becomes an entrepreneur in small scale business, takes the risk of uncertainty and also becomes a master who employs others rather being a servant who is on wage employment.

The serious threats of graduate unemployment in Nigeria today has now led to the need for graduates and non graduates alike to seek avenues for self employment.

Some of the advantages of self employment are:

- + It creates a sense of fulfillment and satisfaction
- + It inculcates a sense of independence
- + It encourages initiation and creativity
- + It creates employment for others
- + It is an opportunity for higher income and status
- + The entrepreneur leads rather than follows

It is generally accepted that entrepreneurs play a key role in business than the private sector as a result of the advantages of self employment. The following are some of the roles of entrepreneurship in the development of the economy.

SUMMARY

- + Entrepreneurship is a means in which people can be self employed and self reliance.
- + Entrepreneurship creates employment in the society

Exercise

- ❖ Distinguish between wage employment, income generation and entrepreneurship

WEEK 2

1.2 COMPARE WAGE EMPLOYMENT AND ENTREPRENEURSHIP

✚ **Entrepreneurship** can be said to be the process of generating ideas and venturing into business risk created by dynamic environment and making the best opportunities for profit purpose. Entrepreneurship connotes action rather than starts event. It involves taking action necessary to analyze business opportunities to launch and /or grow a business, to finance to the venture and possible to harvest it.

✚ **While wage employment:** Through its employment creation business provides an income base to its stakeholders in terms of salaries, wages, profits and taxes. The task of business to enable the earning of wages, salaries and profits is of crucial importance in order to pay taxes and to provide disposable income to finance consumer spending and savings (investment capital)

✚ **Wage Employment**



✚ **Self-employment** is a situation whereby one becomes an entrepreneur in small scale business, takes the risk of uncertainty and also becomes a master who employs others rather being a servant who is on wage employment.

✚ **While Entrepreneurship** can be defined as “ the wiliness and ability of an individual or group of person to search for investment opportunities, establish and run a business unit successfully ”.



1.3 FACILITIES AND OPPORTUNITIES AVAILABLE FOR SELF EMPLOYMENT

Provision of social services: Social institutions and services are provided for by the taxes on the incomes of individuals and businesses. E.g. social amenities, security etc.

Figure 1.4: Facilities for self employment



1.4 THE HISTORY OF ENTREPRENEURSHIP DEVELOPMENT PARTICULARLY IN NIGERIA

Throughout 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 uncertainty-bearing, others with the coordination of productive resources, others with the introduction of innovation, and still others with the provision of capital" (Hoselitz, 1952). 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 economists or that is applicable in every economy.

Activity 2:1

- ✚ Conduct a survey and find out the reason why an average Nigeria graduate prefer a wage employment rather than being an entrepreneur.



Although there is only limited consensus about the defining characteristics of entrepreneurship, the concept is almost as old as the formal discipline of economics itself. The term "entrepreneur" was first introduced by the early 18th century French economist Richard Cantillon. In his writings, he formally defines the entrepreneur as the "agent who buys means of production at certain prices in order to combine them" into a new product (Schumpeter, 1951). Shortly thereafter, the French economist J.B. Say added to Cantillon's definition by including the idea that entrepreneurs had to be leaders. Say claims that an entrepreneur is one who brings other people together in order to build a single productive organism (Schumpeter, 1951).

Over the next century, British economists such as Adam Smith, David Ricardo, and John Stuart Mill briefly touched on the concept of entrepreneurship, though they referred to it under the broad English term of "business management." Whereas the writings of Smith and Ricardo suggest that they likely undervalued the importance of entrepreneurship, Mill goes out of his way to stress the significance of entrepreneurship for economic growth. In his writings, Mill claims that entrepreneurship requires "no

ordinary skill," and he laments the fact that there is no good English equivalent word to encompass the specific meaning of the French term entrepreneur (Schumpeter, 1951).

The necessity of entrepreneurship for production was first formally recognized by Alfred Marshall in 1890. In his famous treatise *Principles of Economics*, Marshall asserts that there are four factors of production: land, labor, capital, and organization. Organization is the coordinating factor, which brings the other factors together, and Marshall believed that entrepreneurship is the driving element behind organization. By creatively organizing, entrepreneurs create new commodities or improve "the plan of producing an old commodity" (Marshall, 1994). In order to do this, Marshall believed that entrepreneurs must have a thorough understanding about their industries, and they must be natural leaders. Additionally, Marshall's entrepreneurs must have the ability to foresee changes in supply and demand and be willing to act on such risky forecasts in the absence of complete information (Marshall, 1994).

Like Mill, Marshall suggests that the skills associated with entrepreneurship are rare and limited in supply. He claims that the abilities of the entrepreneur are "so great and so numerous that very few people can exhibit them all in a very high degree" (1994). Marshall, however, implies that people can be taught to acquire the abilities that are necessary to be an entrepreneur. Unfortunately, the opportunities for entrepreneurs are often limited by the economic environment which surrounds them. Additionally, although entrepreneurs share some common abilities, all entrepreneurs are different, and their successes depend on the economic situations in which they attempt their endeavors (Marshall, 1994).

Since the time of Marshall, the concept of entrepreneurship has continued to undergo theoretical evolution. For example, whereas Marshall believed entrepreneurship was simply the driving force behind organization, many economists today, but certainly not all, believe that entrepreneurship is by itself the fourth factor of production that coordinates the other three (Arnold, 1996). Unfortunately, although many economists agree that entrepreneurship is necessary for economic growth, they continue to debate over the actual role that entrepreneurs play in generating economic growth. One school of thought on entrepreneurship suggests that the role of the entrepreneur is that of a risk-bearer in the face of uncertainty and imperfect information. Knight claims 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 (Swoboda, 1983). Although many current theories on 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. For example, following from Knight, Mises claims any person who bears the risk of losses or any type of uncertainty could be called an entrepreneur under this narrow-definition of the entrepreneur as the risk-bearer (Swoboda, 1983). Thus, in order to build a development model of entrepreneurship it is necessary to look at some of the other characteristics that help explain why some people are entrepreneurs; risk may be a factor, but it is not the only one.

Another modern school of thought claims that the role of the entrepreneur is that of an innovator; however, the definition of innovation is still widely debatable. Kirzner suggests that the process of innovation is actually that of spontaneous "undeliberate learning" (Kirzner, 1985, 10). Thus, the necessary characteristic of the entrepreneur is

alertness, and no intrinsic skills-other than that of recognizing opportunities-are necessary. Other economists in the innovation school side more with Mill and Marshall than with Kirzner; they claim that entrepreneurs have special skills that enable them to participate in the process of innovation. Along this line, Leibenstein claims that the dominant, necessary characteristic of entrepreneurs is that they are gap-fillers: they have the ability to perceive where the market fails and to develop new goods or processes that the market demands but which are not currently being supplied. Thus, Leibenstein posits that entrepreneurs have the special ability to connect different markets and make up for market failures and deficiencies. Additionally, drawing from the early theories of Say and Cantillon, Leibenstein suggests that entrepreneurs have the ability to combine various inputs into new innovations in order to satisfy unfulfilled market demand (Leibenstein, 1995).

Although many economists accept the idea that entrepreneurs are innovators, it can be difficult to apply this theory of entrepreneurship to less developed countries (LDCs). Often in LDCs, entrepreneurs are not truly innovators in the traditional sense of the word. For example, entrepreneurs in LDCs rarely produce brand new products; rather, they imitate the products and production processes that have been invented elsewhere in the world (typically in developed countries). This process, which occurs in developed countries as well, is called "creative imitation" (Drucker, 1985) The term appears initially paradoxical; however, it is quite descriptive of the process of innovation that actually occurs in LDCs. Creative imitation takes place when the imitators better understand how an innovation can be applied, used, or sold in their particular market niche (namely their own countries) than do the people who actually created or discovered the original

innovation. Thus, the innovation process in LDCs is often that of imitating and adapting, instead of the traditional notion of new product or process discovery and development.

Figure 1.5: Global world for entrepreneurs



As the above discussion demonstrates, throughout the evolution of entrepreneurship theory, different scholars have posited different characteristics that they believe are common among most entrepreneurs. By combining the above disparate theories, a generalized set of entrepreneurship qualities can be developed. In general, entrepreneurs are risk-bearers, coordinators and organizers, gap-fillers, leaders, and innovators or creative imitators. Although this list of characteristics is by no means fully comprehensive, it can help explain why some people become entrepreneurs while others do not. Thus, by encouraging these qualities and abilities, governments can theoretically alter their country's supply of domestic entrepreneurship.

Nigeria has thousands of silent businessmen in the informal sectors of the economy, pursuing business interests ranging from the importation of refined crude oil to selling repackaged table water. It is estimated that the informal sector accounts for over 60% of Nigeria's GDP and represents a source of livelihood for about 70% of Nigerians. These business operators in the small sectors are the engine that drives any economic revolution, and Nigeria has no scarcity of them. However, some of these Nigerians have become icons and models for enterprise and business pursuit today through the sheer size and influence of their business dealings. They are from the banking, energy, technology, telecommunications, manufacturing and other industry sectors and have distinguished themselves by contextualizing the resources they manage and by contributing to growth of entrepreneurial spirit in Nigeria.

Nigeria's business opportunities have increased tremendously as the political system becomes increasingly stable. The era of private sector-driven investment has just arrived. Nigerian President Umaru Yar'adua has set an ambitious goal: He wants the country to become one of the world's top 20 economies by 2020. Nigeria will need to increasingly globalize education in two key areas: Information and communications technology, and entrepreneurship. The Presidency has mandated all students in Higher Education Institutions (HEIs), regardless of their discipline, to study entrepreneurship before they qualify for their degrees and diplomas. The aim of this is to create a critical mass of graduates better prepared for employment as well as creators of knowledge-based enterprises.

SUMMARY

- ✚ Entrepreneurship played an important role in national development.
- ✚ Entrepreneurship create wealth in the society

Exercise

- ❖ Explain the role of entrepreneurship in economic development of Nigeria.

WEEK 3

1.5 MEANING AND SCOPE OF ENTERPRISE

In its wider sense, an enterprise is any identified idea that is translated into a planned and satisfactorily implemented activity. In its narrower sense, it refers to a business venture or undertaking. Practically all projects and undertakings can be referred to as enterprises if the five steps mentioned in the above definition are followed, i.e. idea identification, planning, implementation, successful completion of an activity and accepting the reward. You become an enterprising man or woman if you are consistent in systematically following the above process whenever you are involved in dealing with issues in your life. By understanding the enterprise concept in the above context, you appreciate that most people have the potential to be enterprising, and that even you can realize your own business enterprise. The difference between enterprising men and women who are able to deal positively with the challenges and problems they face in their daily lives and those who are unable to do so is to be found in the approaches and attitudes they have when addressing issues and solving problems. Being enterprising can bring benefits to you as an individual, and also help you to become a valued member of your family, community, place of work and society in general. Being enterprising will specifically enable you to achieve a great deal, and you will stand out in the crowd due to your attitude and systematic approach to issues. By adopting an enterprising approach you will know what to do in whatever circumstances you find yourself in. This kind of approach will enable you to appreciate the challenges of life because you will generally be able to translate them into positive results. To help you become enterprising, you will need the following tools:

E- Energy

Working hard, but also in a smart way, is key in entrepreneurship. Lots of both mental and physical energy is needed to be able to face all the challenges involved in providing solutions to issues and for the successful completion of projects. To sustain this energy, you need to stimulate your brains and all your senses – sight, hearing, touch, smell and taste – so that they all stay alert in identifying what needs to be done in different situations. You also need to be healthy and physically fit, and this can be achieved through appropriate diet and exercise.

N- Need to achieve

You have the motivation to achieve success and accomplish all the activities you engage in. Your attitude and perceptiveness enable you to work towards acceptable results whenever you set out to do something. This approach enables you to work harder than the ordinary man or woman.

T -Task oriented

You are convinced that to gain satisfying rewards tasks have to be well executed and completed on time. Efficiency, effectiveness and time management are important aspects that enable you to complete tasks. Being able to focus on results helps you to concentrate on whatever you set out to do.

E- Empathy

You are able to mentally put yourself in the position of the person or persons you intend to influence. You want to feel what they are feeling. You are able to put yourself in their shoes. In the case of a business enterprise you are able to imagine how a potential customer would feel.

R- Resourcefulness

You are able to provide the leadership and guidance needed to realize the enterprise. Identification, mobilization and effective utilization of both the physical and the non-physical resources needed in undertaking a venture are very important in the enterprise process.

P- Planning

To be able to see the total picture of the enterprise in terms of why it should be set up, what needs to be done, how it will be done, who will do it and when it will be done, it is necessary to establish a written plan. This will help to clarify the situation and permit decisions to be made as to whether to engage in activities that will result in an enterprise being set up or not. In the case of business ventures, it is through planning that indications on whether there will be profits or losses will be made available.

Figure 1.6: Risk taking



R- Risk-taking

The decision to go ahead and start the enterprise or undertake the activity must be made. All enterprising men and women make this decision only after they have done a

certain amount of research, so that in the end they are usually able to achieve the results, succeed and receive the rewards. You will always have to take this first step, as it marks the difference between enterprising and non-enterprising men and women. Success begins with the decision to start moving in the right and desired direction.

I- Innovation

The ability to apply new ideas that will enable you to undertake activities differently is another hallmark of enterprising men and women. Through individual initiative, imagination, intuition and insight you will be able to change things around or devise ways of doing things to accommodate whatever new situation you may find yourself in. Information on different issues and fields is an important input for being innovative. Enterprising men and women therefore place great value on information and are always alert and constantly engaging in research.

Figure 1.7: Innovation



S- Skills

Enterprising men and women have the ability or know-how that enables them to undertake and complete activities. Most men and women have a certain amount of knowledge, attitudes and practical skills that can be useful when realizing an enterprise. You should therefore evaluate the talents and level of skills you have and how they can be harnessed to realize an enterprise. Talents and acquired skills have to be constantly utilized and applied, otherwise they can also be forgotten and wasted.

E- Endurance

There are many challenges to be faced when trying to set up an enterprise. Women face specific challenges, some of which are negative and discouraging. To ultimately realize the enterprise that will provide you with the rewards you desire, the ability to keep on track despite the many challenges along the way is critical. Patience, persistence and confidence are some of the attitudes you will need to adopt to enable you to endure the physical and mental challenges you may encounter.

Figure 1.8: Forms of enterprise



1.6 DIFFERENT FORMS OF ENTERPRISE

People in a community have many interests and different needs and wants in their lives. It is the role of enterprising men and women to identify these interests, needs and wants and establish specific enterprises through which these interests, needs and wants can be satisfied. All enterprises provide satisfying rewards for those who successfully establish them.

Terms used to classify enterprises include private, public, formal, informal, individual, community, local, foreign, small, large, business, social, manufacturing, and service, casual or industrial. Enterprises that succeed, irrespective of their nature, come up with

irresistible and valued approaches that contribute to providing solutions to problems, as well as satisfying the desired needs and wants. The key difference between all types of enterprise lies in the rewards they provide. Business ventures provide profits as rewards, while non-business ventures provide other types of rewards which could be either physical or psychological. Enterprising men and women will therefore engage in enterprises depending on what kind of rewards they expect from them. Specific enterprises in a community have the potential to benefit from the existence of all the others. Output from one enterprise normally becomes input for other enterprises, and this helps in money circulation among the enterprises and within the community. The more money that circulates in the community, the more prosperous the community becomes. The synergistic nature of all enterprises in a community creates an environment where there are lots of opportunities to be exploited by enterprising men and women. It is therefore up to these men and women to identify the opportunities available and exploit them. Almost all communities have lots of unexploited opportunities that can increase this synergy if properly harnessed, to create even more opportunities for everyone.

Activity 3:1

- ✚ Identify and explain some of the facilities and opportunities available for self employment in your area.



In the course of training and education, men and women acquire different skills that lead to different careers. They are applied in trade, services, manufacturing, food processing, recreation, information and communication, and other forms of enterprises. Acquired skills are great assets that men and women should be proud of. The existence of many types of enterprise in your community affords you opportunities to apply the skills you have acquired in the course of your training. All types of skill learnt have a chance to be applied if opportunities are sought in all types of enterprise. It is normal for men and women to consider the compatibility of personal values, interests and expectations with the type of enterprise they would wish to associate with. This, however, if taken too far, could limit the opportunities for individual men and women.

The essence or key message is to appreciate that you have started in the right way by acquiring the skills. The next step is to be alert and evaluate the many enterprises in your community and note their potential synergistic nature. The final step is to identify how the skills you have acquired can be applied or utilized in the various possible enterprises. You can therefore do what you can, with what you have, where you are, and still succeed.

SUMMARY

- ✚ Different stages are involve in setting up an enterprise
- ✚ There are many forms of business that people can engage in doing

Exercise

- ❖ Describe the different stages involved in setting up a small scale enterprises
- ❖ List the advantages that a small business has over a large business

WEEK 4

1.7 TYPES OF ENTREPRENEURS

The economic role of entrepreneurs entails the initiation of new business ideas, the production of new products or services, the discovery of new market etc. Though the role of entrepreneurs may be uniform and global, they differ in the way and manner they contribute to the production mechanism. It is on the basis of this difference the entrepreneurs are classified into categories. Hornaday in Usman et al (2006) identified three broad types of entrepreneurs:

- ❖ **Craftsmen:** This category comprises of entrepreneurs that have skills, techniques and experiences required to provide new products or services to the market. The skills are usually acquired through training in vocational and technical schools. Craftsmen entrepreneurs are usually small business owners and self employed. They are mostly found in small scale businesses like joinery, welding, tailoring etc.
- ❖ **Promoters:** This category comprises of entrepreneurs that initiate business ideas. They establish enterprises to actualize business ideas. Promoter entrepreneurs usually relinquish established and fully developed business outfits in pursuit of more rewarding business ideas and ventures.
- ❖ **Opportunists:** This category of entrepreneurs exploit available business opportunities. In doing so, they establish small scale business enterprises and develop them to large scale out fits. Unlike promoter entrepreneurs, opportunists entrepreneurs do not usually relinquish developed business outfits in pursuit of higher rewarding business ideas and ventures. Instead,

opportunists entrepreneurs use their technical knowhow, expertise and experience in the continuous expansion and transformation of the established business enterprise. In Nigeria a good example of a promoter entrepreneur is Alhaji Aliko Dangote. Dangote started with small scale enterprises on sugar, salt etc. He later transformed them into large scale operations like the sugar refinery in Lagos.

Activity 4:1

- Go to your local community and identify at least three successful entrepreneurs. And find out when they started business.



Based on the strategies adopted in establishing business enterprises, Dennis (2007) further categorized entrepreneurs into seven types, they are:

- **Soloists:** These are entrepreneurs that solely establish and run their business enterprises. Such enterprises are financed and managed mainly by an individual. If the individual requires assistance, he usually obtains it from close associates such as members of his family, like his wife, children or friends, relatives etc. Examples of soloist entrepreneurs are mechanics, cobblers, and other professionals like accountants, lawyers, medical doctors etc.
- **Team builders:** This category comprises of entrepreneurs that single handedly establish business enterprises and later on, due to expansion, recruit other people (associates or non associates) to assist in managing

the business. As the name implies, team builder entrepreneurs form a team of people that assist them in the day to day running of the business enterprise. The relationship between the owner and the people in the team is usually more formal than the soloist type of arrangement. Also, there may be more delegation of responsibilities by team builder entrepreneurs than soloist entrepreneurs provides more room for expansion than the soloist type.

- ***Independent innovators:*** These are entrepreneurs that come up with new ideas, or products or services and establish enterprises that actualize such ideas or produce the innovated products or services. To prevent copying or imitation of the new idea or products, innovators entrepreneurs usually obtain patent right from authorities for a given period of time. Examples of innovators entrepreneurs are people like Bill Gates and authors of many books or ideas.
- ***Capital aggregators:*** This category comprises of entrepreneurs that mobilize capital required to establish intensive business outfits. These outfits are usually in areas of banking, insurance, oil and gas. Examples of capital aggregator entrepreneurs in Nigeria are people like Jimoh Ibrahim of N.I.C.O.N insurance, Pat Utomi of the former platinum bank and many more others.
- ***Acquirers:*** These are entrepreneurs that commence business operations through the acquisition of existing ventures mainly by means of inheritances or buying. The members of Alhassan Dantata family in Kano

an example of acquirer entrepreneurs in Nigeria. Most members of the family are successful businessmen through inheritance and the buying of existing business ventures.

- **Buy self entrepreneurs:** This category comprises of entrepreneurs that buy dying or living business ventures for the purpose of reselling such ventures after adding value to them. Buy self entrepreneurs are mostly found in developed economics of the world like U.S.A., U.K. India, etc.
- **Conglomerators:** These are entrepreneurs that do business by means of buying shares of a company that gives them control of the other related companies. The purpose of this kind of buying may be to diversify or improve the parent company. A good example of conglomerate entrepreneurships in Nigeria, was the buying of Sunglass Limited Company by the Seven-Up Bottling Company. The reason for the buying was to use sunglass in producing bottles for use by the seven up company.

1.8 FUNCTIONS OF ENTREPRENEURS

In every business set up entrepreneurs play vital roles. It will not be an exaggeration for one to assert that without entrepreneurs, there cannot be the existence of business enterprises. The roles entrepreneurs play in bringing into existence of business enterprises and their continuous survival constitute the functions they perform. The functions are:

- ❖ ***Selection of business opportunities:*** Human beings have a variety of needs. Some of the needs are satisfied by making available relevant goods and services. Other needs may remain unsatisfied due to the absence of the required goods and services. This category of unsatisfied needs constitutes the business opportunities that can be exploited at any given time and place. It is a function of entrepreneurs to select among the myriad opportunities, the one that will be profitably exploited considering the place, time and resources available. Business opportunities are exploited by the identification of unsatisfied needs and putting together the necessary resources required to satisfy such needs.
- ❖ ***Combination of factors of production:*** These are various categories of resources that are required in the production of goods and services. The categories are land, labour and capital. Forms of resources or factors of production required to produce a given product or services are usually not obtainable at a given place or time. It is another function of entrepreneurs to bring together the hitherto scattered factors or resources so as to produce a given product or services that will satisfy a given human need.
- ❖ ***Establishment of business enterprise:*** The act of bringing together the required resources cannot guarantee the production of the required goods and services at the required profit. There has to be a structure or an outfit that will formalize the relationship between the various interacting units in the production mechanism. This kind of structure is referred to as “business enterprise.” It is part of the functions of entrepreneurs to

undertake all necessary measures that will lead to the establishment of business enterprises. These measures include among others, the determination of mission and vision of business, creation of business name, processing of documents required for the registration of business name etc.

Figure 1.8: Entrepreneurs



- ❖ **Management of business enterprise:** It is one thing to establish a business enterprise and it is entirely another thing to manage the enterprise successfully. The management of business enterprises comprises of measures taken towards effective day to day running of the business. The measures involve managerial activities, like planning organizing and coordinating. It is entrepreneurs that perform these kinds of managerial functions.
- ❖ **Decision making:** This involves the choice and the adoption of an alternative course of action on issues affecting the business. In every business set up, it is entrepreneurs that make decisions. In view of the

uncertainty in the success or failure of an alternative course of action taken, there is a high degree of risk in decision making. It is only entrepreneurs, who are risks takers that are in a proper position to make decisions for the business.

1.9 HOW TO BECOME AN ENTREPRENEUR

From the definitions of who an entrepreneur is, his qualities and contributions to societal development, every right thinking individual will certainly want to become an entrepreneur. Though many individuals may wish to become entrepreneurs, not everybody will become one. This may be due to the absence of what some people term as “Natural entrepreneurial traits” or lack of environmental conduciveness or support. These and similar other obstacles notwithstanding, cannot stop individuals from aspiring to become entrepreneurs. Such aspirations can be a reality by imbibing the following qualities among others:

- ✓ **Vision and focus:** A vision is an idea or a description of what one wants to achieve or to become in the long term future, whereas a focus means a concentration and a commitment to a determined course of action. For one to become an entrepreneur, one must have a vision and a focus.
- ✓ **Goal setting:** The attainment of a vision will require setting of goals on short and medium term bases. The goals (unlike vision) should be specific, measurable and time bound. Potential entrepreneurs need to imbibe the habit of setting goals in every activity they perform at every point in time.

- ✓ **Self motivation:** This is an internal drive that spurs an individual into action so as to achieve the set goals or objectives. Self motivation simply means an interest that pushes an individual into action. An individual cannot become an entrepreneur without having the interest of doing so. An interest makes an entrepreneur to love what he is doing and that in turn will make him to do it well.
- ✓ **Sacrifice:** This entails given up something in anticipation of getting another thing in future. The establishment and the successful management of business enterprises involve sacrifice of time and resources in anticipation of getting profits. Therefore, for one to become an entrepreneur, one must imbibe the habit of making sacrifices.
- ✓ **Time management:** All human activities are tied down to time. Time management means a judicious use of time in the accomplishment of tasks. The aim of time management is to accomplish many tasks within the shortest possible time. Many tasks are involved in the establishment and the management of business enterprises. These tasks can only be accomplished with effective time management.
- ✓ **Hard work and perseverance:** Hard work means continuity and consistency in putting the required efforts for the achievement of set goals. Perseverance, on the other hand, means remaining resolute and determined, in spite of perceived or real hurdles on the way to the achievement of the set targets. The tasks involved in the establishment and the management of business enterprises are not only many, but are

also difficult and complex. Hard work and perseverance are required from potential entrepreneurs for the successful accomplishment of such tasks.

- ✓ **Decisiveness:** It is an ability to react quickly and rightly on matters of concern (Usman et al, 2006). A business involves making and taking decisions on many issues such as where to locate the business, amount of capital required, type of people to employ etc. Fear of failure should not prevent one from taking decisions. It is always better to take decisions and fail than failing to take decisions at all. Therefore an individual aspiring to become an entrepreneur, needs to be decisive on all matters of concern.
- ✓ **Firmness and stead fastness:** firmness means sticking to decisions taken in spite of perceived or real difficulties on ground. Stead fastness entails consistency in firmness. There can be firmness without consistency in firmness. There can be firmness without steadfastness, but there cannot be steadfastness without firmness. For one to become an entrepreneur, one needs to imbibe the habit of steadfastness and firmness on decisions taken.
- ✓ **Human relation:** It may not be possible for an individual to single handedly establish and run a business enterprise successfully. He may need the services of others as partners, workers, or even customers. Potential entrepreneurs need to know how to relate with all categories of stakeholders in the business. This can be achieved by studying people and understanding them so as to accommodate their weaknesses and appreciate their strengths.

- ✓ **Freedom and independence:** Though entrepreneurs require services of other people, they should not in any way totally rely on others on key issues affecting the business. Freedom and independence are essential attributes of potential entrepreneurs. Freedom helps entrepreneurs to think widely and wisely so as to come up with new ideas or products. Independence on the other hand, improves the entrepreneur's ability to control the situation he finds himself and solves his problem without recourse to somebody else.
- ✓ **Emotional stability:** The business world is highly unstable and full of ups and downs. For an individual to fit in the business world, he needs to be emotionally stable. Emotional stability means control of sentiments (I,e, inner feelings) for the attainment of pre-determined goals or objectives. With emotional stability, the unhappiness of incurring losses should not deter the entrepreneur from continuing with the business. The joy of making profits should also not make entrepreneurs to relax and lose sight of future problems.

SUMMARY

- ✚ Entrepreneurs are creative people
- ✚ Entrepreneurs are result oriented and goal getters in all there undertaking

Exercise

- ❖ Discuss the main functions of an entrepreneur

WEEK 5

OBJECTIVE:

2.0 UNDERSTAND THE ROLES OF ENTREPRENEURSHIP IN PERSONAL AND NATIONAL GROWTH AND DEVELOPMENT

2.1 CHARACTERISTICS OF AN ENTREPRENEUR

It is important to identify the characteristics of an entrepreneur so as to imbibe in the student such qualities that would enable him to be one.

Some of the characteristics are:

- a) **Self Confidence** – Belief in oneself and not just fate. Once he sets goals, he has to behave in his ability to achieve same. He is not disturbed or discouraged by obstacles.
- b) **Risk-taking** – The entrepreneur calculate the risk involved in the venture before starting it. He is neither a gambler nor risk averse. He takes moderate risk.
- c) **Result Oriented** – He believes in achieving results, therefore he sets clear and measurable goals. He is persistent, persevering and also determined to ensure these objectives are met.
- d) **Drive and Energy** - An entrepreneur exhibit drive and energy. He puts a lot of physical and mental energy in his business. He runs around to contact customers, suppliers, other associates.

2.2 CONSTRAINTS OF ENTREPRENEURSHIP

- a. **Financial limitations:** Balancing “cash in” and “cash out” is a struggle, especially when trying to expand. Instead of receiving the red carpet

treatment by financiers when asking for a loan, the small businessperson is often made to feel like a second-class citizen. Small enterprises can't use credit as a selling tool as readily as companies with large financial reserves. Additionally, many small enterprises have trouble staying afloat while waiting for their products to win acceptance in the marketplace.

b. Staffing problems: Small companies cannot pay top salaries and provide the opportunities and status normally associated with a big company job. Small enterprise owners must also concentrate on the day-to-day problems of running the business and generally have little time left to think about objectives.

Activity 5:1

- ✚ Divide the class into two and ask them to engage in a debate with the topic --Wage employment Vs. self employment,



c. Higher direct costs: A small enterprise cannot buy raw materials, machinery or supplies as cheaply as a large company, or obtain a large producer's economies of scale. So per unit production costs are usually higher for a small enterprises, but overhead costs are generally somewhat lower.

d. Too many eggs in one basket: A large diversified company can take a licking in one sector of its business and still remain strong. This is not so for the small business with only a few product lines. A small company is

vulnerable if a new product doesn't catch on, if one of its markets is hit by a sharp recession, or if an old product suddenly becomes obsolete.

e. *Lack of credibility:* The public accepts a large company's products because its name is well known and usually respected. A small enterprise must struggle to prove itself each time it offers a new product or enters a new market. Its reputation and past successes in the marketplace seldom carry weight.

i. *Resources of Entrepreneurship*

a. *Personal touch:* Customers will often pay a premium for personalized attention. In fact, in many industries where product and price differences are minimal, the human factor emerges as a prime competitive advantage.

b. *Greater motivation:* Key management of a small enterprise normally consists of the owner(s). Consequently, they work harder, longer and with more personal involvement. Profits and losses have more meaning to them than salaries and bonuses have to the employees of a larger company.

c. *Greater flexibility:* A small enterprise has the prime competitive advantage of flexibility. A big business cannot close a plant without opposition from organized labour, or even raise prices without possible intervention from the government, but a small enterprise can react quickly to competitive changes. A small enterprise also has shorter lines of communication. Its product lines are narrow, its markets limited and its factories and warehouses close by. It can quickly spot trouble or opportunity and take appropriate action.

- d. *Less bureaucracy:*** Grasping the big picture is difficult for executives of large companies. This “management myopia” leads to redundant actions and bureaucratic inefficiencies. In a small business the whole problem can be understood readily, decisions can be made quickly and the results can be checked easily.
- e. *Unobtrusive (less conspicuous):*** Because it is not quite as noticeable, the small company can try new sales tactics or introduce new products without attracting undue attention or opposition. Large companies are constantly faced with proxy battles, antitrust actions and government regulations. They are also inflexible and hard to change or restructure.

Figure 2.1: Small Business Enterprises



Examples of Small Enterprises

a. Manufacturing Businesses

1. Food and kindred products
2. Tobacco manufacturers
3. Textile mill products
4. Apparel and other finished products

b. Wholesale Trade

21. Wholesale trade (durable goods)
22. Wholesale trade (non-durable goods)

c. Retail trade

- 23. Building materials, hardware, garden supplies dealers
- 24. General merchandise stores
- 25. Food stores
- 26. Automotive dealers and petrol service stations

d. Services

- 31. Hotels, boarding houses, camps and other lodging places
- 32. Motor vehicle repairs, services and garages
- 33. Personal services
- 34. Amusements and recreation services (except motion pictures)

SUMMARY

- ✚ All entrepreneurs are human being but not all human being are entrepreneur.
- ✚ Entrepreneurs has some distinctive feature such as self confidence, creativity etc.

Exercise

- ❖ Write a short note on small business as seedbed of entrepreneurship

WEEK 6

2.3 ECONOMIC RESOURCES

Money: Money is necessary to obtain goods and services that entrepreneurs want. A major way in which money is obtained is through employment. The real value of money can be measured in what necessities, wants and security it will provide for the future.

Equipment: Useful equipment may be as simple as a small knife or a paper clip. It may be a telephone installed by the telephone company, a microwave oven with digital electronic controls, or a pocket computer. The value of any equipment depends on the efficiency with which it is used. Even the best equipment cannot think or act on its own.

2.4 HUMAN RESOURCES

Energy: Good health is essential to maintaining a high energy level. Adequate nutrition, rest and exercise are basic necessities. Personal attitudes also have a strong influence on an individual's energy supply. People who accomplish a great deal usually have a positive attitude and goals to motivate them.

Activity 6:1

- ✚ Identify the constraints or challenges entrepreneurs faces in your locality and in the way forward.



Skills: Skills are developed when a person learns how to do a task competently. Anyone can develop skills by being willing to put in the necessary effort. There are several types of skills: practical everyday skills such as writing legibly or doing

household chores; vocational skills that enable a person to do a particular job; and recreational skills like dancing, painting, or sports. You can enhance your life by adequately developing your skills.

i. Define Communication

Communication is a process that allows organisms to exchange information by several methods. Communication requires that all parties understand a common language that is exchanged with each other. Exchange requires feedback. The word communication is also used in the context where little or no feedback is expected such as broadcasting, or where the feedback may be delayed as the sender or receiver use different methods, technologies, timing and means for feedback.

Figure 2.2: communication



ii. Explain the role of communication in an enterprise

Communication strategy is a coherence linkage never to be overlooked in an enterprise. Communication needs to be comprehensively planned and spontaneous, as well as top-

down and bottom-up. Communication processes, including the target audience, the message, the means of communication, the frequency, the rationale, and the selection of communicators, must be tailored to each purpose and constituency.

Top organizations have a communication process that communicates the knowledge and information that people need in a way that they understand and can apply to their job. Communication is neither a separate nor a periodic task. Use every means available to let everyone working with you know your plans and your reasons. A manager should provide team members with the information they require to do a good job, communicating with them frequently, and giving them clear guidelines on the results that are expected.

Communication is a two-way relationship, so establish an enabling environment for other could give you the information you need. Use feedback to make certain that communication has become understanding and consensus.

SUMMARY

- ✚ Top organizations have a communication process that communicates the knowledge and information that people need in a way that they understand and can apply to their job.
- ✚ People who accomplish a great deal usually have a positive attitude and goals to motivate them.

Exercise

- ❖ Comment on competencies considered necessary for successful entrepreneurial behaviour

WEEK 7

2.5 CONTRIBUTION OF ENTREPRENEURSHIP TO NATIONAL DEVELOPMENT

- i. ***Creation of new technologies, products and services:***
Entrepreneurship development encourages creativity and innovation among individuals. The consequences of this kind of encouragement will be the improvement and creation of new technology, products and services. For instance, the mechanization of farming in Europe can be traced to the entrepreneurship development witnessed during the industrial revolution of the 18th century. Availability of modern products such as computer, aeroplanes, GSM etc, can be attributed to entrepreneurship development of industrial countries like U.S.A., Japan, South Africa etc.
- ii. ***Increase in productivity:*** Productivity means the ability to produce more goods and services using minimum labour and other resources like money and time. Entrepreneurship development increases the productivity of individuals and the economy as a whole. This is achieved mostly through improved technology and management expertise of entrepreneurs that are the products of entrepreneurship development process.
- iii. ***Enhancement of market competition:*** Due to improve technology and increase in productivity occasioned by entrepreneurship development, there will be availability of goods and services in the economy. This kind of development usually benefits the monopolistic powers of potentialities of

the economy. With competition, consumers will have a variety of alternatives and this may reduce prices and improve their satisfaction.

- iv. **Promotion of effective domestic resource utilization:** Nigeria is endowed with the abundance of human and natural resources like land, good weather, mineral resources etc. Entrepreneurship development can help in the promotion of effective utilization of available resources through the enhancement of entrepreneurial expertise and the subsequent establishment of many enterprises. For instance, the establishment of many textile firms through entrepreneurship development programmes, may result in the effective utilization of local materials like cotton. The use of local resources in the production of goods and services, will significantly reduce the country's dependence on imports and improve its balance of payments.
- v. **Employment generation:** Entrepreneurship development usually results in the establishment of many enterprises. These enterprises will in turn employ many unemployed and other unproductive resources like idle capital and land. Employment generation can curb social ills like idleness, drug addiction, insecurity, etc.
- vi. **Wealth creation and income generation:** Wealth refers to a given quantity and quality of resource under the ownership of individuals or nations, while an income refers to a given amount of money earned by an individual or a nation due to an engagement in any form of legitimate economy activity. Entrepreneurship development creates wealth mainly

through technological advancement occasioned by research by research and development (R and D). From the wealth created, individuals or nations can generate a lot of income in a form of wages or salaries and taxes respectively.

- vii. **Economic growth and development:** Economic growth simply means an increase or an expansion of the national income and the volume of goods and services, in the economy. Economic development on the other hand, refers to the improvement of the quality of life of the people due to the expansion of the national income and the volume of available goods and services. Entrepreneurship development can bring about economic development through technological advancement and the establishment of many enterprises. Entrepreneurship development can also bring about economic development through employment and income generation.

Activity 7:1

- ✚ Conduct a survey to determine either true or false that entrepreneurship leads to equitable distribution of industries.
- ✚ Can one be content with seeing his dream being converted into reality? comment



2.6 ESSENTIAL REQUIREMENTS FOR ENTREPRENEURSHIP DEVELOPMENT

In view of the numerous benefits of entrepreneurship development, every right thinking individual or nation, may be interested in undergoing or undertaking it. For entrepreneurship development to properly be undertaken and also to make a

desired impact, certain basic requirements in that regard need to be on ground. Nwachukwu (1990) identified the following;

✚ **Potential Entrepreneurs:** The aim of every entrepreneurship development programme is to advance or to improve the entrepreneurial abilities of a target group of individuals. The first essential requirement of a meaningful entrepreneurship development will therefore be the availability of this set of individuals i.e. potential entrepreneurs. The target group could be a set of graduating university or polytechnic students, products of the compulsory N.Y.S.C. scheme or any other groups as may be determined by the government or its agencies. Whoever may be the target group, the individuals concerned need to have potentialities and interest in developing their entrepreneurial skills. Without such an interest, the impact of entrepreneurship development programmes on individuals and the nation as a whole may be less.

Figure 2.3: Potential entrepreneurs



✚ **Business opportunity:** Entrepreneurship development survives and thrives on business opportunities. The availability of business opportunities facilitates entrepreneurship development. The absence or the inadequate provision of opportunities makes entrepreneurship development difficult or even impossible. Business opportunities exist in the international and external environment of enterprises. A conducive business environment like that of the economically developed countries will bring about many opportunities, whereas the business environments of economically less developed countries like Nigeria, may have few business opportunities available for exploitation by willing and able entrepreneurs.

✚ **Effective policy formulation and implementation:** Entrepreneurship development is a complex matter comprising of many events, issue and stakeholders of stated objectives there is need for policy guidelines on entrepreneurship development programmes. The policies will serve as a guide to individuals and government actions related to entrepreneurship development. Policies cannot serve their purpose, if they are not properly implemented. Policies on entrepreneurship development should be fully implemented and evaluated with a view to measuring performance at any point in time.

✚ **Supportive government policies:** Policies on entrepreneurship development may not be enough to make the desired impact. There is need for supportive government policies on issues related to

entrepreneurship development like land allocation, bank loans, imports, exports etc. Supportive policies facilitate entrepreneurship development and non supportive policies tend to discourage it.

✚ ***Accessibility to factors of production:*** The ultimate aim of every entrepreneurship development is the mobilization of idle resources for productive purpose. The resources are in form of factors of production, land, labour and capital. For entrepreneurship development programmes to make the desired impact, willing entrepreneurs should have access to the factors of production. This will involve the designation of industrial estates by all tiers of government and allocation of free land to entrepreneurs. Accessibility to capital and labour can be facilitated through legislations on interest rates, credit facilities and labour relations.

✚ ***Availability of infrastructural facilities:*** As the name implies infrastructural facilities every activity taking place within a given economy including entrepreneurship development. Availability of facilities like electricity, roads, schools, hospitals etc. will significantly encourage and support the achievement of the ultimate aim of entrepreneur development i.e. establishment of many business enterprises. Absence or inadequacy of such kinds of facilities especially electricity make establishment and management of enterprise extremely difficult or even impossible in some cases.

✚ ***Individual and institutional reorientation:*** Entrepreneurship development involves a lot of mental and physical activities. To prepare

the minds of individuals concerned as well as creating an enabling physical environment, there is need for conscious efforts on individual and institutional reorientation. This involves taking measures such as introduction of courses on entrepreneurship development, campaigns, workshops, training, seminars, conferences, establishment and merger of institutions etc.

Entrepreneurship development is influenced by factors that have to do with the entrepreneur himself (entrepreneurial influences) and those that have to do with the environment (environmental influences). The entrepreneurial factors comprise of the need for achievement, freedom, recognition, problem solving, fear of poverty, job dissatisfaction and unemployment. The environmental factors, on the other hand, comprises of demography, economy, government policies, technology and socio-cultural factors.

The various theories of entrepreneurship maintain that an individual's entrepreneurial ability is determined by personal traits, motives and the environment.

Individuals and nations can derive a lot of benefits from entrepreneurship development. The benefits include creation of new technologies, increase in

productivity, enhancement of market competition, promotion of effective domestic resource utilization, employment generation, wealth creation, income generation and economic growth or development.

For individuals and nations to attain entrepreneurship, some essential requirements have to be in place. These comprise of the availability of business opportunities, effective policy formulation and implementation, supportive government policies, accessibility to factors of production, availability of infrastructural facilities and individual or institutional orientation.

SUMMARY

- ✚ Generally, entrepreneurship entails an individual's ability to determine appropriate goals or vision of life and the use of appropriate resources to effectively attain stated goals and vision of life. In business circles entrepreneurship entails an individual's willingness and ability to seek out investment opportunities, establish and run an enterprise successfully.
- ✚ Entrepreneurship development comprises of all efforts geared towards advancing or improving the individual's willingness and ability to effectively and efficiently exploit emerging business opportunities.
- ✚ The efforts should be characterized by a process of reorientation and the overhaul of institutions and the entire socio economic system.

WEEK 8

OBJECTIVE:

3.0 KNOW HOW TO SET BUSINESS GOALS

3.1 SWOT ANALYSIS

At this stage conducting a SWOT analysis will help the entrepreneur to clearly identify his own strengths and weaknesses as well as the opportunities and threats in the environment. Threats in the environment can arise from competition, technological breakthroughs, change in government policies etc. He might possess certain unique skills or abilities, which along with his knowledge and experience can provide him a cutting edge.

Strengths are positive internal factors that contribute to an individual's ability to accomplish his/her mission, goals and objectives.

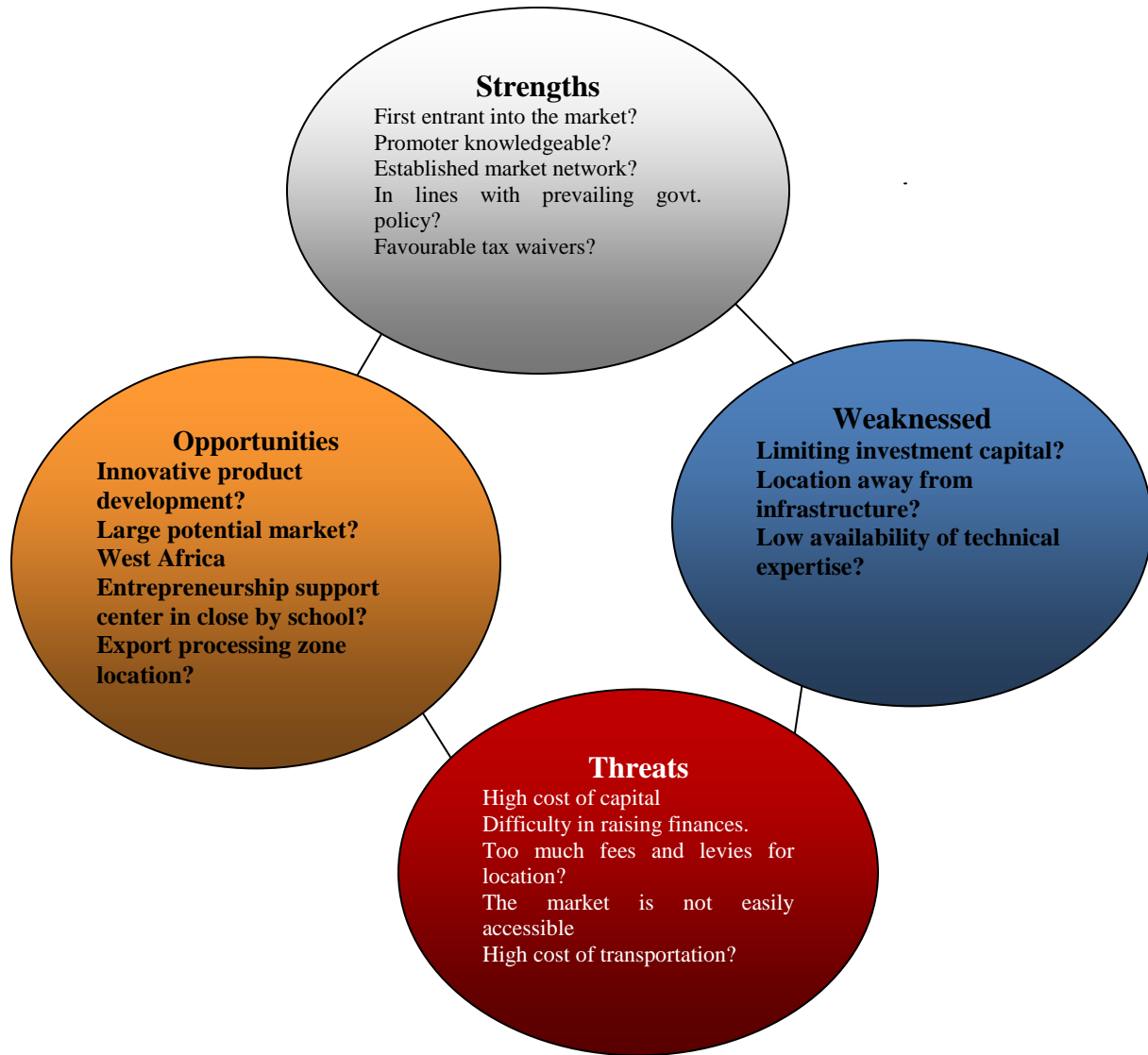
Weaknesses are negative internal factors that inhibit an individual's ability to accomplish his/her mission, goals and objectives.

An entrepreneur should try to magnify his strengths and overcome or compensate for his/her weaknesses.

Opportunities are positive external options that an individual could exploit to accomplish his/her mission, goals and objectives.

Threats are negative external forces that an individual could exploit to accomplish his/her mission, goals and objectives. These could arise due to competition, change in government policy, economic recession, technological advances etc.

Figure 3.1: SWOT ANALYSIS CHART



An analysis of the above can give the entrepreneur a more realistic perspective of the business, pointing out foundations on which they can build future strengths and the obstacles they must remove for business progress.

3.2 PERSONAL CHARACTERISTICS OF AN ENTREPRENEUR

Important Entrepreneurial Traits

- i. **Hard Working:** running a business requires a lot of energy and drive. This involves the ability to work for long hours when necessary, to work intensely in spurts and to cope with less than a normal amount of sleep.
- ii. **Self-Confident:** to succeed, entrepreneurs have to believe in themselves and in their ability to achieve the goals they have set for themselves. This is often shown by a belief that “if you want something badly enough and are prepared to work at it, you’ll usually get it”.
- iii. **Builds for the Future:** the goal for most successful business people is to build a secure job and income for themselves which is based on their own abilities. This means entrepreneurs understand that it may take several years to build up business income to a reasonable standard.
- iv. **Profit-Oriented:** interest in generating money is a clear indicator of an entrepreneur’s suitability for being a business owner. This means recognizing that the business comes first. Once profits are generated, the entrepreneur can make decisions about how the profits can be used – to expand the enterprise or for personal use.
- v. **Goal-Oriented:** success in business depends upon being able to set realistic goals or targets and to work with determination to achieve them. This ability to set goals (for things the person thinks are worthwhile) and to work to achieve them is fundamental to being an entrepreneur.

- vi. **Persistent:** all businesses have their problems and disappointments. Being persistent in solving a problem is one of the keys to being a successful entrepreneur.
- vii. **Copes with Failure:** all business ventures inevitably contain disappointments and failures as well as successes. Coping with failures involves recognizing these failures, learning from them and seeking new opportunities. Without this characteristic, early failures may end a person's attempt at self-employment.
- viii. **Responds to Feedback:** entrepreneurs are concerned to know how well they are doing and to keep track of their performance. Obtaining useful feedback and advice from others is another important characteristic of entrepreneurs.
- ix. **Demonstrates Initiative:** research shows that successful entrepreneurs take the initiative and put themselves in positions where they are personally responsible for success or failure.
- x. **Willing to Listen:** the successful entrepreneur is not an inward looking person that never uses outside resources. Self-reliance does not exclude the ability to ask for help when needed from such people as bank officials, accountants and business advisers. Being able to listen to the advice of others is a key characteristic of an entrepreneur.
- xi. **Sets Own Standards:** setting standards of performance and then working to achieve them is another indicator of a successful entrepreneur. These standards can be income, quality, sales or product turnover. Most

entrepreneurs want to do better each year, to set and achieve higher standards from year to year.

- xii. **Copes with Uncertainty:** being an entrepreneur is much more uncertain than employment. This uncertainty is about sales and turnover, but it often also exists in other areas such as material delivery and prices, and bank support. An ability to cope with this uncertainty without becoming too stressed is a necessary trait of being an entrepreneur.
- xiii. **Committed:** starting and running an enterprise demands total commitment by the entrepreneur in terms of time, money and lifestyle. It has to be a major priority in the entrepreneur's life.
- xiv. **Builds on Strengths:** successful business people base their work upon the strength(s) they have, such as manual skills, interpersonal skills, selling skills, organizational skills, writing skills, knowledge of a particular product or service, knowledge of people in a trade and ability to make and use a network of contacts.
- xv. **Reliable and Has Integrity:** the qualities of honesty, fair dealing and reliability in terms of doing what one has promised to do are essential traits of an entrepreneur.
- xvi. **Risk-Taker:** being an entrepreneur involves some risks. Entrepreneurs have the ability to take measured or calculated risks. Such risks involve working out the likely costs and gains, the chance of success and the belief in oneself to make the risk pay off. Entrepreneurs may be considered risk avoiders when they reduce their risks by having others

assume part of the risk. Those who assume the entrepreneur's risk may be bankers, suppliers and customers.

3.3 OVERVIEW DECISION-MAKING

To be entrepreneurial, people must be creative, especially when it comes to decision-making. Entrepreneurs must strongly believe in themselves and their ability to make good decisions. It is decision-making ability that is the distinguishing mark of an entrepreneur. Entrepreneurs make all the major decisions which have a great impact on the future of their organizations. Intuitive decision-making ability, a most valuable entrepreneurial resource, comes from the experience of being exposed to making decisions in increasingly complex situations.

Activity 8:1

- ✚ What is SWOT analysis, conduct a SWOT analysis of your choice and interpret your analysis



Entrepreneurs must be more creative than conventional managers in their approach to making decisions. They must approach problems from various perspectives and seek innovative ways to solve them. Given a particular situation, they must use insight to visualize the potential outcomes and consequences of alternative solutions. Because many entrepreneurial decisions are subjective, they cannot be completely free of emotional involvement. To see past the emotional aspects of a decision, entrepreneurs

should identify the advantages and disadvantages of a potential solution; this will help entrepreneurs to see the outcomes of a specific decision more objectively.

The “scientific method” of decision-making indicates that there are specific procedures to be followed to solve a problem and make a decision. The process usually involves the following steps:

- (1) Identify major problems
- (2) Determine the major causes of the problem
- (3) Determine potential solutions to the problem
- (4) Evaluate potential solutions
- (5) Select the best solution
- (6) Implement the solution
- (7) Verify that the solution is correct

Although this rational approach is logical and sensible, this “scientific method” will not necessarily make the solution to the problem work. The entrepreneur’s leadership and power are also needed to implement a solution successfully. A certain amount of firmness and enthusiasm is required in implementing a decision. Entrepreneurs must be positive about the future outcomes of a solution. They don’t waste time in second

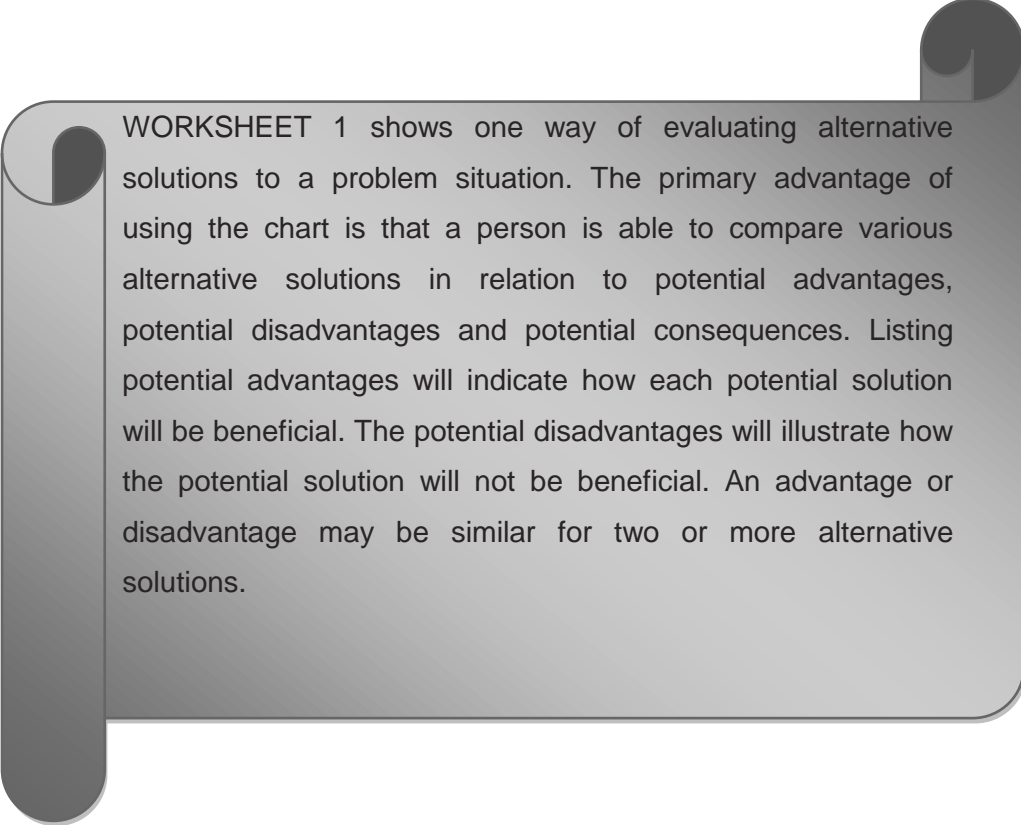
guessing a decision. Once they are implementing a decision, all doubts and uncertainties are left behind.

Entrepreneurs must be decisive in their actions. The organization should have definite purposes and clearly identified goals to achieve. Most entrepreneurs have little fear of decision-making because they have little fear of failing. They set their own standards for success.

Timing is extremely important in decision-making, especially when a business is growing. In some instances, decisions must be made quickly and implemented immediately. Some entrepreneurial decisions are made without the benefit or knowledge of future conditions, developments or changing conditions. Effective monitoring of the implementation of the decision will reveal any weaknesses in this decision and provide information for follow-up actions by the entrepreneur. Critical decisions are not easy to make, but they may be required frequently. The one thing worse than making a wrong decision is when entrepreneurs avoid making any decision at all. Remember, decision-making is an art; the more it is practised, the more expert an entrepreneur will become.

Once a problem has been defined, and all relevant information and data have been collected, entrepreneurs must identify possible solutions to the problem. They might begin with a brainstorming session where a group of employees interact and develop a

list of possible alternative solutions. Although highly creative problems have no “right solution”, it is up to the entrepreneur to determine the best possible solution.



WORKSHEET 1 shows one way of evaluating alternative solutions to a problem situation. The primary advantage of using the chart is that a person is able to compare various alternative solutions in relation to potential advantages, potential disadvantages and potential consequences. Listing potential advantages will indicate how each potential solution will be beneficial. The potential disadvantages will illustrate how the potential solution will not be beneficial. An advantage or disadvantage may be similar for two or more alternative solutions.

The potential consequences should be identified in the last column and will be the results of analysing the potential advantages and disadvantages and should equal the potential net result of implementing a particular solution. The use of the chart can help entrepreneurs analyse major problems which will have a great impact on their business.

Calculated Risk-Taking

Most entrepreneurs take calculated and moderate risks. Entrepreneurs avoid low-risk situations because there is lack of challenge, but they also avoid high-risk situations because they want to succeed. They set high goals and enjoy the excitement of a

challenge, but they do not gamble. Hence, low-risk situations and high-risk situations are avoided because these risks do not satisfy the entrepreneur. In short, the entrepreneur likes a difficult but achievable challenge.

3.4 DEFINE LEADERSHIP

A simple definition of leadership is that leadership is the art of motivating a group of people to act towards achieving a common goal.

Put even more simply, the leader is the inspiration and director of the action. He or she is the person in the group that possesses the combination of personality and skills that makes others want to follow his or her direction.

In business, leadership is welded to performance. Effective leaders are those who increase their company's bottom lines.

Figure 3.2: Leadership



Leadership is about getting people to abandon their old habits and achieve new things, and therefore largely about change - about inspiring, helping, and sometimes enforcing

change in people. "While there can be effective absent ideas in management, there cannot be in true leadership".

Synergy between Leadership and Management Roles

- **Leadership role:** to provide inspiration, create opportunities, energize people, and make key choices
- **Management role:** to make things happen and keep work on track; to supervise endless details and engage in complex interactions that are routinely part of any development

What Drives Others to Carry out Your Will

- If you are a **manager**: WHAT you are
- If you are a **leader**: WHO you are and what you DO



SUMMARY

- + SWOT analysis will help the entrepreneur to clearly identify his own strengths and weaknesses as well as the opportunities and threats in the environment.
- + Entrepreneurs make all the major decisions which have a great impact on the future of their organizations.

Exercise

- ❖ Entrepreneurs are special people, do you agree?

WEEK 9

3.5 RISK MANAGEMENT AND DECISION MAKING

i. Defining a risk situation

A risk situation occurs when a choice is required between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential success and potential loss. The greater the possible loss or gain, the greater the risk involved.

Risk-takers make decisions in conditions of uncertainty, and they balance potential success against potential loss. Choosing a risky alternative depends on:

- a. how attractive the alternative is,
- b. the extent to which the risk taker is prepared to accept the potential loss,
- c. the relative probabilities of success and failure, and
- d. the degree to which one's own efforts increase the likelihood of success and



Most people would not think of taking such a risk, regardless of the probabilities of success. They would prefer to stay in a secure position. Others are impatient, dissatisfied with their present position, and looking for the “magic pot of gold” to make them rich. These people tend to be influenced by the size of the potential reward offered. They pay little regard to the probability of success, and do not give much thought to the degree of effort required on their part. Attracted by hopes of high returns with little effort, they become gamblers.

Activity 9:1

- ✚ Explain the entrepreneurial tax in relation to the following:
 - Leadership
 - Time management

- ✚ For example, you have a secure job, earning a good salary, with promotion probably every two years. You may have the opportunity to buy a firm whose future is uncertain, but the owner's earnings are 50% more than you are currently earning as an employee. The firm may continue to be very successful, or it may fail in one or two years. Your choice is between staying in a secure position with moderate, predictable financial and career rewards, or taking a risk and possibly achieving very high financial and career rewards. What do you do?



The entrepreneur's assessment of the situation is very different from that of both the above types of people, although the entrepreneur shares certain characteristics with them. The essential difference is that entrepreneurs will systematically and thoroughly assess the likelihood of the firm's success and the extent to which their efforts could influence this likelihood. They study the market situation, explore profitability in alternative lines of business, products, machinery and processes, finances, and make comparisons before making their final decision. They like to influence the outcome

through their own efforts and then having a sense of accomplishment. Planning may be considered an indicator of the calculated risk taking behaviour of entrepreneurs.

Figure 3.2: Risk takers



Planning safeguards against subsequent difficulties which can be anticipated. If entrepreneurs are able to influence whether or not the firm is successful, they would be very likely to purchase the firm as proposed in the above example. Entrepreneurs are willing to accept personal responsibility for the consequences of their decisions, regardless of whether these consequences are favourable or unfavourable. Other people may find it difficult to accept personal responsibility for decisions which may lead to failure, and they often attribute events in their lives to luck or to forces beyond their control, such as competition with business or government interference. These people reject risk situations because they believe that they cannot influence the outcome.

Most entrepreneurial traits are interrelated. Risk-taking behaviour is related to:

- creativity and innovation, and it is an essential part of turning ideas into reality.
- self-confidence: the more confidence you have in your own abilities, the more able you will be in affecting the outcome of your decisions and the greater your willingness will be to take risks.

Another factor is the entrepreneurial excitement regarding uncertainty, and the drive and enthusiasm to ensure that the consequences are successful.

SUMMARY

- ✚ Entrepreneurs are willing to accept personal responsibility for the consequences of their decisions, regardless of whether these consequences are favourable or unfavourable.
- ✚ Entrepreneurs are risk takers and they make decisions

Exercises

- ✚ What are the obstacles to accurate business planning an entrepreneur usually encountered?

WEEK 10

3.6 TYPES OF RISK-TAKERS

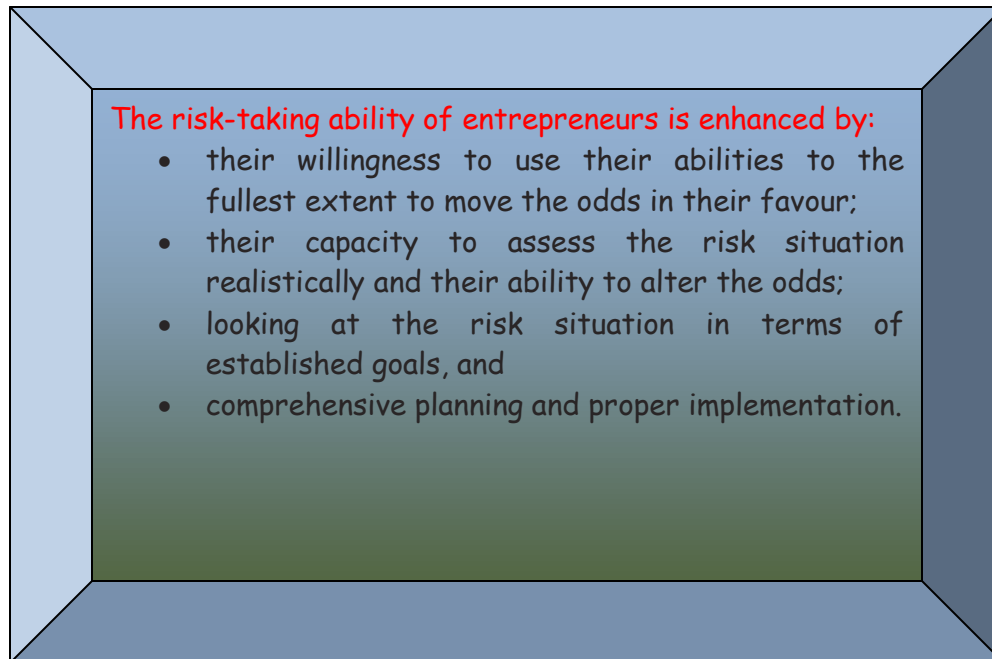
The type of risk-taker you are depends to some degree on the extent to which you are influenced by other people, your past experiences, your present situation and your expectations for the future. Within a business, there is a need to have risk-takers of various types.

At the worker level, you need people who are low risk-takers so that they can do the routine things and bring organizational stability. At the middle management level, there is more room for risk-taking. A middle manager should have some freedom to be innovative and make minor modifications in procedures and functions. These persons may be considered risk-takers, but their impact on the total organization should be minimal. Entrepreneurs at the top of organizational structures have the capacity to formulate and implement creative ideas. To be successful in business, entrepreneurs must take risks to turn their ideas into reality.

Entrepreneurs are goal-oriented and confident enough of accepting risks to make their ideas work. However, they are also practical enough to realize their limitations and will restrict their activities to “what is possible”.

Highly creative and innovative entrepreneurs are moderately high risk-takers, willing to accept change, try various alternatives and develop innovations for products and

services in new areas of business. These highly innovative entrepreneurs are usually business leaders.



The act of risk-taking is an essential part of being an entrepreneur. Entrepreneurs usually set high goals for themselves, and then use all their abilities and talents to achieve these goals. The higher the goals, the greater the risks involved. Innovation in business, which result in higher quality goods and services, are the result of action by entrepreneurs who are willing to accept great challenges and take calculated risks.

Procedures for Analysing a Risk Situation.

Although risk-taking is a style of behaviour, calculated risk-taking is a skill that can be improved. Here are suggested procedures for analysing a risk situation.

1. Assess the risk

The first step is to establish whether or not a risk is involved. Is there a potential loss involved in choosing one particular alternative? For example, you may be faced with the need for increased production to meet increased demand. Your choices are to:

- stay with the current level of demand;
- purchase more equipment to meet the demand;
- lease more equipment to meet the demand; or
- subcontract production to smaller manufacturers.

If the business has a good cash flow, strong cash reserves or good credit facilities, and if demand is certain to grow in the foreseeable future, there is little risk involved in deciding on any of the alternatives, although the first alternative would cause the opportunity for profit growth to be ignored. However, continued demand may not be assured. For example, a product or service may become obsolete because of competitive innovations; more companies may enter the field; or the market may be nearing saturation. Furthermore, the business may not be able to afford investing the amount required without a guaranteed return on it. In this situation, there is clearly a risk involved in deciding whether to expand production. However, there are clearly different degrees of risk and corresponding degrees of potential return (success) for the different alternatives. How can you assess the alternatives?

2. Determine goals and objectives

The next step would be to consider the company's policies and objectives. A company objective might be to achieve slow growth, or steady growth or no growth or growth in other product areas. Is the risk involved consistent with objectives? If it is, the decision-making process continues, and a detailed assessment of the alternatives is undertaken.

Activity 10:1

- Self management is a strategy that is been used by entrepreneur for the betterment of their business. Discuss.



3. Clarify the alternatives

Given that some degree of risk-taking (i.e. a decision to expand production) is consistent with the company's objectives, the next step is to survey the various alternatives. These alternatives should be specified in sufficient detail so that the costs involved can be assessed objectively. Most costs will be financial costs, but personal, social and physical costs should be included when appropriate. For example, will an alternative require excessive personal effort? Will failure lead to a loss in social prestige? The financial and other costs for each of the viable alternatives should be specified.

4. Gather information and weigh the alternatives

The next stage is one of intensive information-gathering so that a realistic assessment of the odds can be made for each alternative. Market estimates should be made for demand under various predicted conditions. The likelihood of competitive reactions should be assessed and the effects of these reactions calculated. Various consequences should be followed through to their logical conclusions:

- If demand nears saturation point, can product modification stimulate increased demand in new markets?
- Are new markets available if competitive activity decreases current market share?
- Can the machinery be easily modified to handle other products?
- Are suppliers and subcontractors likely to increase their charges if demand grows?

The likely return to the company for each alternative should be assessed on the basis of market information, forecasts of future demand, assessments of competitive reactions, and various other predictions including the behaviour of those involved in the situation, such as finance companies or equipment manufacturers.

5. Minimize risks

This crucial step involves a realistic assessment of the extent to which the entrepreneur can affect the odds. It involves:

- a clear awareness of the entrepreneur's abilities and the company's capacities;
- some creativity in determining how the odds may be changed (increased in the entrepreneur's favour);
- the ability to plan strategy and tactics to effect the change; and
- the drive, energy and enthusiasm to implement the strategy.

6. Plan and implement the best alternative

Once an alternative is selected, a plan is then drawn up for its implementation. This would include a timetable, a clear definition of the goal, a set of contingency plans for possible outcomes and a feedback process so that necessary changes can be implemented quickly.

Major Competencies Required for Successful Entrepreneurship in Small Business

The following lists provide examples of the competencies required for setting up and managing a successful small business:

Knowledge Possessing information on, or familiarity with:

- a business opportunity • the market
 - customers • competitors
 - production processes • technical matters
 - business management • sources of assistance
- Skills May be of a technical or managerial nature. They relate to abilities to perform tasks or functions in areas such as:

Technical Managerial

- Engineering • Marketing (including selling)

- Computing • Financial management
- Carpentry • Organization
- Mechanics • Planning
- Catering • Leadership

Traits Personal characteristics of successful entrepreneurs:

- Takes initiative • Sees and acts on opportunities
 - Is persistent • Personally seeks information
 - Is concerned for high quality • Is committed to fulfilling contracts
 - Is oriented to efficiency • Plans systematically
 - Solves problems in original ways • Demonstrates self-confidence
 - Takes calculated risks • Is assertive
 - Is persuasive • Uses influential strategies
- Identifying and Assessing Business Opportunities Seeing, seeking and acting on opportunities is one of the characteristics of successful entrepreneurs everywhere. It is also the basis for starting and maintaining successful ventures. It involves not only generating ideas and recognizing opportunities, but also screening and evaluating them to determine the most viable, attractive propositions to be pursued.

3.7 TIME MANAGEMENT

Prioritizing and estimating techniques that allow workers to identify the most important tasks and fit them into their daily schedule.

Figure 3.3: Time management



i. Time Management Techniques

Time management is similar to having good work habits. Making the best use of time simply means achieving the maximum output in the time available. There are several ways in which this can be done, which includes:

- a. Identify specific daily goals.** Make sure you understand what you want to accomplish each day. Before arriving, or as soon as you get to work, list your work goals in order of importance. Start working on your most important goal first, setting aside all other work until this has been achieved. Don't let outside influences stop you from accomplishing your goal. Major goals may require total concentration: try to work on your own until the goal is achieved. Avoid interruptions and distractions. Your office routine should be established so that it can operate without you. If your concentration is constantly interrupted by office matters, changes are needed in your office routine.
- b. Establish deadlines.** More work can be done if you set specific deadlines to achieve certain tasks. But make sure that the deadlines are realistic. Once they are set, you should do everything possible to meet the deadlines.

- c. Use the telephone.** The telephone/cell phone is the main communication link between you and your working world. Letters are sometimes necessary, but keep them to a minimum. Problems can be solved more quickly by using the telephone/cell phone. A letter provides only one-way communication while a telephone conversation is two-way communication.
- d. Take notes.** Keep a note pad handy at all times. Writing down key points provides a permanent record of committee meetings, telephone conversations, discussions with staff or business clients, or simply your own thoughts. Record thoughts and ideas and jot down such things as future appointments, things to do, names and telephone numbers.
- e. Don't do everything.** An old saying is: "If you want something done, have a busy person do it." Entrepreneurs are busy, but their actions are purposeful. They concentrate only on important activities. By being goal-oriented, entrepreneurs do those activities which lead to significant results. Be selective in work activities; try not to do everything at once. Learn to say "no" to time-consuming activities not directly connected with priority goals.
- f. Work in blocks of time.** Try to do major tasks in blocks of time (three or four hours) during the period of the day when you feel most effective. Schedule other activities around these blocks of time. If the block of time goes through lunch, eat a good breakfast and miss lunch. Working undisturbed for three or four hours can be very productive when dealing with a special problem or situation. Although it may be difficult to allocate a block of time for one activity, it will often be the only way in which to solve a particular problem.

- g. Ask questions before beginning work.** Almost any kind of work can be done more efficiently. Before you start, make sure to answer such questions as: What? Where? When? Who? Why? The answers to these questions will help you to identify more efficient ways of accomplishing the work. For each step in an activity, ask yourself: "Why do I need to do this?" Your answer will help you to determine the most essential tasks of the activity.
- h. Be action-oriented.** Once you have decided to solve a problem, outline your specific course of action and then begin. Once you have begun, try to complete as much as you can. This action orientation should help you to stop worrying about a problem. Moreover, if you view each problem as an opportunity for potential improvement, you will be more aware of innovative and creative ways of solving the problem.
- i. Be reflective.** Reflective thinking is the act of learning from one's past, present and potential future activities. Most people do not think very much about what they do, and finding time to be reflective is very difficult. However, there are times when it is possible to be alone with your own thoughts and ideas, such as before falling asleep; when you are travelling; waiting for transport; or walking alone. Use these times to reflect on your work.
- j. Plan in detail for tomorrow.** At the end of each day's work, prepare a time schedule for the following day's activities. You might even be able to begin one activity, thus providing you with a good start to the next day. The end of the day is also a good time to examine ways in which you wasted time or

used it inefficiently. Write down these time-wasters and you will be less likely to make the same mistakes in the future.

- k. Learn from your experiences.** Reviewing your past experiences helps you to determine which were interesting and productive and which were dull, time-consuming and unproductive. You will face similar experiences in the future, and it is up to you to choose only those activities that will be most worthwhile and productive.

Figure 3.4: Time waters

Categories of Time Wasters

- Environmental Time Wasters



- Personal Time Wasters



Question your use of time. To manage time properly, ask the following questions:

- What activities am I doing that I should not be doing or should delegate to others?
- Do I set priorities when I am deciding which activities to do?
- Are my activities scheduled so that they can be accomplished within a reasonable amount of time?
- Am I able to concentrate on one activity at a time?

Try to remember good techniques of time management. These time-saving techniques will help you to improve your entrepreneurial performance



SUMMARY

- ✚ Making the best use of time simply means achieving the maximum output in the time available.
- ✚ The act of risk-taking is an essential part of being an entrepreneur. Entrepreneurs usually set high goals for themselves, and then use all their abilities and talents to achieve these goals.

Exercise

- ❖ How can a small scale enterprise manage his time effectively

WEEK 11

OBJECTIVE:

4.0 KNOW HOW TO IDENTIFY BUSINESS OPPORTUNITIES

4.1 WHAT IS A BUSINESS OPPORTUNITY?

A business opportunity may be defined simply as an attractive idea or proposition that provides the possibility of a return for the investor or the person taking the risk. Such opportunities are represented by customer requirements and lead to the provision of a product or service which creates or adds value for its buyer or end-user. However, a good idea is not necessarily a good business opportunity. For example, you may have invented a brilliant product from a technical point of view and yet the market may not be ready for it. Or the idea may be sound, but the level of competition and the resources required may be such that it is not worth pursuing.

Activity 11:1

- ✚ Conduct a survey and identify three business opportunities that exist in your community



Sometimes there may even be a ready market for the idea, but the return on investment may not be acceptable. To underscore the point further, consider the fact that over 80% of all new products fail. Surely, to the inventors or backers the idea seemed a good one, yet clearly it could not withstand the test of the market. So, what turns an idea into a business opportunity? A simplified answer is when $\text{income} > \text{costs} = \text{profit}$.

4.2 PROCESS OF PRODUCT/SERVICE SELECTION

i. What is to be produced?

Since two-thirds of the total production of goods and services focus on the consumer sector, consumers comprise the group who determines what is to be produced.

ii. For whom is it to be produced?

In the economy, the “For Whom” question is generally defined as whoever has the most money to buy the items which are made from the factors of production. Generally speaking, the people with the most money are those who own a successful business (consumers want their goods and services) and/or those who are in occupations in high demand (businesses want their skills).

iii. How will it be produced?

This is determined with the consumer in mind, primarily through the interaction of businesses and consumers. For example, the Rolls Royce is a luxurious car made with high expenses and lasts a long time. Many consumers however cannot afford a Rolls Royce. Entrepreneurs note this point and produce less exclusive cars at a lower price in order to satisfy the needs and wants of those who cannot afford a rolls.

In addressing these questions, it is important to point out how the market operates in each one. For example, if consumers do not buy certain items which are produced, this is a signal to business to stop producing them (what is to be produced). If consumers will not pay the price for an item even though it is of high quality, producers might have to find ways to use other technologies for the item in order to make it less expensive

(how to produce). Those people who choose to enter occupations or establish businesses which produce goods and services that are in big demand will get more of the output (for whom).

Economic problems at home and abroad, but also increases international tensions that threaten world peace. co-workers will become you friends. You may lose touch with friends you have now. You should, therefore, look at your personal qualities in a realistic manner. Responses to the following questions will give some indication as to your entrepreneurial abilities:

1. Are you usually self-motivated and willing to work hard to achieve goals?
2. Do you work well with other people?
3. Within a group of people, do you usually assume a leadership role?
4. Are you able to communicate well with others?
5. Are you a good listener?
6. Do you have self-confidence?
7. Do you have a positive self-image?
8. Are you decisive when making decisions?

The more **YES** responses you have to the above questions, the more entrepreneurial you may be. One of the primary factors of being an entrepreneur is that you provide something of value to others. The greater the need people have for your product or service, the greater your potential benefits will be. If you work to help other people to raise their standard of living and improve their lives, you will be serving the needs of

society. This is part of the meaning of being a good citizen as well as being a good entrepreneur.

i. Characteristics of a good business opportunity

To be good, a business opportunity must fulfill, or be capable of meeting, the following criteria:

- a. *Real demand***, i.e. respond to unsatisfied needs or requirements of customers who have the ability to purchase and who are willing to exercise that choice
- b. *Return on investment***, i.e. provide durable, timely and acceptable returns or rewards for the risk and effort required
- c. *Be competitive***, i.e. be equal to or better – from the viewpoint of the customer – than other available products or services
- d. *Meet objectives***, i.e. meet the goals and aspirations of the person or organization taking the risk
- e. *Availability of resources and skills***, i.e. be within the reach of the entrepreneur in terms of resources, competency, legal requirements, etc.

ii. Identifying and Assessing Business Opportunities

Ideas and opportunities need to be screened and assessed for viability once they have been identified or generated. This is not an easy task, and yet at the same time it is so important. It can make the difference between success and failure, between making a fortune and losing everything you had. Whilst the exercise does not guarantee success – but then nothing in this world does, except Divine intervention – it certainly helps in

minimizing the risk and thus the odds for failure. Identifying and assessing business opportunities involves, in essence, determining risks and rewards/returns reflecting the following factors:

- a. **Industry and market.** Is there a market for the idea? Are there any customers – people with money who are able and willing to buy the product or service? Can you provide what they need or want? How many are there?
- b. **Length of the ‘window of opportunity’.** Can you create or seize the opportunity whilst it lasts?
- c. **Personal goals and competencies of the entrepreneur.** Do you really want to venture into the business? Do you have what it takes? Are you motivated enough?
- d. **Management team.** Who else will be involved with you in the business? Do they have the experience, know-how, contacts or other desirable attributes required?
- e. **Competition.** Who are your competitors? Do you have something customers want that your competitors do not have? For example, can you produce or market at lower costs?
- f. **Capital, technology and other resource requirements.** How much capital, technology or other resources are required? Do you already have them or could you get them?
- g. **Environment.** Are the political, economic, geographical, legal, and regulatory contexts favourable? Will the business do any damage to the physical environment?

The above questions are typical of the type of issues that need to be addressed. Responses to these questions will determine the attractiveness of any business opportunity.

i. Market Information

a) What is a market?

The market for a business is all the people within a specific geographical area who need a product or service and are willing and able to buy it. Every business sells some type of product or service to people. Potential customers can be described as:

1. People who need or want the product or service.
2. People who are able to buy the product or service.
3. People who are willing to buy the product or service.



Competition must be considered. If competitors are serving the same market, it must be decided if the market is large enough to support another business. It should also be determined how the product or service is different from that of the competitors.

b) What should entrepreneurs know about potential customers?

- ✚ **Know the customers:** The market can be segmented either by dividing it into meaningful buyer groups or dividing it according to characteristics such as age, sex, marital and family status, employment, income and trends in any of these characteristics.
- ✚ **Know what the customer wants:** By segmenting the marketing into groups, it is easier for entrepreneurs to determine what products or services each group wants or needs.
- ✚ **Know where the customer buys:** Entrepreneurs need to find out where the customers in their market are presently buying, and determine what factors will cause them to switch and buy from the new business.
- ✚ **Know when the customer buys:** By knowing when customers buy (daily, weekly, monthly, yearly, seasonally), entrepreneurs will be able to determine such things as possible hours of operation, when to advertise and quantity of merchandise to have on hand at specific times of the year.
- ✚ **Know how the customer buys:** Knowing how the customer pays for products and services can help the entrepreneur to determine a credit policy as well as a pricing policy for the business.

c) Where can customer information be located?

Customer information can be obtained from trade associations (publications), chambers of commerce, government agencies (District Trade Officers), newspapers and magazines, and individual research by conducting a market survey in the community.

d) What is the marketing concept?

One of the greatest needs of the owners of small businesses is to understand and develop marketing programmes for their products and services. Modern marketing programmes are built around the “marketing concept” and performance, which directs the owners to focus their efforts on identifying, satisfying and following up the customer’s needs, all at a profit. Marketing is based on the fact that: (a) all business policies and activities should be aimed at satisfying customer needs, and (b) profitable sales volume is a better company goal than maximum sales volume.

SUMMARY

- ✚ Entrepreneurs need to find out where the customers in their market are presently buying, and determine what factors will cause them to switch and buy from the new business.

Exercise

- ❖ What factors are to be kept in mind while deciding on product/service development?

WEEK 12

When applying the marketing concept, a small business should:

- a. Determine the needs of their customers (market research);
- b. Analyse their competitive advantages (marketing strategy);
- c. Select specific markets to serve (target marketing); and
- d. Determine how to satisfy those needs (marketing mix). strategies are (i.e. how do they compete?).
- e. What is a marketing strategy?

Marketing strategy includes identifying customer groups (target markets) which a small business can serve better than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and service towards that particular market segment (managing the marketing mix). Ideally the strategy should address customer needs which are not currently being met in the market and which represent adequate potential size and profitability. A small business cannot be all things to all people, so it must analyze its market and its own capabilities so as to focus on a target market.

f. What is target marketing?

Owners of small businesses have limited resources to spend on marketing activities. Concentrating their marketing efforts on one or two key market segments is the basis of target marketing.

The major ways to segment a market are:

- a. **Geographical segmentation:** serving the needs of customers in a particular geographical area (for example, a neighbourhood shop may send advertisements only to people living within one and a half kilometres of the shop).
- b. **Customer segmentation:** identifying groups of people who are most likely to buy the product before trying to attract new customers.



g) What is the marketing mix?

The marketing mix is used to describe how owners can combine the following four areas into an overall marketing programme.

- i. **Products and services:** effective product strategies for a small business may include concentrating on a narrow product line, developing a highly specialized product or service, or providing a product-service package containing an unusual amount of service.

- ii. **Promotion:** this marketing decision area includes advertising, salesmanship and other promotional activities. In general, high quality salesmanship is a must for small businesses because of their limited ability to advertise heavily.
- iii. **Place/distribution:** the manufacturer and wholesaler must decide how to distribute their products. Working through established distributors or manufacturer's agents is generally more feasible for small manufacturers. Small retailers should consider cost and traffic flow as two major factors in location site selection. In other words, low-cost, low-traffic location means spending more on advertising to build traffic.
- iv. **Price:** determining price levels and/or pricing policies (including credit policy) is the major factor affecting total revenue. Generally, higher prices mean lower volume and vice-versa; however, small businesses can often command higher prices because of the personalized service they can offer. The nature of the product/service is also important in locational decisions. If purchases are made largely on impulse (e.g., soda or candy), then high traffic and visibility are critical. On the other hand, location is less important for products/services that customers are willing to go out of their way to find (e.g., hotel supplies).

1) How can marketing performance be evaluated?

After marketing programme decisions are made, owners need to evaluate their decisions. Standards of performance need to be established so results can be evaluated against them. Sound data on industry norms and past performance provide a

basis for comparing present performance. Owners should evaluate their business performance at least quarterly.

- + Is the business doing all it can to be customer-oriented?
- + Do employees make sure customers' needs are satisfied and leave customers with the feeling that they would enjoy coming back?
- + Can customers find what they want and at a competitive price?

h) How can the consumer acceptance of a product or service be analysed?

Consumers buy products or services for their own use, but do not buy products for the purpose of making a profit from them. Consumers buy to satisfy their own or their family's wants and needs. When they buy any product or service, they do so because of what they expect the product or service to do for them. People are motivated to buy for two basic reasons:

- **Emotional reasons:** pride in personal appearance, social achievement, ambition, cleanliness, pleasure, increased leisure time.
- **Rational needs:** durability, economy in use, economy in purchase, handiness, efficiency in operation, dependability in use. Psychologists have determined that consumer buying behaviour is first directed toward satisfying certain basic needs. These very basic needs include food, shelter and clothing. An individual attempting to fulfil the most basic needs is led by rational motives. Persons with

few resources need the best products and services for their money in terms of quantity, quality and dependability. Many consumers won't admit they purchase goods and services to satisfy emotional needs. However, most psychologists believe that pride in personal appearance is an emotional buying motive. Certain motives generally seem to be more rational than others. Because people think of themselves as rational individuals, they tend to express their reasons for buying in very logical ways. To market a product or service successfully, entrepreneurs need to be aware of what motivates consumers to buy that product or service.

i. What factors affect the consumer market?

The consumer market is constantly changing. Many of the following factors have contributed to consumer changes in the last few years.

- Population changes, such as shift in age distribution of income, including increases in total purchasing power and the amount spent for "luxuries".
- Changes in life-style and attitudes.
- A greater percentage of women in the workforce.
- More leisure time.
- More credit purchases.
- An increase in the number of white-collar and skilled workers.
- Higher overall educational level of the population.
- High rate of inflation.

4.3 KNOW YOUR COMPETITORS

i. Analysing Competition

Competition must be expected in a new venture, but having too much competition is an unnecessary risk. It would be better to select a different type of venture if there is too much competition. You must know your competitors as well as you know your customers. Business rewards come from beating your competition. The best way to do that is to know who your competitors are and how they operate. Unfortunately, many entrepreneurs never bother to find out much about their competition until it is too late. The following steps should be taken by entrepreneurs to get to know their competitors.

Step 1: Identify your competitors

- A. Direct Competitors: list each by name, address and type of business.
- B. Indirect Competitors: list the name, address and type of business of each firm that provides products and/or services that, while not the same as yours, can be a substitute for yours.

Step 2: Analyse businesses that have recently been set up and recent failures

- A. List competitive businesses that have started within the past two years.
- B. List competitive businesses that have gone out of business within the past two years.
- C. Analyse the possible reasons for the businesses that have failed in the last two years. What factor or combination of factors explains the optimism of the new businesses that have succeeded? What factor or combination of factors were present in the businesses that failed?

Step 3: Analyse existing business

A. Estimate the sales and turnover of each of your competitors.

B. Rate your competitors in terms of price, quality of product or service, facilities, advertising, promotion and sales.

- What prices do they charge? What is the quality of their merchandise? How much do they advertise?

- What extra services do they offer? Are their sales terms liberal? Is their location expensive, moderate or cheap?

- Are their production processes and equipment modern? Are their employees well-trained? Are their employees well paid?

C. Determine if there is a correlation between the firms that have high sales and their methods of operation. That is, do these firms have similar pricing, selling and/or production methods? A thorough analysis of the methods of operation based on the firm's sales should yield valuable information.

Step 4: Compare your proposed business operations against the competition

A. Indicate the advantages your products and/or services will have in terms of price, performance, quality, durability and visibility over the competition.

B. Be able to explain why your method of operating your business will be more successful than that of your competitors.

C. If you plan to operate in a manner similar to other businesses, you should be able to explain why:

1. Either the market is large enough to profitably support you and the other firms, or

2. The market cannot support all competitors but your business will be more efficient and/or more effective.

D. If you plan to operate in a manner completely different from the competition, you should be able to explain why no one else is operating that way. Are other businesses not aware of the opportunity? Or, do they know something that you don't?

3. *Becoming a franchisee*

Franchising is a system where a franchiser has developed and implemented a business that he offers for replication to a franchisee. The franchisee opens a business by using the business idea of the franchiser against a fee. In return, the franchisee gets training, the marketing concept, the brand name and the product or service. He also has the guarantee that no other franchisee from the same franchiser will have the right to do business in the same area.

Activity 12:1

- ✚ Develop a product and outline the marketing strategies you will implore to succeed in the market



All these elements are fixed in a franchising contract that is binding for both parties. Franchising lowers the risk as the product is well known in the market; on the other hand it limits entrepreneurial decision-making and shrinks the profit margin as a fee or a percentage of the turnover has to be paid.

SUMMARY

- ✚ Entrepreneurs should watch for changes in consumer behaviour. Entrepreneurs may need to modify or refine their marketing policies and procedures.
- ✚ Predicting changes in the market is an important but difficult task. Market information must be collected and analysed continually.

Exercise

- ❖ Defined decision making in relation to running a business venture.

WEEK 13

OBJECTIVE:

5.0 KNOW HOW TO DRAW SIMPLE BUSINESS PLAN

5.1 RECORD KEEPING IN SMALL BUSINESS


i. Why keep records?

A. The law requires that some form of written records be kept by all businesses.

B. Adequate records can answer the following questions:

- How much profit is the business making?
- How much is the business worth?
- How much do credit customers owe the business?
- How much does the business owe its creditors?

Activity 13:1

-  Conduct a modest business plan as a selected venture of your choice and present in the class for discussion.



A. Before establishing an adequate record keeping system, the assistance of an accountant should be obtained. If the owner cannot afford an accountant, he or she cannot afford to be in business.

B. An accountant can establish a suitable recording system tailored to the needs of a particular business.

iii. What will others want to know about the finances of a business?

Various people will want to know about the financial conditions of a business. Bankers may be interested because you have applied for a financial loan. Tax collectors are interested in your business condition, as are partners, relatives and others who may have lent you money. Suppliers will also want to know things about the finances of your firm, because when they ship you merchandise for which you have not yet paid, it is as though they are extending a form of credit.

Specific questions they might ask include:

- a) How much do you own, how much do you owe, and how much are you worth?
- b) What was your income last year?
- c) How much of your sales are for cash and how much are for credit?
- d) What has been your collection record?
- e) What is your total “overhead” and what percentage of gross sales does it represent?
- f) What expenses do you have?
- g) What is the present value of buildings, equipment, vehicles, fixtures and other accessories?
- h) What items of inventory are the best and worst sellers?
- i) What are the most profitable and least profitable departments?
- j) Are you taking full advantage of cash discounts, trade discounts, and advertising and merchandising allowances?

iv. What kinds of records should a small business keep?

a. **Payroll.** The owner must know the amount paid to himself or herself and to employees. This information alone requires a mini-accounting system to keep things accurate and in order.

b. **Cash Balance.** The owner must know how much cash is available at any given time to determine if bills can be paid. Money comes into and goes out of the firm every day, but without records entrepreneurs would not know what they can afford.

c. **Accounts Receivable.** Under certain conditions, the owner extends credit to some customers. The money owed is called accounts receivable. They are important records. Without them, how would the owner know when to bill and for how much? When to discontinue credit? When to make aggressive efforts to collect overdue bills? When to charge interest, if any?

Figure 5.1: Business plan



d. Accounts Payable. The amount of money owed by a business to others (such as suppliers) is called accounts payable. These bills need to be paid on time for two reasons: (1) sometimes by paying a bill on time you will receive a cash discount, and (2) you must maintain a good reputation in relation to those with whom you do business. Without accurate records you may make mistakes.

e. Inventory Records. Even in a small retail business, an owner must have control of inventory. What products are selling? What products aren't moving? Is there a good supply on hand? Entrepreneurs can keep some of this information in their head, but not enough to do the kind of job necessary to make a profit.

f. Government Requirements. The owner must file financial statements for tax purposes. Taxes are calculated on the profit a business earns. Even a small retail business must file certain reports.

g. Financial Statement. At least once a year the owner should have a comprehensive financial statement on the business prepared – this is similar to an individual having an annual medical check-up. How well did the business do in terms of total sales? What were its expenses? What are its profits before and after taxes? What can the owner do to improve things next year? When borrowing money, entrepreneurs must present such a statement to a banker; if they want to sell their business, they must show financial statements to prospective buyers.

v. Who should be responsible for keeping the financial records?

a. Keeping the records yourself. If the business is small and you have some experience, you may be able to keep the records for your business yourself. Remember: when you are doing this job, you are preventing yourself from doing some

other task for your business, perhaps a task that only you, the owner, can perform. Plan on delegating the record keeping functions to someone else as soon as possible. But you should still always understand the system and be able to “step in” at any moment if the record keeper leaves or is sick.

b. Assigning an assistant. If you employ others, one of the first jobs you may give to one of your employees is that of keeping all or some of the records. All employees have some record keeping responsibility since they make out sales slips, operate the cash register, and in many ways perform record keeping tasks which you trust will be accurate. It is your responsibility to train and instruct this individual and periodically evaluate the methods used.

Figure 5.2 Business Plan



c. **Hiring a full-time bookkeeper.** When you are large enough to do this, you are in a good position to secure a competent person who will frequently know more about records than you do. This is a difficult area for some businessmen to delegate. They feel that they must keep their own “hands” on the books, but this frequently confuses the record keeper and sometimes weakens his or her position. State your wishes and requirements, and let the bookkeeper do the job!

d. **Contracting the service out.** There are many firms which sell various record keeping services. These range from an annual audit with the preparation of a profit and loss statement and balance sheet, to weekly payrolls, daily sales analysis, and inventory control and analysis.

e. **Accounting department.** Eventually, if size warrants, you may have your own accounting department headed by a comptroller or an officer within the firm, usually the treasurer. The department would maintain a full set of books, including accounts receivable, accounts payable, and general ledger accounts. Mechanical or computerized record keeping equipment may be aspects of your business with a banker?

SUMMARY

- It is important that some records are kept in a business
- You want to ensure that only important information is kept, otherwise costs escalate

Exercise

- ❖ Do you think it is important for an entrepreneur to scan for opportunities in the small scale sectors? Give reasons
- ❖ In your opinion what precautions should a potential entrepreneur take at the idea generation stage in an ever changing business environment

WEEK 14

5.2 MACRO ENVIRONMENT OF BUSINESS

The macro environment of an entrepreneur consists of the political, technological, social, legal and economic segments. All of these are not an immediate part of the entrepreneur's venture yet they have an impact on his enterprise. Let us now examine the elements of the macro environment of the entrepreneur one by one.

Figure 5.3: Business Environment



i. Political Environment

Entrepreneurship can flourish under a stable and conducive political climate. Government policies which give priority to growth of trade and industry, provide infrastructural facilities, Institutional support can give a fillip to entrepreneurship.

Considering the employment and export potential, the short gestation period and the fact that small industries act as a seedbed for nurturing and developing entrepreneurship, the Government is very supportive of the small-scale sector. It has created an extensive Institutional framework for provision of finance, technology as well as help in marketing is made available by government institutions like BOI, NACRDB, SMEDAN, RMRDC, IDCs, TIDCs, etc.

ii. Technological Environment

The level of technology, the trends and the rate of change in technology existing in a society all have a direct impact on enterprise creation. Changes in technology, both innovation and invention change industry structures by altering costs, quality requirements and volume capabilities. In the advanced countries of the West more pure invention takes place which can create new industries for example Automobile, Aeronautical, Computer Hardware, Telecommunications, Pharmaceuticals etc. In developing economies there is usually an imitation of the above through process innovation. It has been observed that many small units use obsolete technologies and do not invest in R&D. As a result their goods are of poor quality and lack standardisation. A direct consequence of this is their inability to face competition. In many industries the technological threshold is low and as a result the success of an

entrepreneur promotes many others to start similar businesses and he loses the initial competitive advantage. On the other hand if he uses certain costly technology chances of others quickly becoming his competitors is less.

Apart from these the effect of technology on environmental laws, issues like a product being tested on animals or use of child labor etc also have to be kept in mind.

iii. Socio-Cultural Environment

The customs, norms and traditions of the society also play an important role in either hindering or promoting enterprise. For example, we sometimes say that the Ijebus are very enterprising. In certain traditional communities of our country working of females out of the home environment is frowned upon. Many times the choice of occupation is also dictated by the family traditions. Many vegetarians might not like to start poultry or fishery farms in spite of their economic potential. It is definitely wrong to sight a piggery farm in a predominantly Muslim community.

Activity 14:1

- ✚ Conduct a modest business plan on a selected venture of your choice and present in the class for discussion.



Socio-cultural factors are crucial for the operations of TNCs also. It is very important for a TNC to understand the socio-cultural background of their customers in the host

country. Socio-cultural environment is also concerned with attitudes about work or quality concerns, ethics, values, religion etc.

iv. Legal Environment

The laws of the country can make the process of setting up business very lengthy and difficult or vice-versa. Many times one hears of people complaining of the bureaucratic procedures in Nigeria, which act as a damper on new venture creation. The labour laws and legal redress system also have a bearing on business operations. Patents, Agreements on trade and tariffs and environmental laws also need to be studied. Copyright, trademark infringement, dumping and unfair competition can create legal problems in the shape of long drawn out court battles. Simpler legal procedures can facilitate the process of new venture creation and its smooth functioning including setting up of ancillaries, foreign tie-ups and joint ventures.

v. Economic Environment

Nigeria has today achieved a GDP growth of 7 % and aspiring for 10 % GDP in the near future. Liberalisation, Globalisation and subsisting economic reforms in Nigeria and the ECOWAS, has increased the space for business operations. It has also opened channels for foreign investors, banks, insurance and infrastructure companies to start operations. The resultant competition, rapid and complex changes have changed existing business environment, which have to be handled by the entrepreneurs.

SECTORAL ANALYSIS

After having understood the general environment in which the business has to take birth, it is important to study the sector or industry conditions in which the entrepreneur proposes to launch a venture. This will help to put the proposed venture in the proper context.

The purpose of industry analysis is to determine what makes an industry attractive- this is usually indicated by either above normal profits or high growth. For such analysis one should study the history of the industry, the future trends, new products developed in the industry, forecasts made by the government or the industry. It is also advisable to study the existing or potential competition, threat of substitutes and entry barriers. Sometimes there might be bilateral agreements between countries regarding some sectors or government policy that is sector specific or some event that throw up. There might be certain constraints regarding availability of technology, manpower or raw materials, which are industry specific. Similarly there might be certain strengths of a particular sector, which might outweigh some negative general trends. Currently the cement and steel sectors are on an upward swing with a favourable climate in the housing sector as well as government's thrust on building roads and other infrastructures.

SUMMARY

- ✚ Entrepreneurship can flourish under a stable and conducive political climate.
- ✚ Government policies which give priority to growth of trade and industry, provide infrastructural facilities, Institutional support can give a fillip to entrepreneurship.

Exercise

- ❖ What do you understand by the term business opportunity? What is its relevance for an entrepreneur?

WEEK 15

5.3 THE CONCEPT OF A BUSINESS PLAN

The feasibility analysis of the chosen 3-4 project ideas would help you zero in on to the one where you would like to commit yourself. Now, is the time to decide in advance on how you intend to go about everything related to the launch of your business and its subsequent operations? The difference between the feasibility report and business plan essentially lies in 'action orientation.' As such, a business plan is a blue print of entrepreneurial intentions.

Figure 5.4: Business plan



The business plan is a written document that serves as a road map in the entrepreneur's journey from start-up to project implementation. It describes all the relevant elements involved in starting a new business enterprise. It is often an integration of functional plans such as marketing, finance, manufacturing and human

resources. Potential investors and suppliers too are interested in a business plan, as it can prove helpful in taking decisions.

5.4 THE NEED FOR A BUSINESS PLAN

The depth and detail of the business plan depends upon the size of the market, nature of business [manufacturing/trading/service] and degree of competition. For example, an entrepreneur planning to market a new mowing machine will need a comprehensive business plan. On the other hand, an entrepreneur who plans to open a general provisions corner store will not need such a comprehensive business plan.

Figure 5.4: Business plan



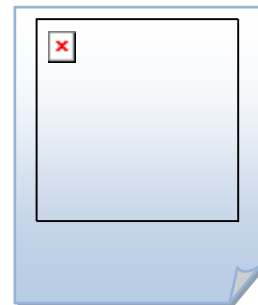
Business plan is important due to the following reasons:

- (i) It helps the entrepreneur to decide where he wants to go.
- (ii) It helps him to determine the viability of the venture.
- (iii) It provides guidance to the entrepreneur in planning realistic goals and targets, in organizing and even in identifying possible roadblocks.
- (iv) It is a pre-requisite to obtain finance.

While outlining a business plan, you should start with describing your business and product or services. Then indicate the market you are targeting and the stage of development your company is in. If you get stuck at a particular part of the plan, leave it for a while and get back to it later and finish it. You cannot make a perfect first draft. So just get some thoughts down to start the process. You can always come back and change it or polish it up later.

Activity 15:1

- ✚ Conduct a modest business plan on a selected venture of your choice and present in the class for discussion.



While making a business plan keep the following points in mind.

1. The target audience: While working your business plan, keep in mind the intended audience and the purpose of writing the plan. For example, if you are trying to get debt financing, the emphasis should not be on the huge profit potential but on the certainty that the debt can be repaid.

2. Business strategy: The first part of the business plan should be geared towards helping develop and support solid business strategy. The plan should explain the market, the industry, target customers and competitors.

The second half of the business plan should explain how to execute your selected business strategy. Your products, services, marketing and operations should all closely tie in with your strategy.

3. Competition: As an entrepreneur, you need to identify where you will do things in a manner similar to your competitors and where you will do things differently what will be your real strengths and real weaknesses. Focus your plan on being different or better than your competitors'. Think over the points-Can you find a unique strategy? Can you position your products differently? Can you use different sales or marketing vehicles? Your business plan should be able to answer these questions.

4. Be realistic: So many business plans do not work in the real life as there are always going to be some unseen expenditures, cost overruns, expensive problems and items that you simply overlooked. So forecast realistically and try to have a contingency reserve.

5. Involvement of people for creating the business plan: In seeking funds from banks, venture capitalists or other outside investors, the chances of success are greater if your management team includes a person whose name carries some weight, to get the plan in synchronized fashion, and to get any disagreements out in the open. The more input people have in creating the plan, the more responsibility they will feel towards it.

6. You should keep your business plan factual and brief.

5.5 OUTLINE OF A BUSINESS PLAN

1 Introductory Page

- (a) Name and address of business
- (b) Name(s) and address (es) of principals
- (c) Nature of business
- (d) Statement of financing needed
- (e) Statement of confidentiality of report

2 *Executive Summary* – Three to four pages summarizing the complete business plan.

3 *Industry Analysis*

- (a) Future outlook and trends
- (b) Analysis of competitors
- (c) Market segmentation
- (d) Industry forecasts



4 ***Description of Venture***

- (a) Product (s)
- (b) Services (s)
- (c) Size of business
- (d) Office equipment and personnel
- (e) Background of entrepreneurs

5 ***Production Plan***

- (a) Manufacturing process (amount subcontracted)
- (b) Physical plant
- (c) Machinery and equipment
- (d) Names of suppliers of raw materials

6 ***Marketing Plan***

- (a) Pricing
- (b) Distribution
- (c) Production
- (d) Product forecasts
- (e) Controls

7 ***Organisational Plan***

- (a) Form of ownership
- (b) Identification of partners or principal shareholders
- (c) Authority of principals
- (d) Management-team background

(e) Roles and responsibilities of members of organization

8 ***Assessment of Risk***

(a) Evaluate weakness of business

(b) New technologies

(c) Contingency plans

9 ***Financial Plan***

(a) Pro forma income statement

(b) Cash flow projection

(c) Pro forma balance sheet

(d) Break-even analysis

(e) Sources and application of funds

10 ***Appendix (contains backup material)***

(a) Letters

(b) Market research data

(c) Leases or contracts

(d) Price lists from suppliers

Summary

- ✚ Our proposal is to start a small business in bakery. We have found a shop in school that is perfect for this type of business. Both of us will be working in the shop and we will have to employ a none skilled worker to help in doing the business.
- ✚ A well constructed business plan will aid you in gaining financial and support.

Exercise

- ❖ Explain the process of preparing a detailed business plan