

**COURSE  
GUIDE**

**ENT 203**

**INTRODUCTION TO ENTREPRENEURIAL FINANCING**

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## **COURSE GUIDE**

### **INTRODUCTION**

This course, ENT203 Introduction to Entrepreneurial Financing has been designed to give you self-instruction on the basics of entrepreneurial finance options available to entrepreneurs. It is a two credit unit course at 200 levels, BSc in Entrepreneurship and Business Management.

Some of the key issues faced by entrepreneurs are: how much money should be raised at each stage; when should it be raised; what is a reasonable valuation of the company; and how funding, employment contracts and exit decisions are structured. They aim to prepare students for these decisions, both as entrepreneurs and as investors.

The goal of Entrepreneurial Finance is to help managers make better investment and financing decisions in entrepreneurial settings.

### **COURSE AIMS**

The aim of this course is achieved by:

1. Explaining the entrepreneurship process
2. Determination of the financial needs of an entrepreneur
3. Understanding SME financing in Nigeria
4. Identifying various ways of financing entrepreneurs in modern business
5. Understanding financial constraints experienced by entrepreneurs and
6. Develop the framework used for thinking about finance issues and develop experience in applying this framework to making useful business decisions

### **COURSE OBJECTIVES**

On successful completion of this course, you should be able to:

- 1) Understand some of the financial issues confronting entrepreneurial ventures
- 2) Explain entrepreneurial finance process in Nigeria
- 3) Understand various sources of finance available to entrepreneurs and investors
- 4) Explaining past and present efforts aimed at financing SMEs in Nigeria.

### **WORKING THROUGH THIS COURSE**

This course, ENT203, expects you to do a lot of reading in order to cover the modules in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every

library and from the internet. The course material has been made easy to read and user-friendly. However, you will need to attend the tutorial sessions where your Facilitator would direct and provide you with more information. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

## **COURSE MATERIALS**

The National Open University of Nigeria will provide you with the following items:

- Course Guide
- Study Units
- TMA Assignment File for continuous assignment.

In addition, at the end of every unit, is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

## **STUDY UNITS**

The study units in this course are as follows:

### **MODULE 1**

- Unit 1: Entrepreneurship – An overview
- Unit 2: Small and Medium Scale Enterprises
- Unit 3: The Financing of SMEs Business in Nigeria
- Unit 4: Evolution of Entrepreneurship
- Unit 5: Private Equity

### **MODULE 2**

- Unit6: Venture Capital
- Unit7: Financing constraints and entrepreneurship
- Unit8: Entrepreneurial Process
- Unit9: Sources of entrepreneurial opportunities
- Unit 10: Entrepreneurial Development

### **Module 3**

- Unit 11: Characteristics, types and functions of entrepreneurs
- Unit 12: Relationship between finance and the overall operations of an organization
- Unit 13: Sources of finance: Short-term sources
- Unit 14: Sources of finance: Long-term sources
- Unit 15: Entrepreneurial Theories

## **ASSIGNMENT FILES**

You will find the assignment questions for each tutor marked assignment (TMA) in the folder labeled “Assignment File.” You will find the details of the work.

## **ASSESSMENT**

There are two aspects to the assessment of the course: first is the tutor-marked assignment; and secondly, the examination. Within each unit are self-assessment exercises, which are aimed at helping you to check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answers from lecture. In tackling the assignments, you are advised to be sincere in attempting the exercises; you are expected to apply information, knowledge and techniques gathered during the course.

### **TUTOR-MARKED ASSIGNMENT (TMAS)**

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA’s, three of which must be answered and submitted. However, it is desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

## **2.0 FINAL EXAMINATION AND GRADING**

With this examination written successfully, you have completed your course in Basic research and one believes you would apply your knowledge (new or up-graded) in your project. The ‘end of course examinations’ would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

### **HOW TO GET THE BEST FROM THIS COURSE**

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some readings to do, the study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives allow you to know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a **Reading Section** of some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

- (1) Read this course guide thoroughly.
- (2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
- (3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
- (4) Turn to unit 1 and read the introduction and the objectives for the unit.
- (5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.
- (6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
- (7) Review of the objectives for each study unit and confirm that you have achieved them. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule.

- (8) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).

## **SUMMARY**

This course ENT203 is designed to give you some knowledge which would help you to understand Entrepreneurial Financing as applied to entrepreneurship and business management in Nigeria. After going through this course successfully, you would be in a good position to pass your examination at the end of the semester and use the knowledge gained to apply in your daily entrepreneurial activities. You will also be able to contribute to the development of scholarly thoughts in entrepreneurship and business management as it affects economic growth and development.

We wish you success in this interesting course and hope you will use what you have learnt in this course to apply to knowledge.



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## **MODULE 1**

- Unit 1: Entrepreneurship – An overview
- Unit 2: Small and Medium Scale Enterprises
- Unit 3: The Financing of SMEs Business in Nigeria
- Unit 4: Evolution of Entrepreneurship
- Unit 5: Private Equity

### **UNIT 1: ENTREPRENEURSHIP-ANOVERVIEW**

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#### **1.0 INTRODUCTION**

In this unit, we shall discuss entrepreneurship as a factor of production, define ‘entrepreneur’ ‘entrepreneurship, enterprise’ and ‘small scale businesses, discuss certain key concepts in entrepreneurship.

#### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

Discuss entrepreneurship as a factor of production;  
Define the terms: entrepreneur, entrepreneurship, enterprise and small scale business; explain the relationship that exists between enterprise and entrepreneurship;  
Enumerate and explain certain key concepts in entrepreneurship.

#### **3.0 MAINCONTENT**

All factors of production like land, labour, capital and entrepreneur are required in combination at a time to produce a commodity. In economics, production means creation or an addition of utility.

### **3.1 Entrepreneurship as a Factor of Production**

Factors of production (or productive inputs or resources) are any commodities or services used to produce goods and services. 'Factors of production may also refer specifically to the primary factors, which are stocks including land, labor (the ability to work), and capital goods applied to production. The primary factors facilitate production but neither become part of the product (as with raw materials) nor become significantly transformed by the production process (as with fuel used to power machinery). 'Land' includes not only the site of production but natural resources above or below the soil. The factor land may, however, for simplification purposes be merged with capital in some cases (due to land being of little importance in the service sector and manufacturing). Recent usage has distinguished human capital (the stock of knowledge in the labour force) from labour (Samuelson and Nordhaus, 2004). Entrepreneurship is also sometimes considered a factor of production (Sullivan and Sheffrin, 2003). Sometimes the overall state of technology is described as a factor of production (Parkin and Esquivel, 1999). The number and definition of factors varies, depending on theoretical purpose, empirical emphasis, or school of economics (Friedman, 2007).

#### **3.1.1 Historical Schools and Factors**

In the interpretation of the currently dominant view of classical economic theory developed by neoclassical economists, the term "factors" did not exist until after the classical period and is not to be found in any of the literature of that time (Ricardo, 1820; quoted in Sraffa, 1951). Differences are most stark when it comes to deciding which factor is the most important. For example, in the Austrian view—often shared by neoclassical and other "freemarket" economists—the primary factor of production is the time of the entrepreneur, which, when combined with other factors, determines the amount of output of a particular good or service. However, other authors argue that "entrepreneurship" is nothing but a specific kind of labor or human capital and should not be treated separately. The Marxian school goes further, seeing labor (in general, including entrepreneurship) as the primary factor of production, since it is required to produce capital goods and to utilize the gifts of nature. But this debate is more about basic economic theory (the role of the factors in the economy) than it is about the definition of the factors of production.

##### **(a) Physiocracy School**

In French Physiocracy, the main European school of economics before Adam Smith, the productive process is explained as the interaction between participating classes of the population. These classes are therefore the factors of production within physiocracy: capital, entrepreneurship, land, and labor.

The farmer labours on land (sometimes using "crafts") to produce food, fiber, and the like. The artisan labours to produce important capital goods (crafts) to be used by the other economic actors. The land lord is only a consumer of food and crafts and produces nothing at all. The merchant labours to export food in exchange for foreign imports.

##### **(b) Classical Schools**

The classical economics of Adam Smith, David Ricardo, and their followers focuses on physical resources in defining its factors of production, and discusses the distribution of cost and value Among these factors. Adam Smith and David Ricardo referred to the "component parts of price" ((Smith,1776))as the costs of using:

Land or natural resource-naturally-occurring goods such as water, air, soil, minerals, flora and fauna that are used in the creation of products. The payment for use and the received income of a land owner is rent.

Labor—human effort used in production which also includes technical land marketing expertise. The payment for someone else's labor and all income received from one's own labor is wages. Labor can also be classified as the physical and mental contribution of an employee to the production of the good(s).

The capital stock—human-made goods (or means of production), which are used in the production of other goods. These include machinery, tools, and buildings.

The classical economists also employed the word "capital" in reference to money. Money, however, was not considered to be a factor of production in the sense of capital stock since it is not used to directly produce any good. The return to loaned money or to loaned stock was styled as interest while there turn to the actual proprietor of capital stock (tools, etc.) was styled as profit.

(c) Marxian School

Marx considered the "elementary factors of the labour-process "or" productive forces "to be:

1. Labour ("work itself")
2. The subject of labour (object transformed by labor)
3. The instruments of labour (or means of labour) (Wikipedia, 2010).

The "subject of labour" refers to natural resources and raw materials, including land. The "instruments of labor" are tools, in the broadest sense. They include factory buildings, infrastructure, and other human-made objects that facilitate labor's production of goods and services. This view seems similar to the classical perspective described above. But unlike the classical school and many economists today, Marx made a clear distinction between labor actually done and an individual's "labour power" or ability to work. Labour done is often referred to now a days as "effort "or" labour services." Labor-power might be seen as a stock which can produce a flow of labour.

Labour, not labour power, is the key factor of production for Marx and the basis for Marx's labour theory of value. The hiring of labor power only results in the production of goods or services ("use-values") when organized and regulated (often by the "management"). How much labour is actually done depends on the importance of conflict or tensions within the labor process.

(d) Neoclassical economics

Neoclassical economics, one of the branches of main stream economics, started with the classical factors of production of land, labor, and capital. However, it developed an alternative theory of value and distribution. Many of its practitioners have added various further factors of production. Further distinctions from classical and neoclassical microeconomics include the following: Capital—this has many meanings, including the financial capital raised to operate and expand a business. In much of economics, however, "capital" (without any qualification)

means goods that can help produce other goods in the future, the result of investment. It refers to machines, roads, factories, schools, infrastructure, and office buildings which humans have produced in order to produce goods and services.

Fixed capital— this includes machinery, factories, equipment, new technology, factories, buildings, computers, and other goods that are designed to increase the productive potential of the economy for future years. Nowadays, many consider computer software to be a form of fixed capital and it is counted as such in the National Income and Product Accounts of the United States and other countries. This type of capital does not change due to the production of the good.

Working capital—this includes the stocks of finished and semi-finished goods that will be economically consumed in the near future or will be made into a finished consumer good in the near future. These are often called inventories. The phrase "working capital" has also been used to refer to liquid assets (money) needed for immediate expenses linked to the production process (to pay salaries, invoices, taxes, interests...) Either way, the amount or nature of this type of capital usually changed during the production process.

Financial capital—this is simply the amount of money the initiator of the business has invested in it." Financial capital "often refers to his or her net worth tied up in the business (assets minus liabilities) but the phrase often includes money borrowed from others.

Technological progress—for over a century, economists have known that capital and labor do not account for all of economic growth. This is reflected in total factor productivity and the Solow residual used in economic model scaled production functions that account for the contributions of capital and labor, yet have some unexplained contributor which is commonly called technological progress. Ayres and Warr (2009) present time series of the efficiency of primary energy (exergy) conversion into useful work for the US, UK, Austria and Japan revealing dramatic improvements in model accuracy. With useful work as a factor of production they are able to reproduce historical rates of economic growth with considerable precision and without recourse to exogenous and unexplained technological progress, thereby overcoming the major flaw of the Solow Theory of economic growth.

As mentioned, recent authors have added to the classical list. For example, J.B. Clark saw the coordinating function in production and distribution as being served by entrepreneurs; Frank Knight introduced managers who co-ordinate using their own money (financial capital) and the financial capital of others. In contrast, many economists today consider "human capital" (skills and education) as the fourth factor of production, with entrepreneurship as a form of human capital. Yet others refer to intellectual capital. More recently, many have begun to see "social capital" as a factor, as contributing to production of goods and services.

## (b) Entrepreneurship

Consider entrepreneurship as a factor of production, leaving debate a side. In markets, entrepreneurs combine the other factors of production, land, labour, and capital in order to make a profit. Often these entrepreneurs are seen as innovators, developing new ways to produce and new products. In a planned economy, central planners decide how land, labour, and capital should be used to provide for maximum benefit for all citizens. Of course, just as with market entrepreneurs, the benefits may mostly accrue to the entrepreneurs themselves.

The word has been used in other ways. The sociologist C. Wright Mills refers to "new entrepreneurs" who work within and between corporate and government bureaucracies in new and different ways (Collar, 1956). Others (such as those practicing public choice theory) refer to "political entrepreneurs," i.e., politicians and other actors. Much controversy rages about the

benefits produced by entrepreneurship. But there all issue is about how well institutions they operate in (markets, planning, bureaucracies, and government) serve the public. This concerns such issues as the relative importance of market failure and government failure.

(b) Non tangible forms of capital

(1) Human capital

Contemporary analysis distinguishes tangible, physical, or non-human capital goods from other forms of capital such as human capital. Human capital is embodied in a human being and is acquired through education and training, whether formal or on the job. Human capital is important in modern economic theory. Education is a key element in explaining economic growth overtime (see growth accounting).It is also often seen as the solution to the "Leontief paradox "in international trade.

(2) Intellectual capital

A more recent coinage is intellectual capital, used especially as to information technology, recorded music, written material. This intellectual property is protected by copyrights, patents, and trademarks. This view posits a new Information Age, which changes the roles and nature of land, labour, and capital. During the Information Age (circa 1971–1991), the Knowledge Age (circa 1991 to 2002), and the Intangible Economy (2002–present) many see the primary factors of production as having become less concrete. These factors of production are now seen as knowledge, collaboration, process-engagement, and time quality. According to economic theory, a "factor of production "is used to create value and allow economic performance. As the four "modern-day" factors are essentially abstract, the current economic age has been called the Intangible Economy. Intangible factors of production are subject to network effects and the contrary economic laws such as the law of increasing returns (Wikipedia, 2010).

(3) Social capital

Social capital is often hard to define, but to one textbook it is: the stock of trust, mutual understanding, shared values, and socially held knowledge that facilitates the social coordination of economic activity (Goodwin, Nelson, Ackerman, and Weisskopf, 2005). Knowledge, ideas, and values, and human relationships are transmitted as part of the culture. This type of capital cannot be owned by individuals and is instead part of the common stock owned by humanity. But they are often crucial to maintaining a peaceful society in which normal economic transactions and production can occur.

Another kind of social capital can be owned individually (Sobel, 2002). This kind of individual asset involves reputation, what accountants call "goodwill ", and/or what Others call "street cred, "along with fame, honor, and prestige. It fits with Pierre Bourdieu's definition of "social capital "as: an attribute of an individual in a social context. One can acquire social capital through purposeful actions and can transform social capital into conventional economic gains. The ability to do so, however, depends on the nature of the social obligations, connections, and networks, available to you.

This means that the value of individual social assets that Bourdieu points to depend on the current "social capital "as defined above.

#### (4) Natural resources

Ayres and Warr (2009) are among the economists who criticize orthodox economics for overlooking the role of natural resources and the effects of declining resource capital.

#### (5) Energy

Energy can be seen as individual factor of production, with an elasticity larger than labour (Kümmel, 2007). A co integration analysis support results derived from linear exponential (LINEX) production functions (Stresing, Lindenberger, and Kümmel, 2008).

### 3.2 Definition of Terms

Recently, attention has been shifted on small business enterprises (SBEs) in both developed and developing economy. This is as a result of the importance of these SBEs in providing employment, revenue generation and becoming giant firms overtime. However, there centre in unemployment, and the desire of individuals and nations to become self-reliance and sustainable on their own makes this sector more attractive and challenging than ever before.

At the moment, no clearer discipline or management course(s) that can provide all needed information, knowledge, technique and skill required to manage the existing or acquired business. The determinant is whether the investor is ready to take burn by the horn north read in the deep, dark, debt of uncertainty to run a successful business, and business owner or entrepreneur.

#### 3.2.1 Enterprise

It can be defined as initiative, or purposeful broad plans requiring many coordinates; or in business or financial applications as the overall operating entity. An enterprise is an activity or a project that produces services or products. There are essentially two types of enterprise:

1. Which are run to make a profit for a private individual or group of individuals? This includes small business.
2. Which function to provide services to individuals and groups in the community?

#### Business Enterprises

This is type of enterprise established by individual, corporate or government in order to provide essential service(s) while making profit or return. There are lots of different enterprises around; many are small businesses. Sometimes one person owns and runs them; sometimes they're a family business; other businesses are owned and run by partners who aren't family relations.

Entrepreneurs usually decide to set up small business to earn an income from producing and selling products or delivering services to individuals or other businesses. To earn an income from a small business, the enterprise has to run at a profit; that is, some money should be left over for the business owner once all the costs of making the product or delivering a service have been met.

#### Common Small Businesses

Some small businesses are easy to recognise because they have a shop front or a site where you

can see them in operation, making or fixing things and serving customers. For example:

restaurants  
corner shops, milk bars  
printing works  
furniture repair shops  
hair dressing salons  
smash repairers  
small factories  
farms.  
Banks  
Hotels etc

Roles and objectives of an enterprise

An enterprise of commercial, financial, or business nature or purpose for instance is established:

To provide income for the owner,  
To create jobs and  
To develop the economy among others.

### 3.2.2 Entrepreneur

Classical economists regarded land, labour, capital and entrepreneur as the main factors of production. The main tasks of the entrepreneur is to organize the production system and assume the risk of production, land, labour and capital will have no economic value unless they are organized by an entrepreneur who on his own account undertakes the financial risk and management control.

The term “entrepreneur”, although is a common term but remains one of the most difficult concept to define. Much depends on whether the term is used to describe capacity to innovate or whether it refers to ability to organize and manage a business concern. Schumpeter referred to entrepreneurs as “creative destruction” by the innovator. To Drucker, an entrepreneur is the only one who always searches for change, responds to it and exploits it as an opportunity. Glueck (1980) defined an entrepreneur as “an individual who creates a new firm and continues to manage it until it is successful. In short, an entrepreneur is a person who identifies business opportunities and organizes the required resources to initiate successful business activity. An entrepreneur is different from a manager who only plans, organizes and controls a business idea after it has been successful initiated by the entrepreneur.

### 3.2.3 Entrepreneurship

Entrepreneurship according to Walter (1989) can be defined in terms of the following three essentials and linked attributes:

- (i) Ability to perceive profitable business opportunities.
- (ii) Willingness to act on what is perceived and
- (iii) The necessary organizing skills associated with the project.

Therefore, entrepreneurship refers to the actor process of identifying business opportunities and organizing to initiate a successful business activity.

Entrepreneurship is different from management and entrepreneurship, using the words of Stoner,



Freeman and Gilbreth (1995) entrepreneurship involves initiating changes in production, whereas management involves the ongoing coordination of the production process. Entrepreneurship refers to one of the ways of making organizations to be adaptive. It is the practice of corporate entrepreneurship where managers begin and develop new business ventures within the structure of an existing organization.

Meanwhile, it worth noting that entrepreneurs are of two categories viz: craft entrepreneur (who exploits and utilizes personal skills) and opportunistic entrepreneur (who is interested in having the business to grow and expand).

### 3.2.4 Small Scale Business

Most classifications of business units into large and small are based on qualitative and quantitative judgment. For instance, the US Committee for Economic Development (CED) has developed the following definition of a small scale business. "A small scale business is one which possesses at least two of the following four characteristics".

1. Management: Usually the managers are also the owners.
2. Capital is supplied and the ownership is held by an individual or small group.
3. The area of operation is mainly local
4. The relative size of the firm within its industry must be small when compared with the biggest units in its field.

In Japan, a small-scale industry is defined according to the type of industry. For small medium industry in manufacturing, it is defined as those with 'f100 million as paid up capital and 300 employees, while small scale business in whole sale trade will have 'f30million paid up capital and 100 employees. In Britain, a small scale business is defined in terms of turn over and number of employees. For example, a small scale business is defined as "the industry with an annual turn over of 'f2million or less and fewer than 20 paid workers (Nwala, 1992).

In Nigeria, the definition of small-scale business also varies from time to time and from one institution to another. For example, the Central Bank of Nigeria 1996 Monetary Policy Guidelines defined small scale enterprises as enterprises as on whose total cost, excluding cost of land but including working capital, does not exceed N10million. The National Economic Reconstruction Fund puts the ceiling for small-scale business total investment at N10million. Section 36b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with:

- (a) Annual turnover of not more than N2 million.
- (b) Net assets value of not more than 1 million.

It will be obvious from the foregoing definitions that the relative size of a firm usually determine in terms of sales volume, investment in assets, number of employees, profit level and other significant quantitative comparisons is considered the most important. In summary, a small business may be defined qualitatively and quantitatively as the one that is:

- (i) Independently owned
- (ii) Independently managed
- (iii) Highly personalized
- (iv) Largely local in its operation
- (v) Financed mainly from internal sources
- (vi) Small in terms of sales turn over, number of employees, assets value, profit etc. within the industry.

### 3.3 Small Scale Business and Entrepreneurship

Private enterprises specially indigenous small scale firms have a vital role to play in promoting the social and economic wellbeing of the nation, hence indigenous entrepreneurship is likely to be much more important in small scale business than in giant firms. The promotion of small scale business as a well-recognized and much heralded strategy of industrial development in developed and developing countries, and its ability to enhance entrepreneurial and managerial skills. Development economists are of the opinion that labourintensive industries can enhance employment generation as well as advance wide variety of developmental goals like improved income distribution, generation and diffusion of technology, and industrial skills, increased utilization of local resources, improved spatial distribution of industrial activities and reduction of rural-urban population movement.

Increased productivity, national income, market leadership, gigantic technological innovativeness and sagacity of Japan, America and other developed countries are based on the foundation laid by small scale industries. Although, economic activities of developed and developing nations is sometimes viewed to be dominated by large scale business such as IBM Delta, Airline, Coca-cola, Toyota, Honda, UAC, Lever Brothers, John Holtto mention just a few. However, it is equally important to note that the present day giant companies were once small-scale industries, which grew over the years to become giant companies. In addition, as many small firms are dependent on large firms for raw materials or finished products, which would be costly without economies of mass production undertaken by the large business firms, likewise, larger firms are dependent on small firms who assist in distributing their goods and services.

In view of the impact of small-scale industries in improving the socio-economic condition of a nation, most developed and developing countries have made initiatives to promote indigenous entrepreneurship in small-scale business. In Nigeria, for examples, typical actions of the government take the form of policy initiatives and directives to organization, such as Ministry of Commerce, National Directorate of Employment, Ministry of Labour and Productivity, Center for Management Development, Research Institute set-to act as executing agencies with responsibility for stimulating, supporting and sustaining entrepreneurship development.

### 3.4 Key Concepts in Entrepreneurship

You cannot discuss entrepreneurship without touching on certain key concepts such as:

- Entrepreneurship education;
- Businessperson;
- Business magnate;
- Tycoon;
- Mogul;
- Industrialist;
- Investor;
- Captain of industry;
- Erasmus for Young Entrepreneurs; Financiers;
- Venture capitalists.

#### 3.4.1 Entrepreneurship Education

Entrepreneurship education seeks to provide students with the knowledge, skills and motivation to encourage entrepreneurial success in a variety of settings. Variations of entrepreneurship

education are offered to all levels of schooling from primary or secondary schools through graduate university programs.

### Objectives of Entrepreneurship Education

What makes entrepreneurship education distinctive is its focus on realization of opportunity, where management education is focused on the best way to operate existing hierarchies. Both approaches share an interest in achieving "profit" in some form (which in non-profit organizations or government can take the form of increased services or decreased cost or increased responsiveness to the customer/citizen/client). Entrepreneurship education can be oriented towards different ways of realizing opportunities: The most popular one is regular entrepreneurship: opening a new organization(e.g. starting a new business). Another approach is to promote innovation or introduce new products or services or markets in existing firms. This approach is called corporate entrepreneurship or intrapreneurship, and was made popular by author Gifford Pinchot in his book of the same name. Newer research indicates that clustering is now a driving factor. Clustering occurs when a group of employees breaks off from the parent company to found a new company but continues to do business with the parent. Silicon Valley is one such cluster, grown very large.

Another approach involves creating charitable organizations (or portions of existing charities) which are designed to be self-supporting in addition to doing their good works. This is usually called social entrepreneurship or social venturing. Even a version of public sector entrepreneurship has come into being in governments, with an increased focus on innovation and customer service. This approach got its start in the policies of the United Kingdom's Margaret Thatcher and the United States' Ronald Reagan.

#### 3.4.2 Businessperson

A business person (also businessman, or businesswoman) is someone involved in a particular undertaking of activities for the purpose of generating revenue from a combination of human, financial, and physical capital. An entrepreneur is an example of a business person. Sometimes the term can mean someone who is involved in the management of a company, especially as an owner or an executive. Sometimes it can also mean someone employed in a (usually) profit-oriented enterprise. The term businessperson/man/woman almost always refers to someone with a "white collar" occupation (Wikipedia, 2010).

#### 3.4.3 Business magnate

A business magnate, sometimes referred to as a capitalist, czar, mogul, tycoon, baron, oligarch, or industrialist, is an informal term used to refer to an entrepreneur who has reached prominence and derived a notable amount of wealth from a particular industry (or industries) (Wikipedia, 2010).

Examples of well-known business magnates include Sir Richard Branson of Virgin Group, utility and transportation magnate Samuel Insull, newspaper magnate William Randolph Hearst of the Hearst Corporation, oil magnate John D. Rockefeller of Standard Oil, steel magnate Andrew Carnegie, Lakshmi Mittal of Arcelor Mittal, poultry magnate Frank Perdue of Perdue Farms, automobile magnate Ferdinand Piech of Volkswagen Group, and telecommunications magnate Carlos Slim.

#### 3.4.4 Clippership Tycoon

The word magnate itself derives from the Latin word magnates (plural of magnas), meaning "great person" or "great noble man." The word tycoon is derived from the Japanese word taikun, which means "great lord," and it was used as a title for the shogun (Wikipedia, 2010). The word entered

the English language in 1857 [2] with their turn of Commodore Perry to the United States. U.S. President Abraham Lincoln was humorously referred to as the Tycoon by his aides John Nicolay and John Hay. The term spread to the business community, where it has been used ever since.

#### 3.4.5 Business Mogul

The word mogul refers to the Mughal Empire (mughal being Persian or Arabic for "Mongol") of Indian Subcontinent that existed between 1526 and 1857: the early Mughal emperors claimed a heritage dating back to Mongol ruler Genghis Khan. The modern meaning of the word is supposedly derived from the storied riches of the Mughal emperors, who for example produced the Taj Mahal (Wikipedia, 2010).

#### 3.4.6 Industrialist

As the term industrialist (from Latin industrial, "diligence, industriousness") was more widely used in the context of "old world" physical industries such as steel, oil, news papers, shipping and rail transport, it has largely been superseded by the other, more modern terms that encompass a wide range of virtual business and commercial activity (Wikipedia, 2010).

Microsoft co-founder Bill Gates is consistently ranked in the top five of the wealthiest people in the world. Such people are savvy business men that usually amass substantial fortunes in the process of running their business. Some are widely known in connection with their business(es) or through other pursuits such as philanthropy. The terms "mogul", "tycoon" and "baron" were often attributed to late 19th and early 20th century North American business magnates in extractive industries such as mining, logging and petroleum, transportation fields such as shipping and rail roads, manufacturing, including steel making, banking, and newspaper publishing. This era was known as the Second Industrial Revolution or the Gilded Age.

In Russia and some other post-Soviet countries, the term "business oligarch" has become popular.

#### 3.4.7 Captain of Industry

"Captain of industry" was a term originally used in the United Kingdom during the Industrial Revolution describing a business leader whose means of amassing personal fortune contributes positively to the country in some way. This may have been through increased productivity, expansion of markets, providing more jobs, or acts of philanthropy (Wikipedia, 2010). This contrasts with robber baron, a term used to describe a business leader using political means to achieve their ends.

Some nineteenth-century industrialists who were called "captains of industry" overlap with those called "robber barons". These include people such as J.P. Morgan, Andrew Carnegie, Andrew W. Mellon, and John D. Rockefeller. The term was coined by Thomas Carlyle in his 1843 book, *Past and Present*.

The title is regaining popularity in India, whose billionaires have more wealth than any other country in Asia.

#### 3.4.8 Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs is Europe's new mobility scheme that aims at helping new entrepreneurs to acquire relevant skills for managing a small or medium-sized enterprise (SMEs) by spending time in a business in another EU country. It was initiated by the European Union (EU) on the 19 February 2009. Erasmus for Young Entrepreneurs is financed by the European Commission and is in operation across 21 EU countries with the help of more than 100 intermediary organizations competent in business support. By 2010, a total of 870 stays abroad will be in action (Wikipedia, 2010).

### Aims of the programme

The programme stimulates entrepreneurship, competitiveness, internationalisation and growth of start-ups and established SMEs in the EU. The programme contributes to the transfer of know-how and fosters cross-border transfer of knowledge and experience between entrepreneurs.

The Erasmus for Young Entrepreneurs has a number of specific objectives:

- It offers new entrepreneurs the opportunity to learn from an experienced entrepreneur who is running a small or medium-sized enterprise (SME) in another EU country,
- It enables the exchange of experience between new and experienced entrepreneurs;
- It facilitates access to new markets and the search for potential business partners,
- It enhances networking between business people and between SMEs,
- It allows experienced entrepreneurs to develop new commercial relations and find out more about opportunities in another EU country.

Erasmus for Young Entrepreneurs provides practical and financial assistance for new entrepreneurs (NE) spending time in the business of experienced host entrepreneurs (HE) in other EU countries. New entrepreneurs travel to an experienced entrepreneur in another EU country and work with him/her for 1 to 6 months. The matching of the new entrepreneurs with the host entrepreneurs is carried out with the help of the in-term diary organisations.

### History and development of ERASMUS

In 2007, the European Parliament introduced a new budget line entitled "Erasmus for Young Entrepreneurs". The European Commission then started to design the Pilot Project with the aim of supporting mobility periods abroad for recently established and nascent entrepreneurs, with a view to improving their skills and fostering the cross-border transfer of knowledge and experience between entrepreneurs.

Erasmus for Young Entrepreneurs comes under the Small Business Act for Europe which considers this initiative a key contribution "to create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded". Erasmus for Young Entrepreneurs is to a certain extent similar to the well-known Erasmus Programme for students since it is a mobility action which had dressed a particular target group. However, it is also clearly different: whereas the existing Erasmus programme in higher education enhances student-to-university relationships, the new Erasmus for Young Entrepreneurs focuses on business-to-business relationships. The various EU mobility programmes are complementary to each other offering mobility opportunities to different target groups at different moments of life.

### 3.4.9 Financiers

Financier is a term for a person who handles typically large sums of money, usually involving

money lending, financing projects, large-scale investing, or large-scale money management. The term is French, and derives from finance or payment. A financier today can be someone who makes their living from investments, particularly in investing in up and coming companies and businesses. A financier makes money through this process when his or her investment is paid back with interest or from a certain percentage of the company awarded to the mass pacified by the business deal (Wikipedia,2010).

#### Job prerequisites

Officially, there are no degrees or schooling needed to be called a financier as it is a term to describe someone who handles money. Certain financier avenues do require degrees and licenses including venture capitalists, stockbrokers, public treasurers, trust fund managers, and accountants. Investing, on the other hand, has no requirements and is open to all by means of the stock market or by word of mouth requests for money.

#### 3.4.10 Venture Capitalist

Venture capitalists, private equity firms, and hedge fund managers are examples of financiers that do not require a license or education attainment. Persons managing funds of high net worth individuals in private partnerships are not regulated-these are typically what is referred to as "hedge funds". Managers of regulated mutual funds, broker-dealers (investment banks), registered investment advisers, brokers and brokerages, and futures commodity merchants all require a form of licensure (such as NASD Series 27) in order to hold themselves out for business; but in these cases attainment of a college degree is not required (Wikipedia,2010).

Certified Public Accountants attain their status by passing the uniform CPA Exam, which is authored by American Institute of Certified Public Accountants, and administered by the state boards of CPAs in each of the 50 states. CPAs are not financiers by definition. They are public accountants and auditors. CPA status does not preclude acting in the role of a financier. The term financier can also refer to a member of the Italian *Guardia di Finanza*.

### **Types of financiers**

Investor/High net worth individual  
Trust Fund Manager  
Venture Capitalist

#### 3.4.11 Infopreneur

Infopreneur is a person whose primary business is gathering and selling electronic information. [1] This term is a neologism portmanteau derived from the words "information" and "entrepreneur". An infopreneur is generally considered an entrepreneur who makes money selling information on the Internet. They use existing data and target an audience. The term is often used on the Internet. The word infopreneur was registered as a trademark (USPTO) on February 11, 1984 by Harold F. Weitzen. In 1988, H. Skip Weitzen published "Infopreneurs: Turning Data into Dollars" (John Wiley & Sons) (Wikipedia,2010).

Before the explosive popularity of the Internet, at the turn of the millennium, such an occupation already existed. These legacy infopreneurs sold their information in other mediums such as audio tapes, audio CDs, CD-ROMs, videos, talk shows, and conferences. The classification of infopreneur has created a new style of business on the Internet, which allows anybody with a computer and an Internet connection to start a business by publishing information that may appeal to a specific market.

There are generally two kinds of infopreneurs: those that sell information they have amassed on their own and those that earn commissions from selling information that they know nothing about. The latter may be considered more of a "information trafficker".

### Online publishing

As the infopreneur is his /her own developer, marketer, producer, and distributor-some infopreneurs consider themselves being in the publishing business. Unlike in traditional print publishing, the infopreneur puts down, in electronic form, what he/she knows from experience or what he/ she learned and passes them on to the world through publishing on websites, blogs, ebooks, emails, etc.

### Blogs and advertisements

Information traffickers do consider themselves infopreneurs. After all, they are making money out of information. Many of them utilize the power of the World Wide Web-creating websites and blogs to act as their storefront. The infopreneur may attract traffic to his/her site by manipulating their site to appear higher on search engine results.

[2]This may be done by creating a site that is robust in information, and configuring META key words and descriptions that accurately describes the web page. But often, infopreneurs that are out to get a "quick buck", will create a mash-together of information by publishing popular, sought after content, often in incorporating RSS feeds from more popular sites. The infopreneur then makes money from AdSense ads, affiliate links, referrals and leads, and/or selling eBooks' that are related to the search parameters and keywords. Essentially, these infopreneurs "piggy-back" on already established information. For example, there are many such slogs that copy verbatim the articles from Wikipedia.

### 3.4.12 Investor

An investor is a party that makes an investment into one or more categories of assets---equity, debt securities, real estate, currency, commodity, derivatives such as put and call options, etc.---with the objective of making a profit. This definition makes no distinction between those in the primary and secondary markets. That is, someone who provides a business with capital and someone who buys a stock are both investors. Since those in the secondary market are considered investors, speculators are also investors. According to this definition there is no difference (Wikipedia,2010).

### Types of investors

The following classes of investors are not mutually exclusive:

Individual investors (including trusts on behalf of individuals, and umbrella companies formed by two or more to pool investment funds) Collect or so forth, antiques, and other things of value  
Angel investors (individuals and groups) Sweat equity investor  
Venture capital funds, which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds.

Businesses that make investments, either directly or via a captive fund  
Investment trusts, including real estate investment trusts  
Mutual funds, hedge funds, and other funds, ownership of which may or may not be publicly traded (these funds typically pool money raised from their owner-

subscribers to invest in securities) Sovereign wealth funds.

Also, investors might be classified according to their styles. In this respect, an important distinctive investor psychology trait is risk attitude.

#### **4.0 CONCLUSION**

We noted from the unit that all factors of production like land, labour, capital and entrepreneur are required in combination at a time to produce a commodity. In economics, production means creation or an addition of utility. We discussed the various schools of thought that relate to the concept of entrepreneur. We defined the terms 'enterprise', 'entrepreneur', 'entrepreneurship' and 'small scale businesses'. Finally, we enumerated and discussed some key concepts in entrepreneurship.

#### **5.0 SUMMARY**

In this unit, we have,

- Discussed entrepreneurship as a factor of production;
- Defined the terms: entrepreneur, entrepreneurship, enterprise and small scale business;
- Explained the relationship that exists between enterprise and entrepreneurship;
- Explained certain key concepts in entrepreneurship.

In the next unit, we shall discuss the terms entrepreneurship/ intrapreneurship.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. In markets, entrepreneurs combine the other factors of production, land, labour, and capital in order to make a profit. Discuss the role of an entrepreneur in relation to this statement.
2. Define the terms: enterprise, entrepreneur, small scale business and entrepreneurship.
3. Write short notes on the following:
  - Entrepreneurship education;
  - Businessperson;
  - Business magnate;
  - Tycoon;
  - Mogul;
  - Industrialist;
  - Investor;
  - Captain of industry;

4. How could small scale businesses contribute to the development of an economy?

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## **UNIT 2      SMALL AND MEDIUM SCALE ENTERPRISES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Features of Small Scale Industries
  - 3.2 Problems of Small Scale Industries
  - 3.3 Sources of Finance for SMEs
  - 3.4 Government Measures to Enhance the Status of SMEs
  - 3.5 Small and Medium Industries Equity Investment Scheme
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

Small and Medium Scale Enterprises (SMEs) can be defined as having three characteristics:

- Firms are likely to be unquoted
- Ownership of the business is restricted to a few individuals
- They are not micro business that are normally regarded as those very small business that act as a medium for self – employment of the owners

The economy of any country depends on the contributions of all sectors of the economy particularly the small and medium scale enterprises.

### **2.0 OBJECTIVES**

After this study, you are expected to give detail explanation on:

- The meaning of Small and Medium Scale Enterprises
- Features of Small Scale Enterprises
- Problems of small Scale Industries
- Sources and Finance of SMEs
- Government Measures to Enhance The Status of SMIs

### **3.0 MAIN CONTENT**

#### **3.1 FEATURES OF SMALL SCALE INDUSTRIES**

1. They usually have low set up cost.
2. They rely on local raw materials.
3. Employment operation.
4. They accelerate rural development and contribution to stemming urban migration and problems of congestion in large cities.
5. They provide links between agriculture and industries.
6. They mobilize private savings and harness them for productive purposes.
7. They supply parts and components for large – scale industries.
8. They contribute to domestic capital formation.

#### **3.2 PROBLEMS OF SMALL SCALE INDUSTRIES**

The small scale industries are based with many problems among which are:

1. Management problems: all important entrepreneurial and operational decisions are taken by one person and there is lack of formal training in management and production skills.
2. Financing problems: this constitutes major problem. Their low business credibility, poor management, inefficiencies, limited collateral security, high risk of failure make it difficult for them to raise capital from usual sources and often force them to secure loans at higher interest rates from their lenders.
3. Most of them tend to imitate rather than innovative.
4. They engage in production of non – standardized products.
5. Most of them are concentrated in urban centres and could therefore not tap the local advantages e.g cheap labour, access to primary products e.t.c.
6. Little access to or inability to apply new technologies.

#### **3.3 SOURCES OF FINANCE FOR SMEs**

At one time or another in the life of an enterprise, the owners of SMEs would need money. Generation of funds for the successful operation of these enterprises involves the following:

1. Owner financing
2. Loans
3. Trade credit
4. Equity financing

5. venture capital
6. Leasing
7. Factoring

Owner Financing: This comes in the form of owner's contribution in the case of a sole proprietor. This money is needed as pointed out to provide working capital to acquire fixed assets and to pay for promotional expenses. This is the same as equity financing.

### **3.4 GOVERNMENT MEASURES TO ENHANCE THE STATUS OF SMEs**

The government has introduced schemes and policies to encourage more lending to small firms and special sectors of the economy and these are:

- Central Bank of Nigeria guidelines on sectorial allocation of loans and advances.
- The loan scheme of National Directorate of Employment.
- The Agricultural Credit Guarantee Schemes.
- Establishment of Development Banks such as BOI and NACRDB.
- Establishment of SMEDAN.
- Establishment of small and medium scale equity investment scheme.
- Establishment of ADB Export stimulation fund scheme, IDA and IFC.

### **3.5 SMALL AND MEDIUM SCALE INDUSTRIES EQUITY INVESTMENT SCHEME**

The Bankers Committee on December 21, 1999, at its 264<sup>th</sup> meeting resolved that all banks in Nigeria should set aside 10% of their profit before tax for equity investments in small and medium industries.

Consequently, the scheme SMIEIS was launched and on August 2001, the Small and medium Enterprises Development Agency of Nigeria SMEDAN was established to address the problems associated with the SMEs.

#### **The Objectives**

The objectives of the SMIEIS scheme among others are to:

- Facilitate the flow of funds for the establishment of new Small and medium Industries (SMI) projects reactivation, expansion and modernization or restructuring of on – going projects.
- Stimulate economic growth, develop local technology and generate employment for capable and suitable Nigerians.
- Eliminate the burden of interest and other financial charges for the entrepreneurs.

- Provide financial advisory, technical and managerial support to the entrepreneurs.

#### **4.0 CONCLUSION**

In this unit you have learned the definition of Small and Medium Scale Enterprises, features of SMEs, problems of SMEs and the Sources and finance of SME's.

#### **5.0 SUMMARY**

We have successfully defined SME's with respect to their major characteristics, discussed the features of the SME's, some of their major problems and the different ways that they generate their funds which include loans, trade credit, venture capital, leasing, factoring among others. Finally, we highlighted some of their major objectives.

#### **6.0 TUTOR-MARKED ASSIGNMENTS**

1. State some of the objectives of SME's.
2. Discuss some of the features of small scale industries and their problems.

#### **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 3 THE FINANCING OF SMALL BUSINESSES IN NIGERIA**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Past Efforts at Financing Small Businesses in Nigeria
  - 3.2 Current Efforts at Financing Small Businesses in Nigeria
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

In the previous unit, we studied the types of finance available to small businesses and identified the short-term, medium term and long term types of financing. In this unit, an assessment of the financing of small business in Nigeria is done, by reviewing past and current effort made by government, the private sector (principally the industrial and the banking sectors), and the donor agencies in financing small businesses in Nigeria.

### **2.0 OBJECTIVES**

At the end of this unit, you will be able to:

- Discuss the past efforts aimed at financing small businesses in Nigeria.
- Evaluate the current efforts aimed at financing small businesses in Nigeria.

### **3.0 THE FINANCING OF SMALL BUSINESSES IN NIGERIA**

#### **3.1 Past Efforts at Financing Small Businesses in Nigeria.**

The need to finance small businesses in Nigeria became apparent during the collapse of the oil boom in the early 1980's, which led to a drastic reduction in capacity utilization in most Nigerian Industries and consequently, massive retrenchment. This led to economic depression in the country, which informed the adoption of the structural adjustment programme in 1986 and the new industrial policy in 1988. The new industrial policy accorded pivotal role to the private sector and shifted priority focus of policy from large scale industries to small and medium scale enterprises. Since then so many schemes and programmes have been initiated to finance and promote small businesses in order to bring about development in the country. Notable among them are:

#### **3.1.1 National Directorate of Employment (NDE)**

The establishment of NDE in 1986 constituted a channel by which government aimed at promoting small and medium scale enterprises (SMEs) in Nigeria. Prior to this time, Nigeria witnessed a serious problem of employment. According to Olagunju (2008), at 1985, a conservative estimate of unemployment in Nigeria was put at 8.5%.

As an effort to solve the problem of unemployment, the federal government of Nigeria on March 26, 1986, appointed a think tank known as the National Committee on Strategies for Dealing with Mass Unemployment, Labour and Productivity. The reports of the committee eventually gave rise to the establishment of the National Development of Employment (NDE) on November 23 1986. Through the directorate, a number of programmes emerged such as The Rural Employment Program The Vocational Skill Development Programme, The Small Scale Enterprises Programme The Special Public Workers programmes Under these schemes, NDE provides financial and technical assistance to small businesses in Nigeria. Otiti (2007:242) noted that about 70,000 apprentice were trained in different skills all over the country by the end of 1987.

### **3.1.2 The World Bank SME II Loan Scheme**

The scheme is a follow-up to the Bank's supported SME I programme. Under the SME II, a loan of US\$270million was approved in 1989 to finance small businesses by the World Bank, while approvals and disbursements began the following year. It is administered by the SME II Apex Unit in the Central Bank of Nigeria.

The primary objective of this scheme has been to promote the development of small and medium scale enterprises. It covers three types of credit facilities- project loans, equipment leasing and urban mass transit scheme. As disbursement was below expectation at the earlier stage, the size of the loan was reduced to US\$142million in September 1992 and approval of new project ceased in March 1994 when the fund was exhausted.

### **3.1.3 National Economic Reconstruction fund (NERFUND)**

The problem of funding SMEs in Nigeria has been of serious concern to both the government and entrepreneurs. All efforts made by government to persuade banks and other financial institution to give loans to small and medium scale business have not yields much results. In an attempt to solve this problem, the NERFUND was set up through NERFUND Decree No 2 of 1989 to provide medium to long-term funds for wholly owned Nigeria SMEs. The objectives of the fund include:

- i. To correct any observed inadequacies in the provision of medium to long term financing to small and medium scale industrial enterprises especially manufacturing and agro-allied enterprises and ancillary services;
- ii. To provide medium to long term loans to participating banks for lending to SMEs, for the promotion and acceleration of productive activities in such enterprise;
- iii. To facilitate the provision of loans with 5-10 years maturity including a grace maturity period of 1-3 years depending on the nature of the enterprise or project;
- iv. To provide such loans either in Naira or in foreign currencies or both according to the sources of funds available to the fund and the requirement of eligible enterprise or project;
- v. To provide employment to our teeming population of employed people;
- vi. To ameliorate the pressure on prices and inflation often associated with supply shortages.

Thus, it was conceived that the NERFUND, in partnership with banks will act as a catalyst in the effort to stimulate the rapid growth and development of SMEs in Nigeria. (Olugungu, 2008). The NERFUND decree specified that eligible SMEs must be 100% owned by Nigeria, most have fixed assets, plus cost of new investment (land excluded) not exceeding N10 million in the case of a

manufacturing project, not less than 40 percent of the raw materials were to be sourced locally and a participating bank must accept on behalf of the SMEs to assure the credit risk.

### **3.1.4 Second Tier Securities Market**

The second-tier securities market was introduced in the capital market for listing smaller companies that cannot meet the requirement of being listed on the exchange. This gives opportunity to small firms, with sound management practices, to be registered and source for money on the stock exchange, by trading on securities.

### **3.1.5 The Central Bank of Nigeria (CBN)**

CBN has over the years been playing a leading role in promoting SMEs in Nigeria. The CBN, especially during the regime of direct monetary control, was determining the rate for lending to specified sectors of the economy with the aim of encouraging lending to those sectors.

The Bank ensured that the lending rates to SMEs were lower than the rates for further sectors of the economy. It also required mainstream banks to make available to indigenous industrialist a certain percentage of their credit portfolio.

There were institutions that provided financial support to small businesses in Nigeria before the adoption of SAP. They include the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDB), etc.

## **SELF ASSESSMENT EXERCISE**

1. Outline the past efforts aimed at financing small businesses in Nigeria.

### **3.2 Current Efforts at Financing Small Businesses in Nigeria**

Efforts in the past to finance or support small businesses in Nigeria were either not successful or they achieved only marginal success. In view of this, there were new programmes and schemes aimed at financing the small business sector in Nigeria. They are outlined and explained below.

#### **3.2.1 Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN)**

It was established by the SMEDAN act of 2003, to promote the development of Micro, small, and medium Enterprises (MSME). Its functions are: to stimulate, monitor and co-ordinate development of MSME sector, to initiate and articulate policy ideas for MSME growth, to promote and facilitate development programmes, instrument and support services to accelerate the development and modernization of MSME operations, serving as a vanguard for rural industrialization, poverty reduction and job creation and enhanced sustainable livelihood, link MSME to internal and external service of finance, technology and technical skills, provide appropriate information and improved access to industrial infrastructure, mediate between MSME and government, work in concert with other institutions, among others.

#### **3.2.2 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)**

The scheme is an initiative of the Bankers committee, representing banks contribution to the efforts of the federal government towards stimulating sustainable economic growth, development of local technology, poverty alleviation and employment generation. Through the initiative, banks are required to set aside 10 percent of their Profit After Tax (PAT) for equity investment and financing to small and medium scale enterprises. The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises.

To be eligible for equity funding under the scheme, a prospective beneficiary shall register as a limited liability company with the Corporate Affairs Commission and comply with all relevant



regulations of the Companies and Allied Matters Act (1990); Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities; Engage or propose to engage in any of the businesses as indicated by the scheme. The scheme covered the following activities: manufacturing information technology and telecommunications Agro-allied, Tourism and leisure, Educational, solid mineral, construction, service (Financial and Insurance services) and other legal activities as may be determined by the Bankers' committee.

### **3.2.3 Micro Credit and Donor Support to Small and Medium Scale Enterprises.**

Most of the small business supports from government are in the form of micro credit schemes. These schemes are either managed independently or in collaboration with financial institutions or the donors. A few notable schemes are the 31.0 billion SME scheme by the Delta State Government and four banks, the 30.5 billion schemes by the Lagos State government, etc. except in the instances where bank funds are involved, these schemes may not be sustainable due to the culture of non-repayment of government.

In order to ensure adequate funding of SMEs, the Federal Government, through CBN, initiated a micro finance scheme in 2005. The objectives of the micro finance scheme, as noted by the Central Bank of Nigeria (2005) are:

1. To make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
2. Promote synergy and main streaming of the informal sub-sector into the natural financial system.
3. Enhance service delivery by micro-finance institutions to micro, small and medium entrepreneurs
4. Contribute to rural transformation
5. Promote linkage programmes between universal/development banks, specialized institutions and micro finance banks.

Donors programmes to support SMEs have been in the form of micro credit funds with a capacity development component. The major donor is the United Nations Development Programme. Some oil companies e.g. Shell, have also initiated SME funding.

## **SELF ASSESSMENT EXERCISE 2**

1. Mention the current efforts aimed at financing small businesses in Nigeria.

## **4.0 CONCLUSION**

This unit reviews current and past efforts aimed at financing small business in Nigeria. It explains that so many schemes and programmes have been initiated in the past and present to finance and promote small businesses in order to bring about development in the country. Notable among them are National Directorate of Employment (NDE), the World Bank SME II Loan Scheme, National Economic Reconstruction fund (NERFUND), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), and Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

## **5.0 SUMMARY**

This unit reviewed past and current efforts made by government, the private sector (principally the industrial and the banking sectors), and the donor agencies in financing small businesses in Nigeria. It also highlighted some programmes and schemes initiated to finance small business in the country.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. Outline and discuss the past efforts aimed at financing small businesses in Nigeria.
2. Mention and explain the current efforts aimed at financing small businesses in Nigeria.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT4          EVOLUTIONOFENTREPRENEURSHIP CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Entrepreneurship
  - 3.2 Entrepreneurship
  - 3.3 Differences between Entrepreneur and Intrepreneur
  - 3.4 Technopreneur
  - 3.5 Evolutionary Origins of Entrepreneur
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

In the last unit, we discussed entrepreneurship as a factor of production; defined the terms: entrepreneur, entrepreneurship, enterprise and small scale business; explained the relationship that exist between enterprise and entrepreneurship; and explained certain key concepts in entrepreneurship.

In this unit, we shall discuss the terms entrepreneurship/intrapreneurship.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

Define the concept of entrepreneurship and intrapreneurship;  
Discuss the importance of intrapreneurin organizations;  
Use corporate entrepreneurship skills in organizations;  
Understand the operational link between corporate entrepreneur and entrepreneur;  
Define entrepreneur and distinguish between entrepreneur, Intrapreneurand Technopreneur;  
enumerate the functions and characteristics of an entrepreneur.

### **3.0 MAINCONTENT**

#### **3.1 Entrepreneurship**

The concept entrepreneurship or entrepreneurship refers to entrepreneurship in the context of larger corporations. Kao(1989) notes that the idea of entrepreneurship and creativity in established organization is to ensure that firms maintain their competitive strengths in a turbulent environment.

### **3.1.1 Who is an Entrepreneur?**

The multidimensional nature of the entrepreneur as shown above indicates that it will be difficult to have a definition that will accurately capture all the dimensions of the construct. A few of the attempts at the definitions of entrepreneur are presented below.

Schumpeter(1934)defines the entrepreneur in term of innovation and says that the single function of entrepreneur is innovation. Glueck (1980) definesan entrepreneur as an individual who creates a new firm and continues to manage it until it is successful. Carland, Hoy, Boulton and Carland (1984) define entrepreneur as a person who establishes and manages a business concern for the major aim of profit and growth. He has the major characteristics of innovative behavior and utilization of strategic management practices in his business enterprise.

Drucker (1985) defines the entrepreneur as the innovative individual who perceives business opportunities and organizes the required resources to initiate a successful business activity for profit. Singh(1986)defines the entrepreneur as the self-starter ordoerwho has organized and builds a successful enterprise. Amit, Glostenand Muller(1993)define the entrepreneur as individual who innovates, identifies and creates business opportunities, assembles and coordinates new combinations of resources; and extracting the most profit from his innovation in uncertain environment.

Ogundele (2000) defines entrepreneurs as the innovating individual, who initiates and nurtures to growth a new and an ongoing business organization, where none existed before. He is the individual who successfully thinks or conceives a new business concern, organizes or initiates actions to start it, and manage sit through its initial problems and struggles for survival. He takes all measures that lead the organization to a state of stability and self-sustaining growth. Strictly speaking, an individual is an entrepreneur when he/she performs the above-described functions of an empire builder. This is opposed to the person who is contended with being self- employed and in satisfying the primary human needs for hunger, safety and economic security. The entrepreneur above these is concerned with needs for power, property, and self- actualization. Kuratko and Hodgetts (2001) define entrepreneur as individual who recognizes opportunities where others see chaos and confusion. That the entrepreneur is a catalyst for economic change, which uses purposeful searching, careful planning, and sound judgment when carrying out the entrepreneurial process. Uniquely optimistic and committed, the entrepreneur works creatively to establish new resources or endow old ones with a new capacity, all for the purpose of creating wealth.

The above definitions were merely attempts at describing some of the aspects of entrepreneur's behavior and functions. They were also based on the perception and academic orientation of the writers. Consequently the search for appropriate conceptualization of entrepreneur is still evolving. The common thread in all the definitions is that the entrepreneur is an individual, who innovates and explores opportunities for making profit.

Entrepreneurial behavior or entrepreneurship in many organizations is a firm level phenomenon. Stevenson and Jarillo (1990) Covinand Slevin (1991) and Burgelamn (1991) notes that studied organization's corporate strategies give the impression that entrepreneurial activities were the outcome of the interaction of individuals and groups at multiple levels within the firm. Zahra (1991 and 1993) also conceptualized entrepreneurship as firm level phenomenon. Barringer and

Blueborn (1999) note that the main assumption that underline the notion of corporate entrepreneurship is that it is a behavioural phenomenon, all firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial.

### **3.1.1 Need for Entrepreneurships in Organizations**

Organizations today are realizing the need for corporate entrepreneurship. This need arose in the response to a number of problems, including:

1. Rapid growth in the number of new and sophisticated competitors
2. A sense of distrust in the traditional methods of corporate management
3. Exit of some brightest and best people who form corporation to become small business entrepreneurs
4. International competition
5. Downsizing of major corporation; and
6. Overall desire to improve efficiency and productivity

Adeleke, Ogundele and Oyenuga (2003) note that in the case of developing countries like Nigeria, an additional reason is the privatization and commercialization process of publicly owned enterprises. Thus, a modern corporation is forced into seeking ways of developing in-house entrepreneurship.

### **3.2 Intrapreneurship**

Intrapreneurship is the practice of entrepreneurship by employees within an organization. Intrapreneurship is the act of behaving like an entrepreneur, except within a larger organization. In 1992, The American Heritage Dictionary acknowledged the popular use of a new word, intrapreneur, to mean "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation". Intrapreneurship is now known as the practice of a corporate management style that integrates risk taking and innovation approaches, as well as the ward and motivational techniques, that are more traditionally thought of as being the province of entrepreneurship

Also, "Intrapreneurship refers to employee initiatives in organizations to undertake something new, without being asked to do so." Hence, the intrapreneur focuses on innovation and creativity, and transforms an idea into a profitable venture, while operating within the organizational environment. Thus, intrapreneurs are in side entrepreneurs who follow the goal of the organization. Intrapreneurship is an example of motivation through job design, either formally or informally. Intrapreneurship within the firm which is driven to produce social capital in addition to economic capital. Employees, such as marketing executives [Error! Hyperlink reference not valid.](#) Or perhaps those engaged in a special project within a larger firm, are encouraged to behave as entrepreneurs, even though they have the resources, capabilities and security of the larger firm to draw upon. Capturing a little of the dynamic nature of entrepreneurial management (trying things until successful, learning from failures, attempting to conserve resources, etc.) adds to the potential of another wise static organization, without exposing those employees to the risks or accountability normally associated with entrepreneurial failure.

#### **3.2.1 Intrapreneur**

Intrapreneurs are persons who can turn ideas or proto types into profitable realities, but may not be inventors. They are team-builders with commitment to a strong drive to see their ideas become a reality. Intrapreneurs are often described as "dreamers who do" as they tend to be action-oriented. When faced with failures, or setbacks, intrapreneurs employ an optimistic approach. They

objectively deal with their own mistakes and failures learning to avoid making the same mistakes again. This is part of what helps to make them successful (Kuratko and Hodgetts,2001). Intrapreneurs are self-determined goal setters. They go beyond the demand of their duty to accomplish their goals. They do not blame their failures on external forces, but they use the knowledge gained from failure to improve their future performance. They combine vision and action. Dedication to creative idea is important to them. Kuratko and Hodgetts (2001:71)present a list of Ten commandments of an intreprenur and these are shown below.

### **3.2.2 Dimensions of Intrapreneurial Behaviour in Entrepreneurial Management**

Let us examine the dimensions of intrapreneurial behavior in entrepreneurial management in established large organizations. These are:

**Commitment to opportunity:** The promoters are able to engage in commitment to opportunity in a rather revolutionary fashion. The willingness to get in and out quickly has led to entrepreneur's reputation as gamblers. The pressures which pull a business towards the entrepreneurial end of the spectrum include; action orientation, short decision window, risk management and limited decision constituencies.

**Commitment of resources:** The good entrepreneurs engage in multistage commitment of resources with a minimum commitment a teach stage or decision point. The process of commitment of resources is pushed towards the entrepreneurial domain by the following factors, lack of predictable resource needs, lack of long-term control, social needs and international demands.

**Control of resources:** To the promoter all that is needed from are source is the ability to use it. The entrepreneurs learn to use other people's resources well, they learn to decide what resources they need to bring in house. The perception of entrepreneur, as exploitative, derives from this dimension; that entrepreneur is an expert in using the skills, talents and ideas of others. When considered from the positive angle this ability is very valuable in fast changing business environment. The pressures towards this entrepreneurial dimension include; increased specialization, risk of obsolescence and increased flexibility.

**Management structure:** The promoter requires knowledge of his/her progress via direct contracts with all of his/her principal actors. Entrepreneurial management is based on the following pressures; need for coordination of key non-controlled resources, flexibility, challenge of owner control and employees desire for independence.

**Reward philosophy:** Because of value driven philosophy of entrepreneurial firms they tend to base compensation on performance. They are also more comfortable rewarding team. The pressures that pull firms towards the promoter end of the spectrum include; individual expectation, investment demands and competition (Stevenson, 1989). The above listed dimensions of entrepreneurial behavior are relevant to entrepreneurial management in large organization. Infactentrepreneurshipisstrategicmanagementofsmallfirmwhenpracticedin big organization.

### **3.2.3TenCommandmentsofanintrapreneur**

- 1.I come to work each day willing to be
2. Fired Circumvent any orders aimed at stopping your dream
3. Do any job needed to make your project work regardless of your job description
4. Network with good people to assist you

5. Build a spirited team: choose and work with only the best
6. Work underground as long as you can publicity triggers the corporate immune mechanism
7. Be loyal and truthful to your sponsor
8. Remember it's easier to ask forgiveness than permission
9. Be true to your goals, but be realistic about the ways to achieve them
10. Keep the vision strong.

Source: Kuratko, D.F and Hodgetts, R.M. (2001).

### **3.2.4 Characteristics of Intrapreneurs**

One can focus on the characteristics of intrapreneurs as a way of describing the intrapreneur. Kuratko and Hodgetts (2001) present comparative characteristics of the traditional manager, entrepreneur and intrapreneurs along nineteen dimensions. These dimensions will be employed here to describe the characteristic of intrapreneur. They are as follow:

**Primary motive:** Intrapreneurs wants freedom and access to organization resources goal oriented and self-motivated. He also responds to corporate rewards and recognition.

**Time orientation:** Has end goals of 3 to 15 years based on the type of venture. In hurry to meet self-imposed and corporate time-table.

**Tendency to action:** Gets his/her hands dirty, may know how to delegate, but when situation demands does what needs to be done.

**Skills:** Like the entrepreneur he/she knows the business very well. But his/her situation demands ability to progress within the organization, when he/she needs help of other members of the organization.

**Attitude toward courage and destiny:** Self-confident and courageous, many are cynical about the system but optimistic about their ability to outwit it (Kuratko and Hodgetts, 2001).

**Focus of attentions:** Both inside and outside. He sells his new venture ideas to insiders. He also focuses on the market place and the customers.

**Attitude toward risk:** Like moderate risks. Not afraid of being fired, he/she sees little personal risk.

**Use of market research:** Like the entrepreneur, he/she does his/her own market research and carries out intuitive market valuation.

**Attitude toward status:** Treasures symbols of freedom and considers traditional status symbols as a joke.

**Attitude toward failure and mistakes:** Attempts to hide risky projects from others so as to learn from mistakes without the political cost of public failure. He is also sensitive to the need to appear orderly.

**Decision-making style:** Skillful in getting others to agree with his private vision. A little more patient and prepared to compromise than the entrepreneur.

**Who serves:** He/she pleases self, customers and sponsors or mentors.

Attitude toward the system: Dislikes the system but learns to manipulate it.

Problem-solving style: Works out problems within the system or he/she by passes them without leaving.

Family history: Entrepreneurial, small-business, professional or farm background.

Relationshipwithparent: Betterrelationwithfather, thanentrepreneur, butstillstoring.

Socioeconomicbackground: Middleclasssocialmembership.

Educationallevel: Of ten highly educated, especially in the technical areas, but sometimes not.

Relationshipwithothers: He/sheseestransactionswithinhierarchyasbasicrelationship.

To create the climate of in-house entrepreneurial behaviours, organization must develop four characteristics, these are:

(1) Explicit goals

(2) System of feedback and positive reinforcement

(3) An emphasis on individual responsibility and

(4) Rewards based on results, (Kuratko and Hodgetts, 2001).

It should be noted that specific strategies for corporate entrepreneurship call for the development of a vision as well as development of innovation.

### 3.2.5 Specific Elements of a Corporate Intrapreneurial Strategy

Kuratko and Hodgetts (2001) noted that, to create an entrepreneurial strategy, organizations should be aware of the following:

(1) The corporation that promotes personal growth will attract the best people.

(2) The challenge of the new entry is to retain the manager as coach, teacher and mentor.

(3) The best people seek ownership and the best companies will provide it with bonus plans, stock incentive plans, employee stock-option plans, profit-sharing and even employee ownership.

(4) Authoritarian management is being replaced by a networking people style of management characterized by horizontal coordination and support.

(5) Intrapreneurship within the corporation allows employees the satisfaction of developing their ideas without the risk of leaving the company.

(6) Large companies are taking lessons from small businesses and learning how to be flexible, promote innovation and create new spirit.

### 3.2.6 Steps in Intrapreneurial Development in Organizations

The following are the necessary actions that could ensure intrapreneurial development in corporate organizations:

(a) Developing the vision: The first step in planning an entrepreneurial strategy for the enterprise is sharing the vision of innovation that the corporate leaders wish to achieve (Collins and Porras, 1996). This shared vision requires identification of specific objectives for corporate entrepreneurial strategies and of programmes needed to achieve these objectives.

(b) Encouraging innovation: All writers on entrepreneurship are in agreement that innovation is the distinguishing characteristic of entrepreneurship. Corporation must understand and develop innovation as the key element in their strategy. Kuratko and

Hodgetts (2001) stated that one way to understand this concept is to focus on two different types of innovation: radical and incremental.



Radical innovation: It is the launching of an inaugural breakthrough e.g. mobile phone in our own environment. These innovations take experimentation and determined vision, which must be recognized and nurtured. The Incremental innovation refers to the systematic evolution of a product or service into newer and larger markets. Incremental innovation, will take over after a radical innovation introduces a breakthrough. Both types of innovation require each a champion—the person with a vision and ability to share it and top management support.

(c) Structuring for an entrepreneurial climate: The final and most critical step is invested heavily in entrepreneurial activities that allow new ideas to flourish in an innovative environment. When this is coupled with the element of innovation strategy, it can enhance the potential for employees to become venture developers. Krackhardt (1993) notes that, to develop employees as a source of innovation in corporations, companies need to provide more nurturing and information-sharing activities. They need to develop a climate that will help innovation-minded people to reach their full potentials. Management has to encourage entrepreneurial activities, and have proper control of human resource policies. It must also sustain a commitment to entrepreneurial projects long enough for a more momentum to occur, and to bet on people not on analysis (Sathe, 1988).

(d) Developing Venture Teams: Venture teams hold the potential for producing innovative results in organizations. Reich (1987) termed it collective entrepreneurship. He noted that, initially, individual's skills are integrated into a group. This collective capacity to innovate becomes something greater than the sum of its parts. Over time, as group members' work through various problems and approaches, they learn about each other's abilities. They learn how they can help one another better. Each participant looks out for small adjustments that speed and smoothen the evolution of the whole. The result of many such small-scale adaptations, effected throughout the organization, is to propel the enterprise forward.

### 3.3 Differences between Entrepreneur and Intrapreneur

An entrepreneur takes substantial risk in being the owner and operator of a business with expectations of financial profit and other rewards that the business may generate. On the contrary, an intrapreneur is an individual employed by an organization for remuneration, which is based on the financial success of the unit he is responsible for. Intrapreneurs share the same traits as entrepreneurs such as conviction, zeal and insight. As the intrapreneur continues to express his ideas vigorously, it will reveal the gap between the philosophy of the organization and the employee. If the organization supports him in pursuing his ideas, he succeeds. If not, he is likely to leave the organization and set up his own business.

Entrepreneurship involves innovation, the ability to take risk and creativity. An entrepreneur will be able to look at things in novel ways. He will have the capacity to take calculated risk and to accept failure as a learning point. An intrapreneur thinks like an entrepreneur looking out for opportunities, which profit the organization. Intrapreneurship is a novel way of making organizations more profitable where imaginative employees entertain entrepreneurial thoughts. It is in the interest of an organization to encourage intrapreneurs. Intrapreneurship is a significant method for companies to reinvent themselves and improve performance.

### 3.4 Technopreneur

A technopreneur is an individual whose business is in the realm of high technology, who at the same time has the spirit of an entrepreneur. The technopreneur represents a new breed that is both

innovative and equally enterprising. technology and entrepreneur.

This concept is derived from combining together,

Ovia (2007) notes, a technopreneur is an entrepreneur whose business involves high technology or to put more clearly technology innovator and a businessman all combined in one individual. He notes further that this unusual combination could be found in people like Bill Gates, Steve Jobs, Ralph Ellison and also Nigeria Philip Emeagwali whom, Otiono (2007) describes as Africa's Bill Gates and father of internet. The technopreneur, therefore, combines both technological know-how and business expertise. The technopreneurs thus combine the attributes of the scientist and an enterprise person in one individual. Technopreneurs are also emerging in Nigeria.

Amatas (2007) reports the successful innovation and implementation of a formula for wealth creation by Abiola Akingbade, which involves the use of both hardware and software of information and communication technology. Ovia (2007) states that the technopreneurs are beginning to emerge in Nigeria, they consist of men and women who are working relentlessly to assist in actualizing the laudable dream of bridging the yawning digital divide.

### 3.4.1 Characteristic of Nigerian Technopreneur

- They are naturally gifted
- They are smart
- They are highly creative

They have potential to compete favourably in any part of the world given the enabling environment in which to thrive (Ovia, 2007). It must be added that the technopreneurs possess all the characteristics listed in respect of the entrepreneur. The distinguishing marks are being to combine the unusual or rare attributes of a scientist and business promoter in one person. An exemplified by Abiola Akingbade, Nigerian technopreneurs are sometime assemblers of components that make up the whole, and at other times innovators and inventors of highly related technology hardware and software.

### 3.5 Evolutionary Origins of "Entrepreneur"

The concept "entrepreneur" stems from a French word "entreprendre" meaning to undertake, "go-between" or "projector". In France in the early 16<sup>th</sup> century the term was used for army leaders.

It was applied to business organization in a serious sense in the 18<sup>th</sup> century as noted above, to denote a dealer who buys and sells goods at uncertain prices. Cole (1959) notes that the modern terms as known today, came into use in England only in 1879, when it signified a director or manager of a public musical institution or "one who gets up entertainment". Mill, (1849) had mentioned it as a French word, which lacked an English equivalent. In modern times the world has been employed to differentiate an active businessman from a slow-moving one. The evolutionary origin of the concept entrepreneur could be summarized as shown in the following segments.

Period	Particularizations
Earlytime	StemsfromFrench:means:between,taker,gobetween.
MiddleAge	Actorandpersonsinchargeoflarge-scaleproductionprojects
17 <sup>th</sup> century	Personbearingriskofprofit(loss)in a fixedpricecontractwith Government
1755	RichardCantillon–personbearingrisk
1821	JeanBaptistsay–separatedprofitsofentrepreneurfromprofitsof Capitalinterest.
1904	MaxWeber–Protestantethicsandspiritofcapitalismbehavioural Outlook
1934	JosephSchumpeter–entrepreneurasinnovatorsdevelopinguntried Technology
1961	DavidMcClelland–achievementoriented,energetic,moderaterisk Taker
1964	PeterDrucker–entrepreneurmaximizesopportunities
1975	E.O. Akeredolu-Ale entrepreneur seen from socio cultural and Politicalperspectives
1975	AlbertShapero–takesinitiative,acceptsrisksoffailureorganizes Somesocialandeconomicmechanisms.
1980	Karl Vester – entrepreneur seen differently by economists, psychologists,businesspersonsandpoliticians
1985	RobertHistrich–entrepreneur–assumingfinancial,psychological Andsocial risks, increatingsomethingdifferentinvalue andreceiving theresultingrewardsof monetaryandpersonalsatisfaction.
1995	A.U. Inegbenebor – dynamic structure builders for effective performance.
2000	O.J.KOgundele–empirebuilderexploitingopportunities

Source: AdaptedfromHistrich,R.D.andPeters,M.P.(2002)Entrepreneurship, NewYork:McGrawHillhighereducation, andOgundele, O.J.K(2007) IntroductiontoEntrepreneurshipDevelopment,CorporateGovernance& SmallBusinessManagement.Lagos:MolofinNominees.

It could be seen from table 1 above that the concept entrepreneur has varying origins and usages in different times and places. The function of the entrepreneur is to reform or revolutionize the patterns of production, through exploiting an invention, or untried technological method of producing a new product, or producing an old one in a new way, new source of supply of material, new outlet for product or new patterns of organization. Innovation is one of the most difficult tasks of the entrepreneur. This is because it involves not only the ability to conceptualize and create but in addition, the ability to come to grips with all the forces at work in the entrepreneur environment. That is, the capacity to market the innovative products, services, concepts or ideas. It is to be noted that the ability to innovate can be noticed throughout history, from the Egyptian's great pyramids out of stone blocks to Laser beams.

#### 4.0 CONCLUSION

We have in this unit examined the various definitions of entrepreneurship and described the behaviour of an entrepreneur. We also defined the intrapreneurship and listed the characteristics of an intrapreneur. We have equally differentiated between entrepreneurship and intrapreneurship. Also, we defined technopreneur and listed the qualities of a Nigerian technopreneur. Finally, we traced the evolutionary origins of entrepreneur.

## 5.0 SUMMARY

In this unit, we have, defined the concept of entrepreneurship and intrapreneurship; discussed the importance of intrapreneur in organizations; described corporate entrepreneurship skills in organizations; explained the operational link between corporate entrepreneur and entrepreneur; defined entrepreneur and distinguish between entrepreneur, Intrapreneur and Technopreneur; enumerated the functions and characteristics of an entrepreneur. In the next unit, we shall examine the theories of entrepreneurship.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. Define the terms 'entrepreneurship' and 'intrapreneurship'.
2. State the similarities and differences between entrepreneur, intrapreneur and technopreneur.
3. What are the steps in entrepreneurial development in organisations?
4. List and briefly dimension of intrapreneurial behavior in entrepreneurial management in established large organizations.
5. List and briefly explain the elements of a Corporate Intrapreneurial Strategy.

## 7.0 REFERENCES/FURTHER READINGS

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## **UNIT 5: PRIVATE EQUITY**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Private equity in Nigeria
  - 3.2 Benefits of private equity
  - 3.3 Selecting a private equity firm
  - 3.4 Tax incentive schemes
  - 3.5 Regulation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

### **1.0 INTRODUCTION**

Private equity provides long-term, committed share capital, to help unquoted companies grow and succeed. Private equity is medium to long-term finance provided in return for an equity stake in potentially high growth unquoted companies. Some commentators use the term “private equity” to refer only to the buy-out and buy-in investment sector. Some others, in Europe but not the USA, use the term “venture capital” to cover all stages, i.e. synonymous with “private equity”. In the USA “venture capital” refers only to investments in early stage and expanding companies. To avoid confusion, the term “private equity” is used throughout this Guide to describe the industry as a whole, encompassing both “venture capital” (the seed to expansion stages of investment) and management buy-outs and buy-ins.

### **2.0 OBJECTIVES**

At the end of this unit, you shall be able to:

- i. Explain private equity in Nigeria
- ii. Analyse the benefits of private equity
- iii. Explain the key considerations for selecting a private equity firm.

### **3.0 MAIN CONTENT**

#### **3.1 PRIVATE EQUITY IN NIGERIA**

The Nigerian private equity market remains relatively resilient, despite challenges such as global oil and commodity pricing and currency volatility. There is particular interest in the financial services and industrial sectors (which together attracted 50% of all deals and 66% of all capital deployed in Nigeria in 2015) and consumer goods (*EMPEA 2015 Annual Fundraising and Investment Review Private Capital in Emerging markets*).

There is also increasing interest in the real estate, agriculture and health sectors. Twenty private equity deals were reported in Nigeria in 2015, with private equity capital investments totalling US\$159 million.

There have been a number of regulatory developments. These include the Securities and Exchange Commission (SEC)'s introduction of discrete regulations for infrastructure fund investments in

2014, following the National Pension Commission (PENCOM)'s approval of infrastructure funds and private equity funds as asset classes for pension fund investments in 2010. However, the PenCom Regulations restrict such pension fund investment to infrastructure funds and private equity funds that are SEC-registered and run by SEC-licensed fund managers.

The SEC has also published regulations increasing the minimum share capital required for fund managers seeking registration with the SEC to NGN150 million. In April 2015, the SEC also issued rules establishing the Investor Protection Fund (IPF), which is incorporated as a legal entity. It has been set up to mitigate pecuniary losses suffered by investors due to the insolvency, bankruptcy, negligence, or misappropriation of funds by capital market operators, in relation to securities or any property entrusted to, received, or deemed to be received by such operators in the course of business. Subject to meeting certain eligibility criteria, investors are entitled to receive from the IPF a maximum of NGN200,000, or its equivalent in shares or other securities.

### **3.2 Benefits of private equity**

Private equity backed companies have been shown to grow faster than other types of companies. This is made possible by the provision of a combination of capital and experienced personal input from private equity executives, which sets it apart from other forms of finance. Private equity can help you achieve your ambitions for your company and provide a stable base for strategic decision making. The private equity firms will seek to increase a company's value to its owners, without taking day-to-day management control. Although you may have a smaller "slice of cake", within a few years your "slice" should be worth considerably more than the whole "cake" was to you before. Private equity firms often work in conjunction with other providers of finance and may be able to help you to put a total funding package together for your business.

### **3.3 Selecting a private equity firm**

The most effective way of raising private equity is to select just a few private equity firms to target with your business proposition. The key considerations should be to assess:

1. The stage of your company's development or the type of private equity investment required.
2. The industry sector in which your business operates.
3. The amount of finance your company needs.
4. The geographical location of your business operations.

### **3.4. Tax incentive schemes**

What tax incentive or other schemes exist to encourage investment in unlisted companies? At who are the incentives or schemes directed? What conditions must be met?

#### **Incentive schemes**

Companies classified as pioneer industries or engaged in the production of pioneer products are entitled to apply for pioneer status. If this is granted, they enjoy corporate tax relief/holidays, for an initial term of three years, starting from the date the pioneer company commences business. This can be extended for a further period of one year, and a further one year term, subject to factors such as the relative importance at the time of the industry to national development. In particular:

- i. A company granted pioneer status does not pay companies' income tax, education tax or withhold tax on any dividends during the pioneer period.
- ii. Net qualifying expenditure for capital items during the pioneer period are accumulated, and qualify for both initial and annual allowances in the new business.

- iii. Losses incurred by the pioneer company during the pioneer period and certified by the Federal Inland Revenue Service may be relieved afterwards, since such losses are deemed to have been incurred on the first day of the new business.

Applicants must, among other things:

- i. Be registered as companies in Nigeria.
- ii. Have incurred qualifying capital expenditure of at least NGN10 million in the pioneer industry concerned.
- iii. Submit the application within one year of commencing commercial production.

The tax benefits accrue to pioneer companies and their shareholders.

#### **Tax savings on dividend payments**

Where the recipient of dividends from Nigeria is resident in a country with which Nigeria has entered into a double taxation agreement (DTA), the withholding tax rate is reduced to 7.5% from 10%.

#### **Tax exemption on interest on foreign loans**

Interest payments on foreign loans to Nigerian companies are tax exempt, where such loans are granted in foreign currency and satisfy the moratorium and tenor requirements relating to both interest and principal, as follows:

- i. Repayment period including moratorium above seven years, with a grace period of at least two years: 100% exemption.
- ii. Repayment period including moratorium of five to seven years, with a grace period of at least 18 months: 70% exemption.
- iii. Repayment period including moratorium of two to four years, with a grace period of at least 12 months: 40% exemption.
- iv. Repayment period including moratorium below two years, with no grace period: no exemption.

#### **Deduction of expenses and capital allowance**

Nigerian law allows companies to deduct from their income all outgoings and expenses, or any part of them, wholly, exclusively, necessarily and reasonably incurred in the production of the income. There are also various deductions allowed for deduction for employment and infrastructure and investment allowances. Companies are also allowed to deduct, as expenses, the amount of capital spent on an asset. Such amounts, in the form of capital allowances, can be set off over time by Nigerian companies against their assessable profits.

Capital allowances are available to a company if it incurs qualifying capital expenditure in carrying out its business. Qualifying expenditure includes expenditure wholly, exclusively, necessarily and reasonably incurred on buildings, mining, plant and machinery, motor vehicles, plantation equipment, housing estates, ranching and plantations and research and development, for the purpose of the trade or business carried on by a company. The rates for these allowances vary depending on the nature of the assets and the business of the company. There are also sectoral incentives that apply to companies operating in various sectors. These are incentives for the company.

#### **Gas utilisation incentives**

There are specific incentives for companies that engage in gas utilisation, including:

- i. Initial three-year tax holiday, commencing from the production start date certified by the Minister of Petroleum Resources, which is renewable for an additional two years subject to satisfactory performance. As an alternative, an additional investment allowance of 35% is available, which must not reduce the value of the assets.
- ii. Accelerated capital allowances after the tax free period.
- iii. Tax free dividends during the tax free period, where either:

- o the investment was made in foreign currency; or
- o the imported plant and machinery during the (tax free) period was at least 30% of the company's share capital.

### **Exemption from capital gains tax**

Under the Capital Gains Tax Act, the following are all exempt from capital gains tax:

- i. Gains made on a disposal of shares, and government securities such as treasury bills, bonds and savings certificates.
- ii. Gains arising from acquisitions, mergers, or takeovers (where no cash payment is made in respect of acquired shares).

Gains made on any asset used for the purposes of a trade or business, provided that the gain is used for replacing the old asset sold.

### **Taxation of government securities and corporate bonds**

Securities issued by the Federal Government of Nigeria are tax exempt for an unlimited tenure, while bonds issued by corporate bodies and state governments are exempt for ten years from 2 January 2012. All income earned from personal investments in government securities and corporate bonds are also tax exempt. No limitation period applies with respect to the exemption from income tax granted to individuals. These incentives are available to investors in securities issued in Nigeria or by Nigerian institutions.

### **Incentives for venture capital companies**

The fiscal incentives as outlined under the Capital Gains Tax Act, the Industrial Development (Income Tax Relief) Act and the Companies Income Tax Act as amended improve on those earlier prescribed by the Venture Capital (Incentives) Act (Chapter V2) Laws of the Federation of Nigeria 2004 (VCA), which targets venture companies and venture projects.

A venture project is defined as a company incorporated in Nigeria for the realisation of one or more of the following objectives:

- i. Acceleration of industrialisation by nurturing innovative ideas, projects and techniques to fruition.
- ii. Commercialisation of research findings with high potential for far-reaching forward or backward linkages.
- iii. Promotion of self-reliance through the establishment of resource-based and strategic industries, through the provision of risk guarantee and insurance.
- iv. Encouragement of indigenous process and technologies.
- v. Promotion of the growth of small and medium scale enterprises, with emphasis on local raw materials development and use.

Venture companies that invest in such venture projects must be accredited by the Federal Inland Revenue Service (FIRS) as venture companies or venture projects, and must invest at least 25% of the total capital required for the venture project to be eligible for the following:

- i. Accelerated capital allowance for equity investment by a venture company in a venture project, with the following deductions:
  - a) first year: 30%;
  - b) second year: 30%;
  - c) third year: 20%;
  - d) fourth year: 10%; and
  - e) fifth year: 10%.
- ii. Reduction of withholding of tax on dividends declared by venture projects to venture companies for the first five years, from 10% to 5%.



- iii. Export incentives such as export expansion grants, if the venture project exports its products.
- iv. Gains realised by venture companies from a disposal of an equity interest in the venture project are not liable to capital gains tax.
- v. Exemption from company income tax for three years, which can be extended for an additional final period of two years.

### **3.5 Regulation**

The Rule and Regulations issued by the Securities and Exchange Commission (SEC Rules) provide that investments in private equity funds cannot be solicited from the general public. The Investments and Securities Act 2007 defines an invitation to the public as an offer that is any of the following:

- i. Published, advertised or disseminated by newspaper, broadcasting, cinematography, or any other means.
- ii. Made to, or circulated among, any persons, whether selected as members or as debenture holders of the company concerned, or as clients of the persons making or circulating the invitation, or in any other manner.
- iii. Made to any one or more persons, on the terms that the person or persons to whom it is made can renounce or assign the benefit of the offer or invitation or any of the securities in favour of any other person or persons.
- iv. Made to any one or more persons to acquire any securities dealt in by a securities exchange or capital trade point, or in respect of which the invitation states that an application has been or will be made for permission to deal in those securities on a securities or capital trade point.

Offshore registered funds can only solicit investments from investors in Nigeria with SEC approval.

The SEC Rules also provide that investments in private equity funds must only be sourced from qualified institutional investors, that is, purchasers of securities that are financially sophisticated and legally recognised by the SEC, including:

- i. Fund managers.
- ii. Registered and/or verifiable private equity funds.
- iii. Registered and/or verifiable hedge funds.
- iv. Other operators determined by the SEC from time to time.

Offshore registered funds can only solicit investments from investors in Nigeria with SEC approval.

The National Pension Commission's regulations prohibit pension fund administrators from investing pension fund assets in private equity funds that are not SEC-registered or managed by SEC licensed fund managers.

The SEC extensively regulates promotional materials used by registered private equity funds. Comprehensive information memoranda must be distributed to investors. The content of offer instruments is also strictly prescribed.

### **Exemptions**

Private equity funds with a commitment of less than NGN1 billion are not required to be SEC-registered.

### **4.0 CONCLUSION**

PE investment in Nigeria takes place in both start-up and established businesses. The common investment strategies include venture capital, buyouts and restructuring (provision of growth capital). Venture capital provides equity funding to younger, small and relatively high-risk companies with strong growth potential, while buyouts and restructurings on the other hand, deal with more mature firms where substantial gains in operational efficiency are likely to materialise. Although Nigeria's private equity sector is not yet as vibrant as those of advanced economies, there is no doubt that the economic reforms have made the environment attractive to PEFs.

## 5.0 SUMMARY

In this unit you have learnt about:

- Private equity in Nigeria
- Benefits of private equity
- Selecting a private equity firm
- Tax incentive schemes

We understood that private equity is medium to long-term finance provided in return for an equity stake in potentially high growth unquoted companies.

## 6.0 TUTOR MARKED ASSIGNMENTS

1. Discuss the benefits of private equity.
2. What tax incentive or other schemes exist to encourage investment in unlisted companies.

## 7.0 REFERENCES/FURTHER READINGS

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## MODULE 2

- Unit6: Venture Capital  
Unit7: Financing constraints and entrepreneurship  
Unit8: Entrepreneurial Process  
Unit9: Sources of entrepreneurial opportunities  
Unit 10: Entrepreneurial Development

## **UNIT 6 VENTURE CAPITAL**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 What is venture capital?
  - 3.2 Venture capital characteristics
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- 3.4 Patterns of VC investment
- 3.5 Firms and funds
- 3.6 Finance of Startup Company
- 4.0 Conclusions
- 5.0 Summary
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### **1.0 INTRODUCTION**

Venture capital abbreviated as (VC) is a type of private equity, a form of financing that is provided to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of number of employees, annual revenue, or both). Venture capital funds invest in these early-stage companies in exchange for equity—an ownership stake—in the companies they invest in. The start-ups are usually based on an innovative technology or business model and they are usually from the high technology industries, such as Information technology (IT), social media or biotechnology. The typical venture capital investment occurs after an initial "seed funding" round. The first round of institutional venture capital to fund growth is called the Series A round. Venture capitalists provide this financing in the interest of generating a return through an eventual "exit" event, such as the company selling shares to the public for the first time in an Initial public offering (IPO) or doing a merger and acquisition (also known as a "trade sale") of the company.

### **2.0 OBJECTIVES**

After this study, you are expected to give detail explanation on:

- Detail meaning of venture capital and relate each meaning with characteristics.
- Patterns of VC investment
- Firms and funds
- Formation of startup company

### **3.0 MAIN CONTENT**

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

A VC has five main characteristics:

1. A VC is a financial intermediary, meaning that it takes the investors' capital and invests it directly in portfolio companies.

2. A VC invests only in private companies. This means that once the investments are made, the companies cannot be immediately traded on a public exchange.
3. A VC takes an active role in monitoring and helping the companies in its portfolio.
4. A VC's primary goal is to maximize its financial return by exiting investments through a sale or an initial public offering (IPO).
5. A VC invests to fund the internal growth of companies.

### **3.2 VENTURE CAPITAL CHARACTERISTICS**

Characteristic (1) defines VCs as financial intermediaries. This is similar to a bank, because just as a bank takes money from depositors and then loans it to businesses and individuals, a VC fund takes money from its investors and makes equity investments in portfolio companies. Typically, a VC fund is organized as a limited partnership, with the venture capitalist acting as the general partner (GP) of the fund and the investors acting as the limited partners (LP).

Characteristic (2) defines VC as a type of private equity. In comparison, information about private companies is practically nonexistent. Private equity is considered to be a category of alternative investing, where “alternative” stands in contrast to “traditional” investing in stocks and bonds.

Characteristic (3) is central on our list—and central to the success of any VC. Without (3), a VC would only be providing capital, and his success (or failure) would be entirely due to his ability to choose investments. Although success can, of course, be entirely built on these choices, the comparative advantage of the VC would be greatly improved if the investor could also help the company directly.

Characteristic (4), the requirement to exit and the focus on financial return, is a key distinction between venture capital and strategic investing done by large corporations. As a perpetual entity, a corporation can afford to take stakes in other businesses with the intention of earning income, forming long-term alliances, and providing access to new capabilities. It is possible for the corporation to maintain this stake indefinitely.

A strategic investor may satisfy all the other characteristics, but without the need to exit, the strategic investor will choose and evaluate investments very differently from a VC.

Characteristic (5) refers to “internal growth”, by which we mean that the investment proceeds are used to build new businesses, not to acquire existing businesses. Although the legendary VC investments tend to be those adventurous VCs who backed “three guys in a garage”, the reality of VC investing is much more varied. As a simple classification, we divide portfolio companies into three stages: early-stage, mid-stage (also called expansion-stage), and late-stage. At one extreme, early-stage companies include everything through the initial commercialization of a product. At the other extreme, late-stage companies are businesses with a proven product and either profits or a clear path toward profitability.

A late-stage VC portfolio company should be able to see a plausible exit on the horizon. This leaves mid-stage (expansion) companies, who represent the vast landscape between early-stage and late-stage.

### **3.3 WHAT DO VENTURE CAPITALISTS DO?**

VC activities can be broken into three main groups: investing, monitoring, and exiting. Investing begins with VCs prospecting for new opportunities and does not end until a contract has been signed. For every investment made, a VC may screen hundreds of possibilities. Out of these hundreds, perhaps a few dozen will be worthy of detailed attention, and fewer still will merit a preliminary offer. Preliminary offers are made with a term sheet, which outlines the proposed

valuation, type of security, and proposed control rights for the investors. If this term sheet is accepted by the company, then the VC performs extensive due diligence by analyzing every aspect of the company. If the VC is satisfied, then all parties negotiate the final set of terms to be included in the formal set of contracts to be signed in the final closing.

Once an investment is made, the VC begins working with the company through board meetings, recruiting, and regular advice. Together, these activities comprise the monitoring group. Many VCs argue that these activities provide the best opportunity to add value and are the main source of comparative advantage for a successful VC.

VCS are financial intermediaries with a contractual obligation to return capital to their investors. However, the exit process itself requires knowledge and skills that are somewhat distinct from the earlier investment and monitoring activities. VCs plan their exit strategies carefully, usually in consultation with investment bankers. A typical IPO underwritten by a top investment bank will sell at least \$50 million of new stock and have a total equity value of at least \$200 million. Historically, the IPO has been the source of the most lucrative exits. The main alternative to the IPO is a sale to a strategic buyer, usually a large corporation. Sometimes these sales can be very profitable for the VC, but only if there is significant competition for the deal, which often includes the possibility of an IPO.

### **3.4 PATTERNS OF VC INVESTMENT**

There are many steps, or stages, to building a new VC-backed business. In our early discussion we introduced the terminology for the three broad stages: early-stage, mid-stage, and late-stage.

#### **3.4.1 Early Stage Financing**

This stage provides financing to companies completing development where products are mostly in testing or pilot production. In some cases, products may have just been made commercially available. Companies may be in the process of organizing, or they may already be in business for three years or less. Usually such firms will have made market studies, assembled the key management, developed a business plan, and are ready to or have already started conducting business. This involves the first round of financing following startup, which includes an institutional venture capital fund. Seed and startup financing tend to involve angel investors more than institutional investors. The networking capabilities of the venture capitalists are used more here than in more advanced stages.

#### **3.4.2 Expansion (Mid) Stage Financing**

This stage involves applying working capital to the initial expansion of a company. The company is now producing and shipping and has growing accounts receivable and inventories. It may or may not be showing a profit. Some of the uses of capital may include further plant expansion, marketing, or development of an improved product. More institutional investors are likely to be included along with initial investors from previous rounds. The VC's role in this stage involves a switch from a support role to a more strategic role.

#### **3.4.3 Later Stage**

Capital in this stage is provided for companies that have reached a fairly stable growth rate—that is, companies that are not growing as fast as the rates attained in the expansion stages. Again, these companies may or may not be profitable, but are more likely to be profitable than in previous stages of development. Other financial characteristics of these companies include positive cash flow. This also includes companies considering IPOs.

The main theme of next exhibit is the steady trend toward later-stage investing. In the early 1980s, the three categories of “seed/startup”, “early”, and “expansion” were approximately equal, and “later stage” was the smallest. This pattern reflects VC’s focus on true startups in the early years of the industry. Gradually, new VC firms were created to focus on later stages, and some of the original firms grew so large from their successes that they needed to find larger investments to put all their capital to work. By the mid-1990s, expansion stage investments were larger than all early-stage investments (seed/startup plus other early-stage), and later-stage investments exceeded those in seed/startup. By the late 1990s, angel investors had largely replaced VCs at the seed/startup stage, and expansion investments comprised more than half of all VC investments. More recently, there are modest reversals in this trend, with the share of startup/seed investments exceeding 5 percent of total for the first time since 1999, while the share of expansion investments declined to less than 40 percent in 2008.

The definition of the company stage should not be confused with the definition of the financing round. The negotiation of a VC investment is a time consuming and economically costly process for all parties. Because of these costs, neither the VCs nor the portfolio firms want to repeat the process very often.

Typically, a VC will try to provide sufficient financing for a company to reach some natural milestone, such as the development of a prototype product, the acquisition of a major customer, or a cash-flow breakeven point. Each financing event is known as a round, so the first time a company receives financing is known as the first round (or Series A), the next time is the second round (or Series B), and so on. With each well-defined milestone, the parties can return to the negotiating table with some new information.

These milestones differ across industries and depend on market conditions; a company might receive several rounds of investment at any stage, or it might receive sufficient investment in one round to bypass multiple stages.

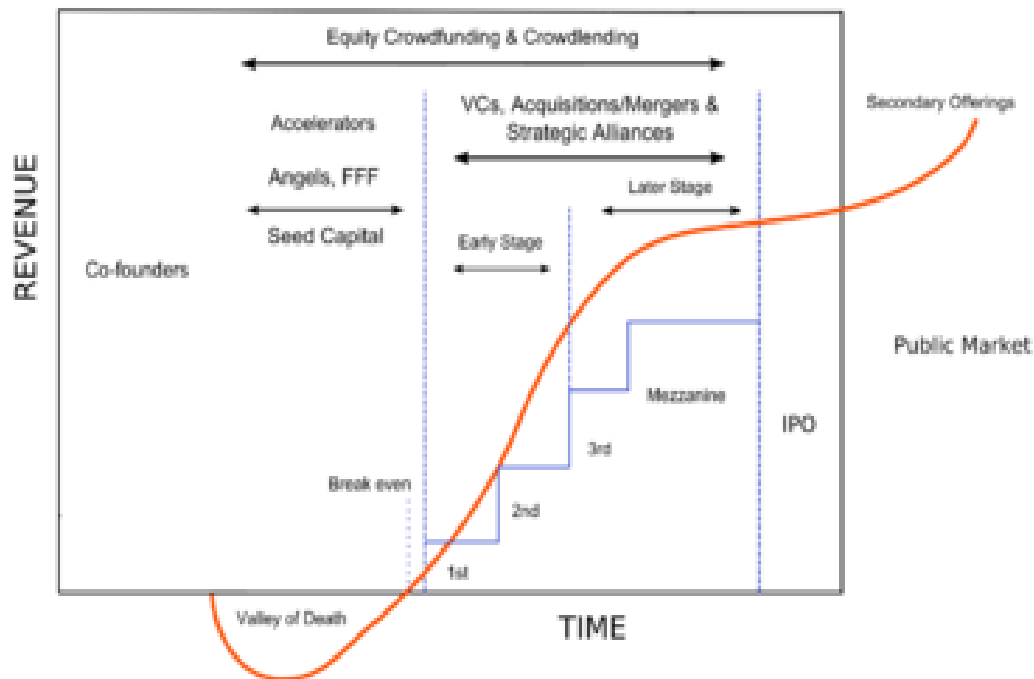
### **3.5 FIRMS AND FUNDS**

About 80 percent of the organized VC market is controlled by independent VC firms. VC firms are small organizations, averaging about 10 professionals, who serve as the general partner (GP) for VC funds. A VC fund is a limited partnership with a finite lifetime (usually 10 years plus optional extensions of a few years). The limited partners (LPs) of VC funds are mostly institutional investors, such as pension funds, university endowments, and large corporations. When a fund is first raised, the LPs promise to provide a certain amount of capital, which will be provided either on a set schedule or at the discretion of the GP. These periodic capital provisions are known as capital calls, draw downs, or takedowns. The total amount of capital promised by the LPs over the lifetime of the fund is called the committed capital of the fund.

Once the GP has raised the full amount of committed capital and is ready to start investing, we say that the fund has been closed. The typical fund will invest in portfolio companies and draw down capital over its first five years. These years are known as the investment period or commitment period. After the investment period is over, the VC can only make follow-on investments in current portfolio companies. A successful VC firm will raise a new fund every few years so that there is always at least one fund in the investment period at all times.

### **3.6 FINANCE OF START UP COMPANY**

## Startup Financing Cycle



A financing diagram illustrating how start-up companies are typically financed. First, the new firm seeks out "seed capital" and funding from "angel investors" and accelerators. Then, if the firm can survive through the "valley of death"—the period where the firm is trying to develop on a "shoestring" budget—the firm can seek venture capital financing.

### 4.0 CONCLUSION

Venture capital is also a way in which the private and public sectors can construct an institution that systematically creates business networks for the new firms and industries, so that they can progress. This institution helps identify promising new firms and provide them with finance, technical expertise, marketing "know-how", and business models. Once integrated into the business network, these firms are more likely to succeed, as they become "nodes" in the search networks for designing and building products in their domain. However, venture capitalists' decisions are often biased, exhibiting for instance overconfidence and illusion of control, much like entrepreneurial decisions in general.

### 5.0 SUMMARY

Venture capitalists (VCs) primarily invest in young, high-technology companies that have a capacity for rapid growth. VCs are a type of financial intermediary that perform three main functions, which are

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

### 6.0 TUTOR-MARKED ASSIGNMENT

1. Demonstrate the startup financing cycle

2. Discuss the three(3) broad categories of venture capital investment

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### 1.0 INTRODUCTION

Surveys of current and potential entrepreneurs suggest that obtaining adequate access to capital is one of the biggest hurdles to starting and growing a new business. Given the important role that entrepreneurship is believed to play in the process of creative destruction – and hence economic growth. It is not surprising that attempts to alleviate financing constraints for would-be entrepreneurs is an important goal for policy makers across the world. For example, the U.S. Small Business Administration funded or assisted in the funding of about 200,000 loans in Fiscal Year 2007, at an administrative cost of about \$1,000 per loan (SBA 2008). Financial assistance for entrepreneurs is also high on the agenda in the European Union and OECD, where member states are urged to promote the availability of risk capital financing for entrepreneurs (OECD 2004).

The underlying premise behind these policies is that there are important frictions in the credit markets precluding high-quality entrepreneurs with good ideas (i.e., positive net present value projects) from entering product markets because they are unable to access adequate capital to start a new business. Much of the academic literature has therefore focused on analyzing the nature of these frictions, the effect they have on access to finance, and the impact of reduced financing constraints on rates of entrepreneurship.

This unit reviews two major streams of work examining the relevance of financing constraints for entrepreneurship. The first research stream considers the impact of financial market development on entrepreneurship. These units usually employ variations across regions to examine how differences in observable characteristics of financial sectors (e.g., the level of competition among banks, the depth of credit markets) relate to entrepreneurs' access to finance and realized rates of firm formation. The second stream employs variations across individuals to examine how propensities to start new businesses relate to personal wealth or recent changes therein. The notion behind this second line of research is that an association of individual wealth and propensity for self-employment or firm creation should be observed only if financial constraints for entrepreneurship exist.

These two streams of research have remained mostly separate literatures within economics, driven in large part by the different levels of analysis. Historically their general results have been mostly complementary. More recently, however, empirical research using individual-level variation has questioned the extent to which financing constraints are important for entrepreneurship in advanced economies. This new work argues that the strong associations between the financial resources of individuals and entrepreneurship observed in previous studies are driven to large extents by unobserved heterogeneity rather than substantive financing constraints. These contrarian studies have led to renewed interest and debate in how financing environments impact entrepreneurship in product markets.

This unit begins with an overview of the main findings of these two research streams. We highlight the areas where they seem to pose an apparent puzzle based on potentially contradictory implications.

We then develop a framework that can reconcile these contradictory findings and outline a set of implications for ongoing research and policy analysis in the area of financing constraints and entrepreneurship.

## **2.0 OBJECTIVES**

After this study, you are expected to give detail explanation on:

- The Financial Market Development and Entrepreneurship
- Personal Wealth and Entrepreneurship

## **3.0 MAIN CONTENT**

### **3.1 Financial Market Development and Entrepreneurship**

Metrics of financial market development quantify the ease with which individuals in need of external finance can access the required capital and the premium they pay for these funds. The role entrepreneurship plays in linking a country's financial market development to its subsequent economic growth is highlighted by King and Levine (1993a,b) and Levine (1997). Their work brought prominence to the role of finance in Schumpeter's creative destruction, whereby entrepreneurs with new ideas and technologies displace incumbents with old technologies, leading to a continued increase in productivity and economic growth. This contrasts with the view, put forth by Joan Robinson and others, that development of financial sectors and institutions simply follows economic growth.

Central to this idea is the notion that a large fraction of the productivity growth in the economy may take place at the extensive margin (e.g., the birth of new firms, the closure of unproductive firms) rather than on the intensive margin (e.g., firms becoming more productive internally). Since most startups need to raise capital in order to implement their new ideas, cross-sectional differences in the ability of capital markets to select and finance the most promising entrepreneurs may lead to important differences in entrepreneurship and productivity growth across economies (Greenwood and Jovanovic 1990; Jayaratne and Strahan 1996; Levine 1997; Beck et al. 2000; Guiso et al. 2004).

Thus a growing line of research has examined the sources of friction in the capital markets that may lead to financing constraints (or the misallocation of capital more broadly) and hence negatively impact productivity growth. In the following sub-sections, we outline three important mechanisms through which frictions in the capital markets lead to financing constraints for entrepreneurs.

#### **3.1.1 Financial Market Depth**

Perhaps the most important factor governing the ability of startups to raise sufficient capital for their projects is the depth of the local capital markets. This depth is therefore a natural starting point for measuring financial market development for funding new capital-intensive projects, through metrics like.

There are two important literature strands that we do not review. The first strand studies financing constraints for entrepreneurship in developing economies, with recent innovations using randomized experiments for causal analysis. Representative papers include Morduch (1999), Paulson and Townsend (2004), Paulson et al. (2006), McKenzie and Woodruff (2006, 2008), Banerjee and Duflo (2008), and De Mel et al. (2008).

A second literature uses quantitative techniques to evaluate financing constraints, entrepreneurship, and economic outcomes. Representative papers include Quadrini (2000), Li (2002), Castaneda et al. (2003), Cagetti and De Nardi (2006), Buera (2008), Meh (2005), and Mondragón-Vélez (2007).

The ratio of bank deposits to GDP or stock market capitalization to GDP. For example, Rajan and Zingales (1998) show that industrial sectors with a greater need for external finance develop faster in countries with deeper capital markets. Fisman and Love (2003) find that, in particular, startup firms struggle with overcoming weaknesses in financial market development, even where established firms are able to use trade credit as a substitute for formal financing. Comin and Nanda (2009) show how the difficulties faced by startups in raising capital might adversely impact the commercialization of new technologies. Using historical data on banking-sector development and technology diffusion, they find that capital-intensive technologies are adopted much faster relative to less capital-intensive technologies in countries that are over a certain threshold in banking-sector development.

Why do some regions have greater financial depth than others? The lack of financial market liquidity has been traced to several related factors. At the most basic level, the willingness of financial intermediaries to lend to entrepreneurs (and the willingness of depositors to save with intermediaries) depends on financial and securities laws in a country. For example, La Porta et al. (1997, 1998) and Beck et al. (2001) trace the relationships between the legal origins of financial market laws across countries and relate them to the degree of investor protection and hence the ability of financial intermediaries to raise and lend capital. Paravisini (2008) shows in the context of Argentina that banks not only face frictions in their access to external financing, but that these frictions prevent them from undertaking profitable investment opportunities in the real economy. Banerjee and Duflo (2008) have similar findings in the context of a directed lending program in India.

While the issues of financial market depth may be particularly acute in emerging markets, startups in advanced economies are not immune to these issues. For example, Berkowitz and White (2004) find that entrepreneurs are less likely to get credit for their startups in U.S. states with stronger bankruptcy protection for individuals. When banks are less certain of recovering their loans in the event that a startup fails, they are less likely to extend credit in the first place. Guiso et al. (2004) examine local variation in the supply of credit across regions in Italy. They find that even in a well-developed and integrated financial market like Italy, regions with deeper capital markets promote the entry and growth of new firms and increase the propensity of individuals to start new businesses.

These findings are important in that they underscore the importance of local capital markets for entrepreneurship. The degree of asymmetric information associated with small, entrepreneurial ventures is very high. As a result, the intermediaries who are best able to overcome the costs of screening and monitoring these ventures are often local. Deep, national capital markets alone may not be sufficient to alleviate financing constraints for startups.

The importance of access to local finance seems equally relevant for venture capital (VC) financing as it is for bank financing. Sorenson and Stuart (2001) find that VC firms are much more likely to fund entrepreneurs located within a short geographic distance from where they are based (or to provide funding on the condition that entrepreneurs move closer to the VC firms). Similarly, Black and Gilson (1998) relate the lack of a large biotechnology industry in Germany to the local institutional environment for VCs. They argue that the institutional environment in Germany, which is more bank oriented compared to the U.S.'s market orientation, reduces the ability of German startups to achieve liquidity events via stock listings. As a consequence, the VC community in Germany is less developed, and the flow of risk capital to good biotechnology projects in Germany is weaker. Other studies find that VC investors appear particularly effective in funding innovative startups (Kortum and Lerner 2000) and that the ebbs and flows in the capital markets may have important follow on consequences for rates of innovation in the economy (Nanda and Rhodes-Kropf 2009).

While capital market depth is a key factor impacting the ability of entrepreneurs to finance their startups, the organization of the financial sector can also have profound effects on financing constraints for potential entrepreneurs. In the next two sub-sections, we explore two related dimensions in which the organization of the financial sector can impact startup activity – the level of competition between financial intermediaries and the internal structure of the financial intermediaries.

### **3.1.2 Competition between Financial Intermediaries**

The level of competition between financial intermediaries can impact the terms of credit to startups as well as the degree to which capital is allocated to the highest-quality projects (Levine 1997). This issue is particularly acute in developing countries where the banking system may be subject to political capture (Banerjee et al. 2003; Cole 2009). However, bank deregulation is shown to have first-order effects on the *ex-ante* allocation of capital to large firms in France (Bertrand et al. 2007) and on entrepreneurship in the U.S. (Black and Strahan 2002; Kerr and Nanda 2009a,b). For example, Bertrand et al. (2007) find that banks were less willing to bail out poorly performing firms in the product markets after the French banking reforms of 1985. As a result, French firms in sectors with a greater reliance on bank finance were more likely to restructure.

The U.S. branch banking deregulations provide a particularly useful laboratory to study the effect of bank competition on entrepreneurship. Prior to liberalization, U.S. banks faced multiple restrictions on geographic expansion both within and across states. The most restrictive of these, known as unit banking, limited each bank to a single branch. From the 1970s through the mid 1990s, banks experienced significant liberalization in the ability to establish branches and to expand across state lines, either through new branches or acquisitions.

Greater bank competition and markets for corporate control due to U.S. deregulations are thought to have improved a locative efficiency by allowing capital to flow more freely towards projects yielding highest returns. Moreover, although the number of banks fell over this period, the number of bank branches increased considerably, reflecting greater competition and increased consumer choice in local markets. From a theoretical perspective, these reforms would have had a strong positive effect on entrepreneurship if startups faced substantial credit constraints. Moreover, since entrepreneurs typically would have faced fewer non-bank options for financing their projects relative to existing firms (e.g., internal cash flow, bond markets), more efficient allocation of capital within the banking industry should have led to larger increases in startup entry relative to facility expansions by existing firms if startups faced barriers in their ability to raise sufficient external capital to grow.

Black and Strahan (2002), Cetorelli and Strahan (2006) and Kerr and Nanda (2009a) find dramatic increases in startup activity subsequent to inter-state branch banking deregulation. Moreover, Kerr and Nanda (2009a) show that these increases continue to be significant when compared to the baseline of facility expansions by existing firms – particularly so for firms entering at a smaller size where financing constraints are most likely to be most acute. In addition to these changes at the extensive margin, Kerr and Nanda (2009b) also find that startups were likely to be larger at entry relative to their maximum size in the first three years of operation, suggesting intensive margin effects of the reforms as well.

These results are particularly strong in light of theories suggesting that an increase in bank competition has the potential to impede startup activity. For example, Petersen and Rajan (1995) argue that startups may benefit from concentrated banking markets because monopolist banks can engage in intertemporal cross-subsidization of loans. As a monopolist bank can charge above-market interest rates to mature firms, it can, in turn, charge below-market rates to potential entrepreneurs. By doing so, the bank can maximize the long-term pool of older firms to which it lends. Increased competition weakens the market power of local banks, reducing their ability to charge above-market rates, and thereby weakening the incentives for subsidizing new entrants as well. Despite this possibility, the strong elasticity of entry with respect to the reforms suggests that

the overriding impact of the increased competition between banks was to facilitate the provision of cheaper credit and better allocation of capital to new projects.

### **3.1.3 Structure of Financial Intermediaries and their Relationship with Firms**

Financial intermediaries provide an important role in deciding which projects to fund and in monitoring these projects after funding them. As the costs of acquiring information about borrowers increase, it becomes harder to fund them profitably. Established firms have several advantages in this respect such as history of audited financial statements, greater collateral to pledge against loans, and potentially the ability to partially fund expansion through retained earnings. On the other hand, information asymmetry and limited assets are particularly acute for potential entrepreneurs, resulting in good projects going unfunded because intermediaries are unable to evaluate them effectively.

Stiglitz and Weiss (1981) outline why these large costs of screening and monitoring startups cannot be completely overcome by raising interest rates. They observe that raising interest rates may lead to adverse selection, where only entrepreneurs starting the most risky projects would agree to the bank's loan terms. In such an instance, the banks would face greater default probabilities, making the loans unprofitable in expectation. They show theoretically that in such an instance, banks may be forced to ration credit rather than raise interest rates to market clearing levels. Credit rationing causes entrepreneurs to face financing constraints. Thus, innovations within the financial sector that lower information costs can have important effects on reducing financing constraints for entrepreneurs.

A large body of work finds that close ties between financial intermediaries and firms reduce information asymmetries and lower financing constraints. For example, Petersen and Rajan (1994) and Berger and Udell (1995) show that borrowers with longer banking relationships are less likely to pledge collateral, less likely to rely on expensive trade credit, and hence are less constrained in their investment decisions than firms with shorter banking relationships. Related work suggests that small or decentralized banks – where branch managers have greater authority to make adjudication decisions – are much more likely to lend to startups and small businesses. These banks have a comparative advantage for evaluating informationally opaque or “soft information” businesses (Berger et al. 2001). They also are more likely to have appropriate incentives to act on the information than branch managers in large, hierarchical banks where adjudication decisions are centrally made (Stein 2002).

Berger et al. (2005) find that differences in bank organizational structures impact the credit constraints of small firms across the U.S. Canales and Nanda (2008) demonstrate a similar effect for terms of lending to small businesses in Mexico. In many respects, the recent innovations for microfinance in developing countries, such as the Grameen Bank founded by Muhammad Yunus, can be seen as reducing monitoring cost for informationally opaque micro-businesses. These innovations enable financial intermediaries to lend smaller amounts to entrepreneurs at a profit due to the lower fixed costs of evaluating and monitoring projects.

Although we have outlined these sources of financing constraints as distinct channels impacting entrepreneurship, they are of course interlinked. For example, Canales and Nanda (2008) show the important effects of the interaction between bank structure and the competitive environment when studying the terms of lending to small businesses in Mexico. Bozkaya and Kerr (2007) show that countries with strong employment protection laws – where firing workers is more difficult – are associated with weaker VC and private equity markets. Their findings suggest that institutional environments can have first-order effects on the presence and structure of certain types of financial intermediaries and hence on the availability of startup capital in certain types of industries.

### **3.2. Personal Wealth and Entrepreneurship**

We now turn to the second broad stream of research on financing constraints and entrepreneurship. While the first stream of research relies on cross-sectional differences in the institutional environment to study the impact of financial development and financial frictions on entrepreneurial activity, the second stream analyzes the propensity of individuals to become entrepreneurs depending upon their financial resources.

Entrepreneurs tend to be significantly wealthier than those who work in paid employment. For example, Gentry and Hubbard (2004) find that entrepreneurs comprise just under 9% of households in the U.S., but they hold 38% of household assets and 39% of the total net worth. Not only are entrepreneurs wealthier, but also the wealthy are more likely to become entrepreneurs.

The canonical model to understand this relationship between individual wealth and entrepreneurship was developed by Evans and Jovanovic (1989). In their model, the amount an individual can borrow to fund a new venture is a function of the collateral that he or she can post, which in turn is a function of personal wealth. If the amount the entrepreneur needs to borrow is sufficient to cover the capital required to start the business, then the entrepreneur is said to be unconstrained. On the other hand, if the entrepreneur needs to invest more than he or she can borrow, then a financing constraint leads to sub-optimal investment for the project at hand. Since returns to projects are a positive function of the capital invested, some projects that would have been profitable for an unconstrained entrepreneur become unprofitable for a constrained entrepreneur.

Thus, a central prediction of this model is that the propensity to become an entrepreneur is a function of personal wealth if potential entrepreneurs are credit constrained. Wealthy individuals are less likely to be constrained for a given project. On the other hand, a null relationship between wealth and entrepreneurship would suggest that borrowing constraints are not binding for potential entrepreneurs.

Looking at whether there is a strong association between personal wealth and the propensity to become an entrepreneur may thus shed light on the nature of financing constraints in the economy. Evans and Jovanovic (1989) estimate their model using data from the National Longitudinal Survey of Youth (NLSY) and find significant support for the presence of financing constraints in their data. They argue that the positive relationship between personal wealth and entry into entrepreneurship can be seen as evidence of market failure, where talented but less wealthy individuals are precluded from entrepreneurship because they lack sufficient wealth to finance their new ventures. This finding has been extremely influential in both academic and policy circles.

While a null relationship between personal wealth and entrepreneurship points to a lack of financing constraints, Evans and Jovanovic (1989) note that unobserved heterogeneity may lead to a spurious correlation between personal wealth and entrepreneurship in empirical studies even if individuals do not face financing constraints. Subsequent work in this second strand of research has built on this canonical model, while attempting to better control for sources of endogeneity in order to understand the causal relationship between personal wealth and the propensity to enter into entrepreneurship.

### **3.1 Endogenous Wealth Creation**

In the Evans and Jovanovic (1989) model, returns to entrepreneurship are greater for high-ability individuals. An important concern with empirical findings that show wealthier individuals become entrepreneurs is that personal wealth accumulation is endogenous. That is, if individuals with high ability are more likely to generate savings (because they earn more in wage employment relative to the mean person) and are also more likely to become entrepreneurs, the observed correlation between personal wealth and entrepreneurship may reflect this unobserved attribute rather than the causal effect of financing constraints (Holtz-Eakin et al. 1994; Blanchflower and Oswald 1998). A

similar concern may apply to results showing that those who are less wealthy start smaller firms (Cabral and Mata 2003).

In order to address such concerns, researchers have sought to find exogenous shocks to personal wealth and study their effects on selection into entrepreneurship. In addition, dynamic models of occupational choice have aimed to characterize better the inter-temporal savings and consumption paths of individuals who eventually become entrepreneurs (Buera 2008).

An early innovation to overcome the endogeneity of wealth accumulation came from Holtz-Eakin et al. (1994) and Blanchflower and Oswald (1998) who looked at bequests as a way to untangle the endogeneity of wealth creation. Blanchflower and Oswald (1998) find that bequests increase the likelihood of entry into self-employment, especially for younger workers who are less likely to have saved as much. Relatedly, Holtz-Eakin et al., (1994) look at the continuation probabilities of self-employed individuals as a function of bequests. They find that those who received bequests were less likely to shut down their businesses and had better firm performance conditional on continuing operations.

As Blanchflower and Oswald (1998) note, a potential concern with the use of bequests as an instrument for personal wealth is that the bequests may not be truly exogenous. For example, bequests may be factored into the financial calculations of children. Children of wealthy parents may choose to consume more in the present and invest in the business once they receive the bequest. Consistent with this idea, Hurst and Lusardi (2004) find that future bequests predict entry into self-employment as much as past bequests do. Other novel attempts to overcome this endogeneity concern – for example, Lindh and Ohlsson (1998) examine self-employment entry among lottery winners finding a strong positive relationship between shocks to personal wealth and subsequent self-employment entry. It is debated, however, whether these techniques can ultimately account for wealth effects associated with large changes in personal assets that may impact preferences or relative ability as later discussed.

### **3.2 Wealth Effects, Preferences, and Sorting**

A second source of spurious correlation arises from the fact that observed and unobserved individual abilities and preferences for entrepreneurship may be systematically correlated with personal wealth.

For example, wealthy people may have lower absolute risk aversion, making them more likely to become entrepreneurs (Evans and Jovanovic 1989; Khilstrom and Laffont 1979). People may also have a preference for being their own boss that increases with greater personal wealth (Hurst and Lusardi 2004). Further, if wealthy individuals are more effectively able to exploit certain networks that help them gain access to scarce resources, the relative ability of an individual as an entrepreneur compared to a wage worker may systematically change as they get wealthier – irrespective of their absolute ability in each sector. This may make wealthier individuals more likely to sort into entrepreneurship even if less wealthy individuals do not face financing constraints.

Hurst and Lusardi (2004) argue in favor of this perspective. They document that the propensity to enter self-employment is relatively flat up to the 80th percentile of the U.S. wealth distribution. Moreover, the strongest association between wealth and entry into self-employment is in the top five percent of the wealth distribution. As these very wealthy individuals do not generally start very capital-intensive firms, Hurst and Lusardi (2004) conclude that entrepreneurship may be a luxury good. People may derive non pecuniary benefits of being their own boss (Hamilton 2000), in which case the wealthy may be more likely to sort into entrepreneurship due to these unobserved preferences rather than due to substantive financing constraints.

In a similar vein, Moskowitz and Vissing-Jorgensen (2002) find that the returns to private equity investments among wealthy business owners are not large enough relative to public markets to account for the undiversified and illiquid stakes that they have in their businesses. These authors also point to the presence of unobserved preferences for self-employment that may drive this

“private equity premium puzzle.” These studies would suggest caution about implementing policies to reduce financing constraints for entrepreneurs.

Using micro data from Denmark, Nanda (2009) finds the same non-linear relationship between personal wealth and entrepreneurship identified for the U.S. by Hurst and Lusardi (2004). Moreover, he also finds that the wealthiest entrepreneurs are more likely to fail, particularly those founding businesses in less capital-intensive industries. Nanda argues that an important factor explaining this may be the disciplining role of the external capital markets. Wealthy individuals are less likely to have their ideas screened and vetted by potential investors, lowering the threshold level of ability required for wealthy individuals to start businesses. In such an instance, a far greater proportion of wealthy individuals may become entrepreneurs because they do not face the discipline of external finance, even if less wealthy individuals with high ability do not face financing constraints. This view is similar to that of de Meza (2002), who provides a theoretical framework where an individual who is indifferent between becoming an entrepreneur and staying a wage earner is higher ability than the wage earners, but lower ability than the entrepreneurs. When the cost of finance falls, these marginal individuals are most likely to select into entrepreneurship.

This sub-section has highlighted a growing set of studies that have noted either a potentially spurious association between personal wealth and entrepreneurship or provided explanations for the correlations that do not invoke financing constraints. The conclusions of these studies suggest that in advanced economies, financing constraints may not play as important a role in impacting entrepreneurship as was previously believed. Yet regional-level studies discussed in Section 2 suggest a very consistent pattern of financing constraints faced by firms. How should we reconcile these different views?

#### **4.0 CONCLUSIONS**

Financing constraints are one of the biggest concerns impacting potential entrepreneurs around the world. Academic literature has focused on understanding several dimensions of financing constraints.

In this review article, we outlined two major streams of research examining this question. While many of the findings are complementary, some of the results pose a puzzle regarding the extent to which financing constraints may be a problem for entrepreneurs in advanced economies.

Our framework is a starting point for reconciling these seemingly contradictory findings. The slice of entrepreneurship examined is very important for the appropriate positioning of research on financing constraints, but studies too often fail to consider this dimension in the conclusions drawn from empirical results. The choice of where in the space of capital intensity and technological novelty to found a firm may reflect a whole set of unobserved factors that researchers need to be careful about when they look at the question of financing constraints in entrepreneurship. This framework is also useful for thinking about the appropriate role of public policy in stimulating entrepreneurship. Promoting entrepreneurship is an important goal of many governments, and researchers need to define for policy makers a more unified perspective for how studies and samples fit together.

#### **5.0 SUMMARY**

In this Unit, we have been able to:

- The Financial Market Development and Entrepreneurship
- Personal Wealth and Entrepreneurship



Further explanation focused on sub heading of the two core variables of financing constraints and entrepreneurship, challenges of business ventures and financial intermediaries.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. Discuss the link between financial market development and entrepreneurship.

## **7.0 REFERENCES/FURTHER READINGS**

Financing constraints and Entrepreneurship: William's .Kerr and Ramama Nanda.

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## UNIT 8 ENTREPRENEURIAL PROCESS

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Entrepreneurial Traits or Characteristics
  - 3.2 Opportunities Exist But Not Without Risks
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 References/Further readings

### 1.0 INTRODUCTION

#### THE ENTREPRENEURIAL PROCESS

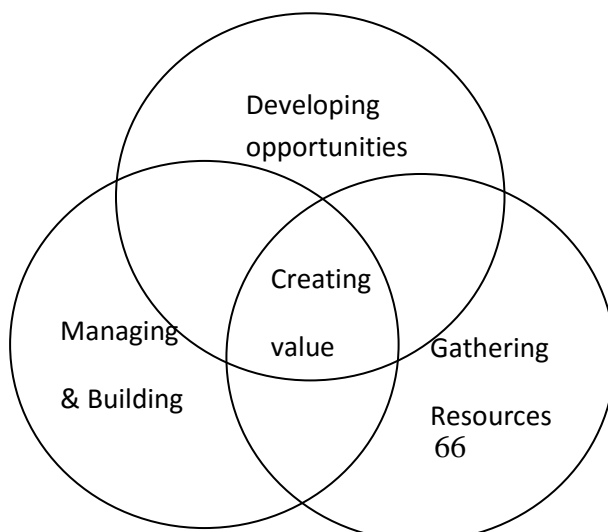
The entrepreneurial process comprises: developing opportunities, gathering resources, and managing and building operations, all with the goal of creating value. Figure 1.1 provides a graphical depiction of this process. Many entrepreneurship students have formulated ideas for possible new products and services. However, prior to committing significant time and resources to launching a new venture, it can really pay to take the time and effort to examine the feasibility of an idea, screen it as a possible venture opportunity, analyze the related competitive environment, develop a sound business model, and prepare a convincing business plan.

The second aspect of a successful entrepreneurial process involves gathering the physical assets, intellectual property, human resources, and financial capital necessary to move from opportunity to entrepreneurial venture. The venture should organize formally and legally, the process of which also provides an opportunity for founders to build consensus for the new venture's boundaries of authority and basic ethical framework. Every startup needs "seed" financing and must have a strategy for acquiring it.

The third piece of the entrepreneurial process is managing and building the venture's operations. An effective business model must generate revenues to cover operating costs in the foreseeable future. Eventually, a growing venture will also need to provide enough cash flow to cover planned expansion and reinvestment. Additional financing rounds, possibly including those available through public securities offerings, may be necessary for growth in later years.

Figure 1.1 depicts an intersection of all three components—creating value. Each of the components contributes to the overall value. As a reminder of the wider context, we place the components and their intersection in the context of the venture's economic, legal, and social environment

**FIGURE 1.1 THE ENTREPRENEURIAL PROCESS**



## **2.0 OBJECTIVES**

After this study, you should be able to give detail explanation on:

- The Entrepreneurial Traits or Characteristics
- Opportunities Exist But Not Without Risks
- Entrepreneurial Process

## **3.0 MAIN CONTENT**

### **3.1 Entrepreneurial Traits or Characteristics**

While we want to avoid most generalizations about entrepreneurial traits or characteristics, there are three we consider important. First, successful entrepreneurs recognize and seize commercial opportunities, frequently before others even have an inkling of their potential. Mark Twain once said, “I was seldom able to see an opportunity, until it ceased to be one.” Second, successful entrepreneurs tend to be doggedly optimistic. The glass is never “half empty” and usually not even “half full.” It is “full,” and they are ready to call for more glasses. Third, successful entrepreneurs are not consumed entirely with the present. Their optimism is conditional. They know that certain events need to take place for this optimism to be justified. They do not treat venture planning as the enemy.

Seeing a (conditionally) bright future, successful entrepreneurs plan a way to get there and begin to construct paths to obtain the required physical, financial, and human resources.

While there are caricatures, there is no prototypical entrepreneur. Many authors have tried to identify specific characteristics of successful entrepreneurs, but accurate generalizations have eluded them. There are numerous myths about entrepreneurs. One hears that “entrepreneurs are born, not made.” Yet many successful entrepreneurs have been, or will be, failing entrepreneurs if observed at different times in their lives. While identifying the fear of failure as a personal motivation propelling them forward, successful entrepreneurs are not paralyzed by this fear. If you see venture bumps as opportunities rather than obstacles, perhaps the entrepreneurial lifestyle is right for you.

### **3.2 Opportunities Exist But Not Without Risks**

If you feel the entrepreneurship bug biting, you are not alone. Remember, the annual number of new U.S. business formations runs in the millions. Small and growing enterprises are critical to the U.S. economy; small firms provide 60 to 80 percent of net new jobs.

Firms with fewer than 500 employees represent more than 99 percent of all employers and employ over half of the private workforce. They are responsible for about half of the private gross domestic product. During the past century, entrepreneurial firms’ innovations included personal computers, heart pacemakers, optical scanners, soft contact lenses, and double-knit fabric. Entrepreneurial firms have long been major players in high-technology industries, where small businesses account for over one-fourth of all jobs and over one-half of U.S. innovations and new technologies. Small high-technology firms are responsible for twice as many product innovations per employee, and obtain more patents per sales dollar, than large high-technology firms. One government study suggests that some of the fastest growing opportunities for small businesses are in the restaurant industry, medical and dental laboratories, residential care industries (housing for the elderly, group homes, etc.), credit reporting, child daycare services, and equipment leasing.

As much as we would like to encourage your entrepreneurial inclinations, it would be irresponsible for us to imply that starting and successfully operating a business is easy.

As a basic financial principle, risk and return go together—the expectation of higher returns is accompanied by higher risks. According to the SBA’s Office of Advocacy, for the years 2005 to 2007 employer firm births were estimated to be 659,093 per year. For the same period, employer firm terminations averaged 578,793 annually. In 2008, however, the estimated number of small business starts was below trend at 627,200, while the estimated number of closures was above trend at 595,600. Although bankruptcies averaged only 29,073 per year in 2005 to 2007, they rose to 43,456 in 2008.

Phillips and Kirchhoff, using Dun & Bradstreet data, found that 76 percent of new firms were still in existence after two years of operation. Forty-seven percent of new firms survived four years, and 38 percent were still operating after six years. In a more recent study of the U.S. Census Bureau’s Business Information Tracking Series, Brian Headd found similar results. Sixty-six percent of new employers survived two years, 50 percent were still in existence after four years, and 40 percent survived at least six years. Headd also studied the U.S. Census Bureau’s Characteristics of Business Owners database, which surveyed owners of closed firms on whether the owners felt their firms were successful or unsuccessful at the time of closure. The evidence suggests that about one-third of closed businesses were successful at closure. Thus, instead of closing due to bankruptcy, many owners may have exited their businesses by retiring or selling. Nearly half of business failures are due to economic factors such as inadequate sales, insufficient profits, or industry weakness. Of the remainder, almost 40 percent cite financial causes, such as excessive debt and insufficient financial capital. Other reasons include insufficient managerial experience, business conflicts, family problems, fraud, and disasters.

Although the risks associated with starting a new entrepreneurial venture are large, there is always room for one more success. Successful entrepreneurs are able to anticipate and overcome the business risks that cause others to fail. While hard work and a little luck will help, an entrepreneur must be able to finance and manage the venture.

Commercial vision, an unrelenting drive to succeed, the ability to build and engage a management team, a grasp of the risks involved, and a willingness to plan for the future are some of the ingredients for success.

#### **4.0 CONCLUSION**

In this unit you have learned the entrepreneurial process, entrepreneurial traits or characteristics, Opportunities Exist but Not without Risks.

#### **5.0 SUMMARY**

In this Unit, we have been able to:

We have successfully explain entrepreneurial process with emphasis on developing opportunities, gathering resources, and managing and building operations, all with the goal of creating value. The process cited United State experience, our analysis focused on life experiences and research work by writers on entrepreneurial process. The next unit would focus on entrepreneurial opportunities.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. Discuss the entrepreneurial process.

#### **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 9 SOURCES OF ENTREPRENEURIAL OPPORTUNITIES**

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### **1.0 INTRODUCTION**

Entrepreneurs are the primary engine of commercial change in the global economy. Entrepreneurial opportunities are ideas that have the potential to create value through new, repackaged, or repositioned products, markets, processes, or services. One study of Inc. magazine's 500 high-growth firms suggests that about 12 percent of founders feel their firms' successes are due to extraordinary ideas, whereas the remaining 88 percent feel their firms' successes are due to exceptional execution of ordinary ideas. In a separate survey, Amar Bhide found that Inc. 500 founders often make use of existing ideas originating in their prior work experiences. Only 6 percent of his responding founders indicate that "no substitutes were available" for their products or services. In contrast, 58 percent say they succeeded even though competitors offer "identical or close substitutes."

### **2.0 OBJECTIVES**

After this study, you are expected to give detail explanation on:

- The megatrend categories Of entrepreneurial opportunities
- Sources of Entrepreneurial opportunities in Nigeria

Megatrends are large societal, demographic, or technological trends or changes that are slow in forming but, once in place, continue for many years. In contrast, fads are not predictable, have short lives, and do not involve macro changes. Of course, there are many degrees between fads and megatrends that provide entrepreneurs with business opportunities. However, while entrepreneurial opportunities can come from an almost unlimited number of sources, we give special focus to the following megatrend categories:

### **3.0 MAIN CONTENT**

#### **3.1 Megatrend Entrepreneurial opportunities**

- i) Societal trends or changes
- ii) Demographic trends or changes
- iii) Technological trends or changes
- iv) Crises and "bubbles"

### **3.1.1 Societal Changes**

Many entrepreneurial endeavors are commercial reflections of broader societal changes.

In 1982, John Naisbitt identified several major or megatrends shaping U.S. society and the world. Naisbitt recognized that the U.S. economy, by the early 1980s, centered on the creation and distribution of information. He argued that successful new technologies would center on the human response to information. Many of the commercial opportunities in the past two decades have capitalized on information creation and organization and its central role in human decision support.

Naisbitt also recognized that the United States was increasingly affected by a global economy and that Americans were rekindling the entrepreneurial spirit. It is now clear that almost all businesses face international competition and that the pace of entrepreneurial innovation is increasing throughout the world. To succeed in such an environment requires an understanding of current megatrends and the anticipation of new ones. While many possible trends are candidates for spawning entrepreneurial innovation, two that will undoubtedly influence future commercial opportunities are the demographic shifts associated with the baby boom generation and our increasingly information-oriented society.

Social, economic, and legal changes may occur within pervasive trends. Social changes are reflected in important changes in preferences about clothing styles, food (e.g., gluten free diets), travel and leisure, housing, and so forth. An anticipation of social change is the genesis of many entrepreneurial opportunities as innovators position themselves to satisfy the demand for the related new products and services. Economic shifts—the rise of two-career families, higher disposable incomes, changing savings patterns—also suggest entrepreneurial opportunities. Changes in our legal environment can introduce important economic opportunities by eliminating existing barriers to entry. For example, deregulation in the banking, transportation, and telecommunications industries has allowed entrepreneurs to provide cost-efficient, demand-driven alternatives.

### **3.1.2 Demographic Changes**

One major demographic trend continuing to shape the U.S. economy is the aging of the so-called “baby boom generation.” In 1993, Harry Dent documented major generation waves in the United States during the twentieth century. By far, the most important generation wave is the baby boom. After World War II, from 1946 to 1964, an unprecedented number of babies, approximately 79 million, were born in the United States. As this generation has aged, it has repeatedly stressed the U.S. infrastructure. In the 1950s and 1960s, it overloaded public school systems from kindergarten through high school. By the 1970s and early 1980s, a period sometimes referred to as their innovation wave, boomers were heavily involved in developing, innovating, and adopting new technologies.

Dent estimates that the boomers’ spending wave started in the early 1990s and peaked in the late 1990s and the first part of the twenty-first century. The tremendous expansion in the stock and bond markets during the 1980s and 1990s was, in part, due to these anticipated innovation and spending waves. Dent projects that the organization, or power, wave, where boomers dominate top managerial positions and possess the accumulated wealth to influence corporate America, will peak sometime in the 2020s.

For the entrepreneurially inclined, the good news is that the boomers continue to spend at record levels; “consumer confidence” is a key ingredient to America’s continued prosperity and expansion. Financing continues to be available for solid business opportunities.

Venture investing, although initially reeling after the decline at the turn of this century and the subsequent recession, is recovering. The aging boomers, with their earning and consumption power, continue to provide enduring business opportunities. Many of the successful entrepreneurial ventures will provide goods and services tailored to this aging, and wealthy, generation. There will undoubtedly be other business opportunities relating to as-yet unlabeled subsets of consumers. Entrepreneurs with the ability to understand demographic shifts, and see the resulting new business opportunities, will write their own success stories.

### **3.1.3 Technological Changes**

Technological change may be the most important source of entrepreneurial opportunities. While the accurate dating of the arrival of major technological innovations is difficult, it is reasonable to say that the genesis of our information society was in the mid to late 1950s and early 1960s. Transatlantic cable telephone service began. The Soviet Union launched Sputnik, suggesting the possibility of global satellite communications. Transistors replaced vacuum tubes in computers. Compilers opened the door to higher-level programming languages, and the development of the computer “chip” was under way.

Perhaps the most important invention in shuttling us from an industrial society to an information society was the computer chip. Such chips are the backbone of all modern computing and enable the telecommunications applications and information systems that have changed the way almost everyone lives. The worldwide distribution of computer chips (and the software systems running on them) has paved the way for what may be the most

significant innovation in global commerce since the merchant ship: the Internet. The Internet is an incredibly diffuse collection of computers networked together. It is hard to think of anything else in history that parallels the level of international coordination (individuals and entities) that the Internet has almost painlessly achieved, and in a remarkably short time. When the Internet’s ability to provide nearly instant worldwide communication was combined with rapid transfer of graphic images, the Internet became the infrastructure for the “World Wide Web,” a user-friendly and commercially attractive foundation for many new ways of doing business, including retail and wholesale operations through electronic commerce. In addition to the Web’s commercial applications, the Internet has dramatically changed the way almost everyone goes about daily business. Internet functionality affects modern life in almost uncountable ways, including such common things as electronic mail (e-mail), remote access, large file transfer (including pictures, music, and videos), instant messaging, and, more recently, cell phone–Web cross-functionality.

Electronic commerce, or e-commerce, involves the use of electronic means to conduct business online. Although many of the simple “dot.com” and “e-commerce” business models of the late 1990s did not work, the Internet economy and e-commerce are here to stay. Simply put, we will never do business the same way we did before the Internet. It has become too easy to compare various suppliers’ prices or check on the latest offer from our competitors to return to conducting business in the “darkness” tolerated only a few years ago. A simple example is online package tracking. Now, instead of using the phone to say a package is “in the mail,” the sender is expected to provide a tracking number to be used on the Web so that the sender and the receiver can ascertain the veracity of this claim and follow the package along its route.

### **3.1.4 Crises and “Bubbles”**

The first decade of the twenty-first century was characterized by extreme economic swings accompanied by, among other things, the bursting of several asset and financial “bubbles,” the 9/11 terrorist attack on the United States, and the 2007–2009 financial crisis. Cost-cutting coupled with economic growth during the 1990s led to the availability of excessive amounts of financial capital as the twentieth century came to an end. Venture investors were chasing poorer investment opportunities than those to which they had become



accustomed. Stock prices of Internet or “tech” firms rose much faster than those firms’ abilities to generate earnings and cash flows. As a result, the “dot.com” or Internet bubble burst in 2000. Venture funding dried up to at a mere trickle relative to the amounts flowing during the dot.com era. Many entrepreneurs with good potential opportunities were unable to find funding.

When the dot.com economy was faltering, an economic recession that began in 2001 was exacerbated by the 9/11 terrorist attack. In response, the Federal Reserve moved quickly to increase liquidity and lower interest rates. Government spending was increased, and tax cuts were implemented in 2002.

Government officials encouraged lenders to make mortgage loans to a wider range of potential home buyers, resulting in sub-prime mortgages being offered to borrowers who could not afford the loans. Economic expansion and rapidly rising home prices culminated in the bursting of the housing asset bubble in 2006. This was followed by a peak in stock prices in 2007 and an economic recession that began in mid-2008.

By the second half of 2008, a “perfect financial storm” had been created, and many worried about the possibility of financial collapse. Several major financial institutions were on the verge of failing. Some financial institutions were merged into, or acquired by, stronger institutions (e.g., Merrill Lynch was acquired by Bank of America), the Lehman Brothers investment bank was allowed to fail, while AIG (American International Group) was “bailed out” by the Federal Reserve and the U.S. government. Venture funding virtually dried up. Even entrepreneurs with good opportunities were stymied by a lack of venture capital. For the second time in the decade, the availability of venture funds collapsed.

The U.S. government in October, responded by passing the Economic Stabilization Act of 2008, which provided funds to the U.S. Treasury to purchase “troubled” financial assets held by institutions. The American Recovery and Reinvestment Act (ARRA) was passed in February 2009 and provided for tax incentives, appropriations, and increased government spending in an effort to stimulate economic expansion.

Importantly for aspiring entrepreneurs, these dark and cloudy times almost always come with a silver lining. For this most recent financial crisis, it appears that one nascent sector that benefitted dramatically during the time of crisis was alternative and renewable energy. Subsidies abounded with project credits, production and investment tax credits, and loan guarantees.

Additionally, even in the absence of crisis-related government favoritism for certain sectors, while many entrepreneurs suffer dearly as their ventures fail, others benefit from consolidation and the resulting lower level of competition due to the shakeout. Many aspiring entrepreneurs and investor connections are made during the fallout from major economic crises.

### **3.2 Sources of Entrepreneurial opportunities in Nigeria**

Here is current Entrepreneurship programmes finance by the federal government by through the Central Bank of Nigeria.

#### **a) Micro Small and Medium Enterprise Development Fund (MSMEDF) N220 Billion**

- The applicant can apply for any amount ranging from 500,000 Naira to 50 Million Naira.
- The interest rate is at 9%.
- 60% of the loans is reserved for women who own businesses.
- 10% for Start-up businesses
- 2% for persons with disabilities

- SME's have up to 3 years to repay loans
- Requirements for the loan vary from bank to bank.

The Anchor Borrowers' Programme (ABP) was launched by President Muhammadu Buhari in January 2016 and is targeted at linking smallholder farmers and reputable large-scale processors. Under the programme, the sum of N40 billion has been set aside from the N 220 billion Micro, Small and Medium Enterprises Development Fund for farmers at a single-digit interest rate of 9 per cent.

#### **b) Commercial Agricultural Credit Scheme CACS**

This scheme has just been renewed until 2025. CACS focal areas are dairy, rice, fish, wheat and cotton but extend to production, processing, storage, farm input supplies, marketing of various items including but not limited to oil palm, fruit trees, jatropha, cocoa, rubber etc.

#### Entrepreneurship programmes Tips

- To access these loans go straight to your bank or micro finance institution and ask for the details and application process. Ask your State entrepreneurial development bodies for information
- Please shop around. Go to more than one bank. Some banks may add extra layers of what they call security and what we call difficulty. Also use banks that have good customer relations.
- You will be asked for a business plan. Learn how to write one or get someone to assist you write one. There are good free business guides on SME Toolkit Nigeria
- The CBN also owns semi-independent entrepreneurship development centres (EDC's) that run courses and even guide participants to access loans.

The CBN EDCs online are as follows

CBN – EDC: South South, Calabar [www.ssedc.org/new/](http://www.ssedc.org/new/)

CBN – EDC: South West, Ibadan [www.edcsouthwest.org/](http://www.edcsouthwest.org/)

CBN – EDC: North West, Kano [www.nwedc.org.ng/](http://www.nwedc.org.ng/)

A CBN-EDC in Aba was opened in March 2016.

## **4.0 CONCLUSION**

In this unit we have learnt different entrepreneurial opportunities which are coined from ideas that have the potentials to create value. The unit focused on local and international entrepreneurial opportunities.

## **5.0 SUMMARY**

This unit focused on:

- i) Societal trends or changes
- ii) Demographic trends or changes
- iii) Technological trends or changes
- iv) Crises and “bubbles”
- v) Micro Small and Medium Enterprise Development Fund
- vi) Commercial Agricultural Credit Scheme CACS

The next unit would consider mode of financing SMEs.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- a) Discuss the sources of entrepreneurial opportunities in Nigeria.
- b) Identify Megatrend Entrepreneurial opportunities.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 10 ENTREPRENEURSHIP DEVELOPMENT**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
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  - 3.1 EntrepreneurialDevelopment:ConceptandContext
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- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-MarkedAssignment
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### **1.0 INTRODUCTION**

Inthisunit,wediscussedthetheoreticalframeworksinentrepreneurship; explained entrepreneurshipasanointerdisciplinaryfield;discussedthecontributionsofvariousdisciplines indevelopmentofentrepreneurshipas afieldofstudy;andevolvedinter-linkagesexisting amongthesedisciplinesandtheircontributions.

Inthenextunit,weshalldiscussanotherinterestingtopicitled‘entrepreneurshipdevelopment’.

### **2.0 OBJECTIVES**

Attheendofthisunit, youshouldbeableto:

- DiscussEntrepreneurialDevelopment:ConceptandContext;
- DiscussEvolution,Frontiers,divergence&Stagnation;
- ExplainAlternativeApproachestoEntrepreneurialDevelopment;
- describeEntrepreneurshipasAnIntegrativeBehaviouralFramework;
- listanddiscusstheEntrepreneurshipDevelopmentStages;
- StatetheImportanceofEntrepreneurshipDevelopment.

### **3.0 MAINCONTENT**

#### **3.1 EntrepreneurshipDevelopment:ConceptandContext**

ManydevelopingcountriesincludingIndiaare inastate oftransition.Theyarestrivingtomove fromasubsistence-oriented, tightlyintegrated,inwardlookinglocaleconomytoasurplus seeking,marketled,outwardlooking economy.Suchamoveispossibleonly withthe emergencesofamultitudeofasmall-scaleandrural enterpriseinallworksof life.Thisrequires buildingupofawiderbaseofpopulation capableofentrepreneurialbehaviour.IfwetakeIndia asanexample inthecontextofdevelopment,wefindthattheinitialbuildupofentrepreneurial activity tookplaceinurbancenter.Thiswasfollowedbyatrickledowneffectinrural communities overtime.Development strategytoday,however,seeksamoreproactiveand

immediate change in India. While much of policy making in this regard treats enterprise creation as a function of appropriate economic conditions (made possible through institutional and economic interventions), others have emphasized training and attitude change as vital elements in the process. But it needs systematic observations and research into the process through which entrepreneurship emerges and sustains itself.

Enterprises and entrepreneurs have been in the center stage of modernization since the days of Industrial Revolution. Economists, sociologists, psychologists and anthropologists have studied this concept, usually within the frontiers of their respective disciplines.

Models of entrepreneurship and research associated with them have identified several major issues such as vagueness in definition, conceptualizing entrepreneurship as a trait, significance of innovation in entrepreneurship, meaning of activities in the post-enterprise creation stage, validity of measures of entrepreneurial propensity and significance of demographic factors.

### **3.2 Evolution, Frontiers, Divergence & Stagnation**

For a long time there was no equivalent for the term 'entrepreneur' in the English language. Three words were commonly used to connotate the sense the French term carried: adventurer, undertaker and projector; these were used interchangeably and lacked the precision and characteristics of a scientific expression (Gopakumar, 1995).

Richard Cantillon (1680-1734), gave the concept some analytical treatment and assigned the entrepreneur an economic role by emphasizing on 'risk' as a prominent entrepreneurial function (Gopakumar, 1995). J.B. Say and J.H. von Thunen. Jean Baptiste Say (1767-1832), the French political economist assigned the entrepreneur with a crucial role - 'coordination' and made a distinction between the entrepreneur and capitalist (Say, 1967).

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production - which he succinctly terms innovation - the entrepreneur activates the economy to a new level of development.

The concept of innovation and its corollary development embraces five functions:

- 1) Introduction of a new good,
- 2) Introduction of a new method of production,
- 3) opening of a new market,
- 4) Conquest of a new source of supply of raw materials and
- 5) Carrying out of a new organization of any industry.

Schumpeter represents a synthesis of different notions of entrepreneurship. His concept of innovation included the elements of risk taking, superintendence and coordination. However, Schumpeter stressed the fact that these attributes unaccompanied by the ability to innovate would not be sufficient to account for entrepreneurship (Gopakumar, 1995).

According to the Harvard School Cole, (1949) "entrepreneurship comprises any purposeful activity that initiate, maintain or develop a profit-oriented business in interaction with internal situation of the business or with the economic, political and social circumstances surrounding the business". This approach emphasized two types of activities: the organization or coordination activity, and the sensitivity to the environmental characteristics that affect decision

making.

Despite its stress on the human factor in the production system, the Harvard tradition never explicitly challenged the equilibrium-obsessed orthodox economic theory. This was challenged by the neo-Austrian School who argued that disequilibrium, rather than equilibrium, was the likely scenario and as such, entrepreneurs operate under fairly uncertain circumstances. The essence of entrepreneurship consists in the alertness of market participants to profit opportunities. A typical entrepreneur, according to Kirzner (1979) is the arbitrageur, the person who discovers opportunity at low prices and sells the same items at high prices because of intertemporal and interspatial demands.

To sum up, major theories and expositions from Cantillon to Kirzner, view the entrepreneur as performing various functional roles as risk taker, decision maker, organizer or coordinator, innovator, employer of factors of production, gap seeker and input completer, arbitrageur, etc. The most appropriate definition of entrepreneurship that would fit into the rural development context, argued here, is the broader one, the one which defines entrepreneurship as: "a force that mobilizes other resources to meet unmet market demands", "the ability to create and build something from practically nothing", "the process of creating value by pulling together a unique package of resources to exploit an opportunity".

### 3.3 Alternative Approaches

The underlisted are the alternative approaches to the study of entrepreneurship:

#### 3.3.1 Socio-Cultural Approaches

Some scholars have stressed the importance of socio-cultural milieu in entrepreneurship development. They suggested that the socio-cultural history accounts for the performance of entrepreneurial functions by a considerable number of individuals.

Several writers have used a comparative framework to highlight the ways in which different societies, with differing interests, attitudes, systems of stratification and the like, operate to produce different kinds of businessmen and different patterns of entrepreneurial behavior (Swayer, 1952).

#### 3.3.2 Psychological Approaches

The focus in entrepreneurship shifted from the act to the actors (Shacer & Scott, 1991) in the work of McClelland (1961). According to McClelland and Winter (1969) need for achievement (n-Ach) is responsible for economic development. Greater the development of n-Ach, during early socialization of people, the more likely the economic development will be achieved. A society with a generally high level of n-Ach will produce more rapid economic growth. Achievement motivation could be included through training in self-reliance, rewarding hard work and persistence in goal achievement, and creating interest in excellence. In spite of being criticized (Schatz, 1971; Smelser, 1976), McClelland's (1987) analysis has triggered off the 'traits approach' to comprehend entrepreneurial behaviour.

In another psycho-social theory Hagen (1962) relegates economic variables to a relatively minor role and has put an emphasis on certain aspects of the personality. More recently, several other psychological approaches to entrepreneurship have been suggested. Hisrich (1990) identifies several characteristics of entrepreneurs in terms of (a) conditions that make entrepreneurship desirable and possible,

(b) the childhood family background,  
(c) the education level, personal values and motivations and  
(d) role modeling effects and other support systems. Bird (1989) has also examined entrepreneurial behavior by focusing on work and the family background, personal values and motivations.

### 3.3.3 Contemporary Focus

The two most common approaches used in researching the characteristics of entrepreneurs have been the trait approach and the demographic approach (Robinson et al., 1991). In the trait approach, the entrepreneur is assumed to be a particular personality type whose characteristics are key to explaining entrepreneurship as a phenomenon (Gartner, 1988; 1989). Following McClelland (1961, 1987), many other researchers have explored areas such as achievement motive, locus of control, risk taking, innovation etc.

In the demographic approach, demographic information is used to arrive at a profile of a typical entrepreneur assuming that people with similar backgrounds possess similar underlying stable characteristics. The approach presumes that by identifying demographic characteristics of known entrepreneurs it will be possible to predict entrepreneurship in unknown populations (Robinson et al., 1991). The demographic variables found most examined are family background, birth order, role model, marital status, age, education level of parents and self, socio-economic status, previous work experience and work habits.

First, the approach assumes that human behavior is strongly influenced by demographic characteristics such as sex, race, or birth order.

Second, the practice of using demographic characteristics as surrogates for personality characteristics is not appropriate. There is also a lack of adequate empirical evidence in this regard.

Third, the approach does not help predict who will or will not be an entrepreneur on the basis of knowledge of one's birth order, level of education or parental heritage. Besides, demographic characteristics being static in nature cannot explain a dynamic multifaceted phenomenon like entrepreneurship.

Hannan and Freeman (1977) have used the population-ecology model (PEM), to analyze the concept of entrepreneurship. The PEM seeks to predict the probability of births and deaths within a population of firms within a given industry niche, conferring the environment rather than the person with the status of the key entity in determining organizational survival. Recent research following this approach is focused on the presence, characteristics and change in a population or organization in an ecological context provided by the host society (Reynolds, 1991). Deficiencies of this model have been pointed out by Bygrave and Hoffer (1991). These models, while making statistical predictions at the population level, fail to predict the fate of specific firms.

## 3.4 Entrepreneurship: An Integrative Behavioural Framework

The key elements identified in the integrative behavioural framework of entrepreneurship are Personal Resourcefulness, Achievement Orientation, Strategic Vision, Opportunity Seeking and Innovativeness.

### 3.4.1 Personal Resourcefulness

The root of the entrepreneurial process can be traced to the initiative taken by some individuals to go beyond the existing way of life. The emphasis is on initiative rather than reaction, although events in the environment may have provided the trigger for the person to express initiative. This aspect seems to have been subsumed within 'innovation' which has been studied more as the 'change' or 'newness' associated with the term rather 'proactiveness'.

'Personal resourcefulness' in the belief in one's own capability for initiating actions directed towards creation and growth of enterprises. Such initiating process requires cognitively mediated self regulation of internal feelings and emotions, thoughts and actions as suggested by Kanungo and Misra (1992).

### 3.4.2 Achievement-Orientation

While personal initiative and purposeful behavior can be viewed as a good starting point of an entrepreneurial effort, many such initiatives fail. The archetype successful entrepreneur is supposed to epitomize achievement motivation (McClelland, 1961) which facilitates the creation and development of enterprises in competitive environments. While critics have raised serious questions regarding the unique or overarching significance of n-Ach in the emergence of entrepreneurship (Smelser, 1976), this element of personality has continued in the mainstream of entrepreneurship theory (Shaver & Scott, 1991). People with high n-Ach are known to seek and assume high degree of personal responsibility, set challenging but realistic goals, work with concrete feedback, research their environment and choose partners with expertise in their work (Kanungo & Bhatnagar, 1978). Such characteristics of high n-Ach people contribute to successful completion of tasks that they venture to take up. Hence, we see achievement orientation as a set of cognitive and behavioural tendencies that are oriented towards ensuring that outcomes such as enterprise creation, survival and growth are realized.

### 3.4.3 Opportunity-Seeking

The context in which an individual brings to bear his/her initiative, achievement orientation and visioning have a strong bearing on what it produces; when these forces are directed towards realizing surplus or value in a market environment, over a period of time, we see the creation of enterprises. This perspective of the entrepreneur as a merchant adventurer, who in Cantillon's view balances out imperfections in the market (Gopakumar, 1995) in pursuit of what Bentham terms wealth, provided the historical basis for the development of entrepreneurship. The wealth is seen as the reward the entrepreneurial individual gains for the risk taken or exercise of judgment where there is greater possibility for error; this distinguishes between certain return from wage labour, and return from risk-oriented production for the market. Hence 'opportunity seeking' would include one's ability to see situations in terms of unmet needs, identifying markets or gaps for which product concepts are to be evolved, and the search for creating and maintaining a competitive advantage to derive benefits on a sustained basis.

### 3.4.4 Innovativeness

Schumpeter (1949) went on to conceptualize entrepreneurs as persons who are not necessarily capitalists or those having command over resources, but as ones who create new combinations of the factors of production and the market to derive profit. Innovativeness refers to creation of new products, markets, product-market combinations, methods of production and organization, and the likelihood that the enterprise to gain competitive advantage in the market.

It is evident that each of the dispositions referred to may be found in all types of individuals (entrepreneurs and non-entrepreneurs). Then how can we relate these dispositions to entrepreneurship? We propose that when these five elements converge at high intensities, in non-



restrictive environments, it is likely to give rise to enterprise formation. Therefore, one may find individuals who had created enterprises in the past now turning weak because they may no longer be proactive enterprise creators; instead they may be content to play the role of managers in their stable business, or turn to community leadership, and the like. Hence, this perspective lends to a process view of entrepreneurship.

### **3.5 Entrepreneurship Development Stages**

Typically, entrepreneurship development follows a cycle consisting of stimulating, supporting and sustaining activities (Fadahunsi, 1992). The stimulating activities ensure the supply of entrepreneurs ready to take initiative and organize their enterprises by risk taking through awareness programmes. The support activities however, provide infrastructural facilities, resources like information, finance, technology, ability and skills for enterprises launching. The sustaining activities refer to efforts that facilitate the growth and continuity through expansion, modernization, diversification, technology and provision of an enabling environment for growth and survival of small-scale industries.

#### **3.5.1 Entrepreneurship Development in Developed and Developing Countries**

The existence of strong and effective small-scale industries has been considered as the best way to improve the socio-economic status of any society. In a large number of developed and less developed countries there are excellent examples of government initiative aimed at promoting and sustaining entrepreneurship development in small-scale industries. The main purpose is usually to reduce unemployment. Other underlying reasons include:

A desire to establish an enterprise culture (Britain). A need to assist the disadvantaged section of the population (e.g. ethnic minorities in Canada), the need to develop alternative to stagnation sector economy (Gambia) to reduce national dependence on imported goods (Mauritius and Malawi), rural transformation (e.g. Sierra Leone), diversification of the economy and reduction of unemployment (Nigeria) etc.

#### **3.5.2 Entrepreneurship Development in Small Scale Business of some Industrialized Nations.**

Japan, Taiwan and America are examples of industrialized countries, which recognize the definite contribution of small-scale business sector in their march toward industrialization. The recognition of small business as a vital sector in development of Japanese economy could be traced to 1920's. Prior to this period, Japanese government emphasized on large-scale business such as steel and petrochemical industries while the small-scale industry was neglected. Although, this strategy improved industrialization in Japan, but a number of construction problems were created hence, the need for integrating small-scale industries into the national industrial policy became apparent. (Owuala, 1992).

Institutional supports for the growth of small-scale enterprises in Japan started after the Second World War. Prior to the emergence of formal sources of finance, informal sources such as trade credits constituted reliable means of financing. In recognition of the important role of small-scale business in Japanese economy, the financial institutions for the small-scale such as Medium Business Finance Corporation, The Peoples Finance Corporation, the Central Bank for Commerce and Investment Cooperatives. Small Business Credit Insurance Corporation and Small Business Investment Company were established. Japanese government supports for small scale industries have made important contribution in Japanese economy such as improving the standard of living, enhancing diffusion of technology, improving large scale business, modernization

of small medium enterprise through technological diffusion which laid the foundation for their advanced technology.

Although, to the outsiders, Japan may be considered as a country dominated by large scale business such as Toyota, Honda, Sony and Matsushita etc, in view of the fact that these giant business firms make remarkable impact in the entire Japanese economy and even outside Japan. However, it is equally important to note the fact that these present day giant companies were once small firms which grew over the years to become giant an indication that small medium enterprises constitute important and indispensable foundation for Japanese industrial success and socio-economic growth. For instance, the number of people employed in small medium enterprises increased from 78% in 1969 to 82% in 1981. From 1976–1985 small medium enterprises consistently accounted for more than shipment of goods in Japan. Also in the wake of ageing of the Japanese society, many middle aged and elderly people are being absorbed in small medium enterprises.

Small business firms form an integral part of the total business scene in the United States and in most countries of the Europe. Traditionally, American small scale business firms were constituted mainly by small scale farmers, however, the total number of small farmers has declined in the recent years, but number of small non-farm business firms such as manufacturing, mining, wholesaling, retailing, service and finance businesses has continued to grow each year (Steinhoff, 1982).

Small business in America means firms locally owned and managed. By customary, US government definition, a “small” business is one with fewer than 500 employees. By this definition, in 1992, 33% of all jobs in America were held by people working in small business organizations (Stoner, Freeman and Gilbert, 1996). In addition, majority of the well-known “giant” organizations in the contemporary American business environment commenced their operation as a small scale business. Wal-Mart, AT and T, General Motors for instance have humble beginning.

In recognition of the important role of small scale business in America, preservation and development of a healthy small business community as being the core areas of federal and state government policies, in America. Many legislative acts have been passed. In addition, management assistance, financial supports, government aids and other benefits have provided for strong, healthy and profitable development of small scale business in America.

Government Departments and Agencies contributed immensely towards formulation and implementation of supporting policy statements for the development of small-scale business in America. The America Department of Commerce has pioneered lot of legislations in support of small-scale business. The Small Business Administration was created by the American specifically to serve small-scale firms. Its support ranges from management and financial assistance to help in securing government contracts.

### **3.5.3 Entrepreneurship Development in Developing Countries of Africa**

In the period after independence, many developing countries of Africa attempted to achieve industrialization of Africa attempted to achieve industrialization through public investment in large-scale business. The budgets and development plans of these countries were tailored toward investment in elephant projects with little economic viability and market prospect. Majority of these large firms were unable to succeed without the heavy protection and subsidies. Economic recession and subsequent structural adjustment policies affected the performance of many of these large corporations. In addition, the budgetary constraints of these countries and

policy shift toward privatization have made the various governments of the country to look increasingly into the private sector to lead in future industrialization.

Specifically, the development of small-scale industries in Nigeria started in the middle of 1970s. Several attempts have been made to establish a viable and successful small-scale industrial climate. For instance, the establishment of Centre for Management Development in 1978. Promotion of the formation of Nigerian Association of Small Scale Industrialists. The various roles of government agencies such as Nigerian Bank for Commerce and Industries NBCI, National Directorate of Employment (NDE), Federal and States Ministry of Commerce, Federal Ministry of Employment, Labour and Productivity, National Youth Service Corps (NYSC), Higher Institution etc.

In addition to these agencies, monetary guidelines of successive annual budgets also guarantee sectoral allocation of loanable funds to the small-scale industrialists. In fact, banks like First Bank of Nigeria, United Bank for Africa, Nigerian International Bank etc. were once selected disbursing banks for small-scale industrialists. Meanwhile, absence of authentic and up-to-date information on the role of small and medium enterprises has affected the performance evaluation of this sector; however, available evidence indicates that the sector makes considerable contribution. A survey conducted by the Nigerian Social and Economic Research (NISER) suggested that small-scale industries accounted for 45% of industrial employment in the country.

### **3.6 Importance of Entrepreneurship Development**

Economists and managers recognize the contributions of small-scale industries to the development of the society in general and individuals in particular (Ekpe young 1987, Aluko et al 1972, Lawal 1992, Baumbach 1982, Stoner et al 1995, Steinhoff 1982). The arguments put forward to justify the expansion of small scale industries as a desirable strategy for industrial and technological development include:

- (i) Small-scale industries will assist in developing indigenous entrepreneurial and managerial skill.
- (ii) Small scale enterprises as a labour intensive industry are likely to be consistent with employment and income distribution objectives.
- (iii) Small-scale industries enhance the exploitation of untapped industrial opportunities. (iv) Flexibility of small-scale enterprises enhances their adaptation to change.
- (v) Small-scale firms create for widely dispersion of industries in the society and therefore enhance regional economic balance.
- (vi) Existence of small-scale industries preserves competition and prevents monopoly regional economic imbalance.
- (vii) High value added to domestic economics
- (viii) Production of intermediate goods required by large enterprises. (ix) Promotion of effective domestic production
- (x) Moderation of rural urban migration
- (xi) Promotion of indigenous technology.

### **3.7 Entrepreneurial Development in Nigeria**

While these statistics bid well for the country's economic prospects, they also serve to reaffirm the vital importance of entrepreneurial development in achieving that potential.

#### **3.7.1 Past Entrepreneurship Developments**

According to Osalor (2008), people of the Ibo community in Nigeria are considered one of the oldest entrepreneurs in history, their expertise stretching back to times before modern currency and trade models had developed elsewhere on the planet. In the more recent past, Nigerians adapted their natural talents to evolve traditional businesses and crafts that have sustained most of the country's rural and urban poor for the better part of the last half century. While the oil boom of the '70s brought in billions of petrodollars, most of the country's population remained untouched by the new-found prosperity, thank to widespread political corruption and catastrophic economic mismanagement. Because of these and other factors, the World Bank estimates that 80% of oil revenues benefited just 1% of the population.

Most of Nigeria's current woes trace back to a historic overdependence on oil to the negligence of all other sectors, including customary trades and agriculture. Decades of non-inclusive policies alienated the vast majority of Nigerians, plunging the country into a miasma of extreme poverty and ravaging civil and political strife. The climate of economic stagnation spawned a mammoth informal economy that continues to sustain the bulk of Nigeria's 148 million people. It is a measure of Nigeria's inherent entrepreneurial capacity that this informal, unorganised sector presently accounts for 65% of Gross National Product and accounts for 90% of all new jobs.

All these factors have tremendous relevance for Nigeria's future prospects, even more so considering the extent of official neglect and lack of assistance and infrastructure that the country's indigenous entrepreneurs have had to overcome. Harnessing the informal economy and leveraging its full potential is a prerequisite for Nigeria to emerge from the shackles of its Third World legacy.

### **3.7.2 The Future of Entrepreneurial Development in Nigeria**

It is not as if Nigeria's hopes of economic superiority rest on individual optimism and enterprise alone. Right after their reinstatement of democracy in 1999, the government of former president O O Banjoun veiled an ambitious plan to take the sub-Saharan nation to the top 20 world economies by 2020. Abuja is also a signatory to the UN Millennium Declaration of 2000 for the achievement of universal basic human rights relating to health, education, shelter and security – in a time bound manner by 2015. Both objectives present mammoth challenges for Nigeria in terms of reversing past trends and evolving innovative strategies for sustainable and inclusive growth.

The primary focus of Obasanjo's policies centered on accelerated development through entrepreneurial education (which he made mandatory for college students of all disciplines) and the creation of conditions favourable to a new business regime built on innovation and adaptability. The federal government has since initiated successive programmes aimed at promoting enterprises through widespread use of technology and socially relevant business models. The extent of success of these and other measures, however, is still a matter of debate.

According to the 2007 Gallup poll, 69% of respondents planning new businesses had no intention of registering their operations, indicating they would still prefer to be part of the informal economy. In light of Nigeria's long-term goals, this is certainly bad news.

### **3.7.3 Obstacles to Enterprise Development**

Osalor (2008) states that disinterest in the formal economy reflects the status of Nigeria's policies and tax regime, which have long been deemed detrimental to the growth of viable enterprises. Even more disturbing is the fact that this continues to be the case despite the energetic reforms process initiated after their return of democracy. It is more than evident that

piecemeal measures are unequal to meeting the challenges that Nigeria has set itself up to. The following are the most important obstacles facing rapid entrepreneurial development:

1. Absence of a pro-active regulatory environment that encourages innovative enterprise development at the grass roots level.
2. Significant infrastructural deficits (especially with regards to roads and electricity) and systemic irregularities inimical to small businesses.
3. The presence of administrative and trade barriers that curtail capacity building and inhibit access to technical support.
4. Absence of regulatory mechanisms for effective oversight of enterprise development initiatives, especially those in the MSME space.
5. Poor access to vocational and skills-development training for rural and urban youths involved in the informal economy.
6. Rampant political and bureaucratic corruption, together with the absence of social consensus on important macro-economic policy issues.

More than 73% of Nigerians featured in the Gallup survey conceded access to finance was the single most important hurdle in the way to setting up successful enterprises. More telling is the fact that about 60% of respondents claimed that current policies, despite the government's focus on enterprise development, do not make it easy to start a business in Nigeria.

### 3.7.4 Some Additional Factors to Consider

Forbes Magazine recently sat down with Lagos Business School's Peter Bamkole to discuss the current obstacles facing aspiring Nigerian entrepreneurs. The interview outlines three major problems:

Constrained access to local and international markets that stunt entrepreneurial expansion and proliferation.

Severe infrastructure deficits (mainly of power and electricity) that hamstring both new and existing businesses.

Inadequate access to finance and the absence of a credit policy that addresses the specific needs of enterprises.

The road to Nigeria's emergence as an economic superpower is muddy and treacherous. More than just optimism, it calls for clever economic maneuvering that will help turn the country's fortunes around for good.

To individuals, the advantages of entrepreneurship in small-scale businesses that result into self-employment include:

- (i) Personal satisfaction. The individual entrepreneur will do what he wants with his life.
- (ii) Entrepreneurship in small-scale businesses guarantees freedom for individuals.
- (iii) It also guarantees exclusive control of income.
- (iv) Small-scale business may offer job security for the owners.
- (v) Social status of entrepreneurs may be improved by means of entrepreneurship in small-scale business.

Meanwhile, some of the alleged disadvantages of entrepreneurship in small-scale industries include:

- (i) The possible loss of investment capital if the business fails.      (ii) Uncertainty of income
- (iii) The possibility of operating in stressful conditions due to excessive long hours of work by the entrepreneur.
- (iv) Majority of small-scale industries have the tendency to fail easily.

#### **4.0 CONCLUSION**

In conclusion, it is worth noting that the history of the industrialized world pays tribute to the contribution made by the small scale entrepreneurs. The entrepreneurship development in America, Japan, India and Taiwan to mention just a few has recorded considerable success. In fact, the successes recorded made some international agencies like World Bank, IMF and soon to adopt EDP models of some of these countries, for developing countries.

Attempts to create entrepreneurship culture in Nigeria by means of EDP have not achieved the desired goals. Despite the funding, the programmes have not been able to tap, and train successful entrepreneurs. Meanwhile, a critical look at entrepreneurship development in most of the industrialized nations will reveal the sequence of EDP in these countries. Majority of the industrialized nations once focused their effort on promotion and development of giant industries, which resulted into structural imbalance, and through appropriate policy framework, the development of small-scale enterprises that formed the basis of the industrial and technological growth was put in place.

The implication from the foregoing analysis is that through well-coordinated and administered entrepreneurship development programme and appropriate institutional framework, Nigeria can develop entrepreneurship culture that will form the basis of the country's technological and industrial growth.

#### **5.0 SUMMARY**

In this unit, we have,

- Discussed Entrepreneurial Development: Concept and Context;
- Discussed Evolution, Frontiers, divergence & Stagnation;
- Explained Alternative Approaches to Entrepreneurial Development;
- Described entrepreneurship as an integrative behavioural framework;
- Listed and discussed the entrepreneurship development stages;
- stated the Importance of entrepreneurship development;
- discuss entrepreneurial development in Nigeria.

In the next unit, we shall discuss the qualities/characteristics, types and functions of entrepreneurship.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. Discuss briefly the various stages of entrepreneurial development.
2. List and discuss some of the importance of entrepreneurial development.
3. Does entrepreneurial development have any shortcomings? List some of them.
4. List four key elements identified in the integrative behavioural framework of

entrepreneurship.

5. What are the challenges of entrepreneurship development in Nigeria? How do you see the prospects of ED in Nigeria?

## **7.0 REFERENCES/FURTHER READINGS**

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## Module 3

- Unit 11: Characteristics, types and functions of entrepreneurs
- Unit 12: Relationship between finance and the overall operations of an organization
- Unit 13: Sources of finance: Short-term sources
- Unit 14: Sources of finance: Long-term sources
- Unit 15: Entrepreneurial Theories

### UNIT 11 CHARACTERISTICS, TYPES AND FUNCTIONS OF ENTREPRENEURS

#### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Characteristics of Entrepreneurs
  - 3.2 Types of Entrepreneurs
  - 3.3 Functions of Entrepreneurs
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

#### 1.0 INTRODUCTION

In this unit, we discussed the concept and context of entrepreneurial development; discussed evolution, frontiers, divergence & stagnation; explained the alternative approaches to entrepreneurial development; described entrepreneurship as an integrative behavioural framework; listed and discussed the entrepreneurship development stages; and stated the importance of entrepreneurship development.

In this unit, we shall discuss the qualities/characteristics, types and functions of entrepreneurship.

#### 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- List and discuss the characteristics of entrepreneurs;
- Classify the entrepreneurs by types;
- Enumerate and explain the functions of entrepreneurs.

#### 3.0 MAIN CONTENT

##### 3.1 Entrepreneur's Characteristics

The most significant influence on an individual's decision to become an entrepreneur is workplace peers and the social composition of the workplace. The ability of entrepreneurs to innovate relates to innate traits such as extroversion and a proclivity for risk-taking. According to Schumpeter (1934), the capabilities of innovating, introducing new technologies, increasing efficiency and productivity, or generating new products or services, are characteristics of entrepreneurs.



Entrepreneurs are catalysts for economic change. Research has found entrepreneurs to be highly creative with a tendency to imagine new solutions by finding opportunities for profit or reward (Olakitan, 2011).

There is a complexity and lack of cohesion between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. Most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent. Although certain entrepreneurial traits are required, entrepreneurial behaviours are dynamic and influenced by environmental factors. Shane and Venkataraman (2000) argue the entrepreneur is solely concerned with opportunity recognition and exploitation; although, the opportunity that is recognized depends on the type of entrepreneur which Ucbasaran et al. (2001) argue there are many different types dependent on their business and personal circumstances. However, it should also be noted that there are approaches that appear highly critical against valorized conceptions of entrepreneurs. For example, there are reviews that attribute pertinent conceptions to scholarly prejudices, such as unrealistically voluntaristic preconceptions on how a "normal" economic agent ought to behave (Ramoglou, 2011; Gartner, 2001).

Psychological studies show that the psychological propensities for male and female entrepreneurs are more similar than different. Perceived gender differences may be due more to gender stereotyping. There is a growing body of work that shows that entrepreneurial behavior is dependent on social and economic factors. For example, countries which have healthy and diversified labour markets or stronger safety nets show a more favourable ratio of opportunity-driven rather than necessity-driven women entrepreneurs. Empirical studies suggest that women entrepreneurs possess strong negotiating skills and consensus-forming abilities.

Starting from the time of report of the fascinating study of entrepreneurs by McClelland (1961) in which he came out with a list of nine characteristics of the entrepreneur; several other writers have equally illuminated the list of entrepreneur characteristics. McClelland (1961) listed the following characteristics of entrepreneur; need for achievement, desire for responsibility, preference for moderate risks, perception of probability of success, stimulation by feedback, energetic activity, future orientation, skill in organizing and attitude toward money. Kets De Vries (1985) listed need for control, sense of distrust, desire for applause and balancing internal and external lives. Stevenson and Gumpert (1985) presented imagination, flexibility and willingness to accept risks as characteristics of entrepreneur. Gartner (1989) in a review of literature reported several lists of characteristics of entrepreneurs. Kao (1991) identified the following characteristics of entrepreneur.

- Total commitment, determination and perseverance
- Calculated risk taking and risk seeking
- Seeking and using feedback
- Taking initiative and personal responsibility
- Opportunity and goal oriented,
- Drive to achieve and growth
- Persistent problem solving
- Realism and sense of humour,
- Internal locus of control
- Low need for status and power and integrity and reliability

Earlier on, Hornaday (1982) produced a list of forty-two (42) characteristics which were often

attributed to entrepreneurs; they are contained in table 2 below

Table 2: Characteristics often attributed to entrepreneurs

1.	Confidence	22.	Responsibility
2.	Perseverance	23.	Foresight
3.	Energy, diligence	24.	Accuracy, thoroughly
4.	Resourcefulness	25.	Cooperativeness
5.	Ability to take calculated risk	26.	Profit orientation
6.	Dynamism, leadership	27.	Ability to learn from mistakes
7.	Need to achieve	28.	Sense of power
8.	Optimism	29.	Pleasant personality
9.	Versatility, knowledge of product market, machinery, technology	30.	Egotism
10.	Creativity	31.	Courage
11.	Ability to influence others	32.	Imagination
12.	Ability to get along well with people	33.	Perceptiveness
13.	Initiative	34.	Tolerance for ambiguity
14.	Flexibility	35.	Aggressiveness
15.	Intelligence	36.	Capacity for enjoyment
16.	Orientation to clear goal	37.	Efficacy-effectiveness
17.	Positive response to challenge	38.	Ability to trust workers
18.	Independence	39.	Sensitivity to others
19.	Responsiveness to suggestions and criticism	40.	Honesty, integrity
20.	Time competence, efficiency	41.	Commitment
21.	Ability to make decisions quickly	42.	Maturity, balance

Source: Adapted from Kuratko D. F and Hodgets R. M. (2001).

Min (1999) produced a list of ten top characteristics of entrepreneurs.

The top ten characteristics of today's entrepreneurs

1. Recognize and take advantage of opportunity
2. Resourceful
3. Creative
4. Visionary
5. Independent thinker
6. Hardworker
7. Optimistic
8. Innovator
9. Risktaker
10. Leader

Source: Min, S. J. (1999) *Mad Men*, Entrepreneur of the Year magazine.

The characteristics of entrepreneurs seen from the work of writers cited above were examined from two dimensions. These are from the negative side as shown in the work of Kets de Vries (1985) and from the positive perspective as reflected in the work of the other writers. Several skills have been described as characteristic of entrepreneurs. These include: organizing, planning, innovation, inner control, goal setting, risk taking, decision making, communication, delegation, interpersonal relations, reality perception, self-confidence and independence. The self-confidence and independence result in additional characteristics, which is lack of fear of failure to a very high extent. It should be noted that the list of entrepreneur characteristics given above are by no means exhaustive, but they provide significant information on one of the dimensions of entrepreneur. We shall now examine some of the cited characteristics of entrepreneurs from both the bright or positive and the dark or negative sides.

### 3.1.1 Bright Characteristics of Entrepreneur

It includes the following:

The need for achievement, Desire for responsibility, Preference for moderate risks, Perception of Probability of success, Stimulation by feedback, energetic activity, future orientation, skill in organizing, attitude toward money, commitment, determination and perseverance.

### 3.1.2 The Dark Characteristics

The dark side of entrepreneur exists which are outside the above discussed ones, focusing on successes and achievements. Kets de Vries (1985) discussed the existence of negative factors that may affect entrepreneur and dominate their behaviour. This dimension of entrepreneur has destructive source existing in the energetic force of successful entrepreneur. In general, Kets de Vries (1985) classified the dark side into four types, need for control, sense of distrust, desire for applause and balancing the internal and external lives of the entrepreneur. Kuratko and Hodgets (2001) reclassified them into three broad categories; entrepreneur's confrontation with risk, entrepreneur's stress, and the entrepreneur's ego. Let us examine them one after the other:

### 3.1.3 Entrepreneur's Confrontation with Risk

The entrepreneur's actions of starting or buying a new business involve risk. Increase in risks has corresponding increase in rewards. Consequently entrepreneurs tend to evaluate risk thoroughly and carefully. O'Neal (1993) notes that people who innovate and start new businesses are willing to accept risk for what they believe in. He notes that they have the ability to cope with a career surrounded in ambiguity, consistent lack of clarity. They have the urge to put their imprint on their innovation.

Although unbridled ego can be destructive, entrepreneur's ego is wrapped up in the enterprise. All of these tend to compound the risk faced by the entrepreneur. Baty (1974) identified three types of risks facing the entrepreneur; these are financial risk, career risks and personal. Liles (1974) also listed four types of risk faced by entrepreneur these are financial risk, career risk, family/social risk and psychic risk.

### 3.1.4 Entrepreneur and Stress

The achievement of entrepreneurs' goals for independence, wealth, work satisfaction, responsibility etc are not without a price, (Akande, 1996). They result in some problems for the entrepreneur. Akande (1996) notes that majority of entrepreneurs studied had problems of backaches, indigestion, insomnia or headaches. To achieve their goals entrepreneurs were prepared to live with these effects of stress. Stressing general is great worry caused by difficult situation or something that causes this situation (Ogundele, 2005).

Entrepreneur's Stress: Stress is a function of differences between an individual's expectations and capacity to meet demands and also differences between the individual's expectations and personality. The inability to meet demands causes the onset of stress. Entrepreneurs' work demands and expectations far exceed their abilities to perform as organization creators; therefore, they are prone to experience stress.

The entrepreneur's roles or functions noted earlier on and the operating environment can lead to stress. The creation of a new organization by entrepreneur involves several risks namely; financial, career, family, social and psychic. Added to these are communicating and interacting with several external constituencies, ranging from customers, suppliers, government agencies, regulators, professional associations, consultant etc. These are also his/her relations with members of internal team. All these are stressful.

### 3.1.5 The Entrepreneur Ego

The last of the dark side of the entrepreneur is the inflated ego, coming after the risks and the stress, and they combine to make a complete picture of the negative side of entrepreneur. Kets de Vries (1985) notes that some characteristics of entrepreneurs that lead to success can be carried to the extreme and thus result in destructive implications for the entrepreneurs. They are: Need for control, sense of distrust, desire for success and unrealistic optimism.

### 3.1.6 Start Small Finish Big

Deluca & Hayes (2000), outlined Fifteen Key Lessons Based on their personal experience as a micro entrepreneur, and the experiences of twenty one other micro entrepreneurs, they will share with you the Fifteen Key Lessons that will help you start small and finish big. These lessons are:

1. Start Small. It's better than never starting at all.
2. Earn a Few Pennies. It's good practice before you earn those dollars.
3. Begin with an Idea. There's probably a good one right under your nose
4. Think Like a Visionary. Always look for the Big Picture.

5. Keep the Faith. Believe in yourself and your business even when others don't.
6. Ready, Fire, Aim! If you think too much about it, you may never start.
7. Profit or Perish. Increase sales, decrease costs. Anything less and your business will perish.
8. Be Positive. The School of Hard Knocks will beat you less and your business will perish.
9. Continuously Improve Your Business. It's the best way to attract customers, and generate sales and profit.
10. Believe In Your People. Or they may get even with you.
11. Never Run Out of Money. It's the most important lesson in business.
12. Attract New Customers Every Day. Awareness, Trial, and Usage work every time.
13. Be Persistent: Don't Give Up. You only fail if you quit.
14. Build a Brand Name! Earn your reputation.
15. Opportunity Waits for No One. Good or bad, breaks are what you make them.

Why are these lessons valuable? Because if you follow them, you are more likely to be successful in the development of your business. These are the lessons we learned while building Subway, and they are the same lessons that many other microentrepreneurs have learned and applied, too. If you plan to grow your business beyond a one or two person enterprise, there will be other lessons to learn, of course. But these Fifteen Key Lessons will help you get started and keep you focused.

### 3.1.7 Entrepreneur Behaviour

Behaviour ordinarily consists of activities, interactions, sentiments and performance of individuals and groups (Bello, 1988). Entrepreneur behaviour therefore refers to the activities, action, interactions, sentiment and the performance of entrepreneurs, based on a set of characteristic, attitudes, motivation and the functions performed in relation to relevant environmental issues of constraining and facilitating dimensions. Singh (1986) notes that Entrepreneurial Behaviour (EB) is a function of an individual's personality characteristic and environment factors. This was represented as  $EB = F(P, E)$  where:

P = Personality Characteristics  
 E = Environmental Factors.

He states that the environmental factors could be either nurturing or impediments. These factors include; social/psychological factors including family, peer group, formal and informal associations, financial, material availability, technology availability/applicability political legislation etc. The Personality characteristics refer to the dimension of entrepreneur that is analyzed in the proceeding segments. Ducker (1977) examine innovative attitude, in people and performance, he asserted that innovation is attitude and practice, the practice here refer to behaviour.

Stevenson and Gumpert (1985) Stevenson and Sahlman (1987), and Stevenson and Groubeck (1994) look at entrepreneur behavior as a continuum with two extremes. At one extreme is the Promoter type manager who feels confident of his/her ability to seize opportunity regardless of their resources under current control. At the opposite extreme is the trustee type manager who fosters efficient management by emphasizing the efficient utilization of existing resources. The "promoter" is regarded as typical (entrepreneur) who is driven by perception of opportunity, in contrast with the "trustee" regarded as administrator who (administrate) and is driven by resources currently controlled.

An entrepreneur is an owner or manager of a business enterprise whom makes money through risk and initiative. The term was originally a loan word from French and was first defined by the Irish-

French economist Richard Cantillon. Entrepreneur in English is a term applied to a person who is willing to help launch a new venture or enterprise and accept full responsibility for the outcome. Jean-Baptiste Say, a French economist, is believed to have coined the word "entrepreneur" in the 19th century, when he defined an entrepreneur as "one who undertakes an enterprise, especially a contractor, acting as an intermediary between capital and labour".

### 3.1.8 Profession

Entrepreneurs become what they are for several reasons. Many, depending on the person, choose to do so to avoid workplace drama, discrimination, being taken advantage of, or just to be their own boss. No formal education is required to become an entrepreneur, as they rely on their own knowledge and talent to achieve success. Entrepreneurs have a lower risk of being set up to fail or controlled due to the fact that they are often their own boss. Knowledge of one's field, determination, talent, the ability to recover from bad situations, trusted peers and collaborators, supply and demand, and luck are all important factors in becoming a successful entrepreneur.

### 3.1.9 Leadership attributes

The entrepreneur leads the firm or organization and also demonstrates leadership qualities by selecting managerial staff. Management skill and strong team building abilities are essential leadership attributes for successful entrepreneurs. Scholar Robert B. Reich considers leadership, management ability, and team-building as essential qualities of an entrepreneur. This concept has its origins in the work of Richard Cantillon in his *Essai sur la Nature du Commerce en* (1755) and Jean-Baptiste Say in his *Treatise on Political Economy*.

Entrepreneurs emerge from the population on demand, and become leaders because they perceive opportunities available and are well-positioned to take advantage of them. An entrepreneur may perceive that they are among the few to recognize or be able to solve a problem. Joseph Schumpeter saw the entrepreneur as innovators and popularized the use of the phrase creative destruction to describe his view of the role of entrepreneurs in changing business norms. Creative destruction encompasses changes in entrepreneurial activity that make every time a new process, product or company enter the markets.

### 3.1.10 Theory-based Typologies

Recent advances in entrepreneurship research indicate that the differences in entrepreneurs and heterogeneity in their behaviours and actions can be traced back to their founder's identity. For instance, Fauchart and Gruber (2011, *Academy of Management Journal*) have recently shown that based on social identity theory, three main types of entrepreneurs can be distinguished: Darwinians, Communitarians and Missionaries. These types of founders not only diverge in fundamental ways in terms of their self-views and their social motivations in entrepreneurship, but also engage fairly differently in new firm creation.

## 3.2 Types of entrepreneurs

The literature has distinguished among a number of different types of entrepreneurs, for instance:

### 3.2.1 Social entrepreneur

A social entrepreneur is motivated by a desire to help, improve and transform social, environmental, educational and economic conditions. Key traits and characteristics of highly effective social entrepreneurs include ambition and a lack of acceptance of the status quo.

accepting the world "as it is". The social entrepreneur is driven by an emotional desire to address some of the big social and economic conditions in the world, for example, poverty and educational deprivation, rather than by the desire for profit. Social entrepreneurs seek to develop innovative solutions to global problems that can be copied by others to enact change.

Social entrepreneurs act within a market aiming to create social value through the improvement of goods and services offered to the community. Their main aim is to help offer a better service improving the community as a whole and are predominately run as non-profit schemes. Zahra et al. (2009:519) said that "social entrepreneurs make significant and diverse contributions to their communities and societies, adopting business models to offer creative solutions to complex and persistent social problems".

### 3.2.2 Serial entrepreneur

A serial entrepreneur is one who continuously comes up with new ideas and starts new businesses. In the media, the serial entrepreneur is represented as possessing a higher propensity for risk, innovation and achievement. Serial entrepreneurs are more likely to experience repeated entrepreneurial success. They are more likely to take risks and recover from business failure.

### 3.2.3 Lifestyle entrepreneur

A lifestyle entrepreneur places passion before profit when launching a business in order to combine personal interests and talent with the ability to earn a living. Many entrepreneurs may be primarily motivated by the intention to make their business profitable in order to sell to shareholders. In contrast, a lifestyle entrepreneur intentionally chooses a business model intended to develop and grow their business in order to make a long-term, sustainable and viable living working in a field where they have a particular interest, passion, talent, knowledge or high degree of expertise Wadhwa, (2010). A lifestyle entrepreneur may decide to become self-employed in order to achieve greater personal freedom, more family time and more time working on projects or business goals that inspire them. A lifestyle entrepreneur may combine a hobby with a profession or they may specifically decide not to expand their business in order to remain in control of their venture. Common goals held by the lifestyle entrepreneur include earning a living doing something that they love, earning a living in a way that facilitates self-employment, achieving a good work/life balance and owning a business without shareholders. Many lifestyle entrepreneurs are very dedicated to their business and may work within the creative industries or tourism industry Peters, Frehse and Buhalis (2009), where a passion before profit approach to entrepreneurship often prevails. While many entrepreneurs may launch their business with a clear exit strategy, a lifestyle entrepreneur may deliberately and consciously choose to keep their venture fully within their own control. Lifestyle entrepreneurship is becoming increasingly popular as technology provides small business owners with the digital platforms needed to reach a large global market. Younger lifestyle entrepreneurs, typically those between 25 and 40 years old, are sometimes referred to as Treps Goodman, (2011).

## 3.3 Functions of Entrepreneur

Many writers on entrepreneurs have used the functions performed by the entrepreneur, to explain who the entrepreneur is. Jhingan (2003) notes that the functions of an entrepreneur have undergone many changes at the hands of economists. Some economists contend that the function of the entrepreneur is to undertake risks and uncertainty, to other the coordination of productive resources, to Schumpeter, introduction of innovation, further, others focus on provision of capital. Kilby (1971) listed 13 functions that performed by Nigerian entrepreneurs. They are contained in these segments on management theory of entrepreneur.

Fadahunsi(1992)summarizedtheminto10functions.Theseare:

1. Searchingfor anddiscoveringnewinformation
2. Translatingnewinformationintonewmarket,techniquesandgoods.
3. Seekinganddiscoveringeconomicopportunities.
4. Evaluatingeconomicopportunities
5. Marshallingfinancialresourcenecessaryforthe enterprise
6. Makingtime-bindingarrangement,timemanagement
7. Takingultimateresponsibilityformanagement
8. Providingforbeingresponsibleformotivationalsystemwithinthefirm
9. Providingleadershipfortheworkgroup
- 10 Takingtheultimateriskofuncertainty.

Others have classified the function into economic, social and technological spheres (Owualah,1999andOgundele,2004).

### 3.3.1 SocialFunctions of Entrepreneur

1. Transformingtraditionalindigenousindustryintoamodernenterprise.
2. Stimulating indigenousetrepreneurship, the entrepreneur has in his employment potentialrivals.
3. Jobsoremploymentcreationinthecommunity
4. Provisionofsocialwelfareserviceofredistributingwealthandincome
5. Providingleadershipfortheworkgroup
6. Providingfor andresponsibleforthemotivationalsystemwithinthefirm

### 3.3.2 EconomicFunctions of Entrepreneur

1. Marshallingthe financialresourcenecessaryfortheenterpriseormobilizingsaving
2. Bearingtheultimateriskofuncertainty.
3. Providingavenueforthe dispersalanddiversificationofeconomicactivities.
4. Utilizationoflocalrawmaterialandhumanresources

## 4.0 CONCLUSION

Wehaveobservedfromourstudyoftheunitthatthereisacomplexity andlackofcohesion betweenresearchstudies thatexplorethecharacteristicsandpersonalitytraitsof, andinfluences on,theentrepreneur. Wenotethatmoststudies,however,agreethattherearecertain entrepreneurial traitsandenvironmental influences thattendtobeconsistent. Wealso notethat althoughcertainentrepreneurial traitsarerequired,entrepreneurial behavioursaredynamicand influencedbyenvironmentalfactors.

Welistedanddiscussedthecharacteristicsofanentrepreneur,classifiedentrepreneursby types andenumeratedthefunctionsofentrepreneurs.

## 5.0 SUMMARY

Inthisunit,wehave, listedanddiscussedthecharacteristicsofentrepreneurs;  
Classifiedtheentrepreneursbytypes;  
Enumeratedandexplainedthefunctionsofentrepreneurs.

In the next unit, you will be introducedto yet anotherinterestingtopic titled ‘historyof



entrepreneurship in Nigeria’.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. List the characteristics of entrepreneurs that you know of.
2. Enumerate the types of entrepreneurs and discuss each of them.
3. What are the functions of entrepreneurs? List and discuss each of them.

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## **UNIT 12 RELATIONSHIP BETWEEN FINANCE AND OVERALL OPERATIONS OF AN ORGANIZATION**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Aims of Finance Functions
  - 3.2 Finance and Overall Operations of an Organization
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

From the last Unit, it would be clear that the financial managers are central to the management of a company's funds. They are responsible for a company's investment decisions, advising on the allocation of funds in terms of the total amount of assets, the composition of fixed and current assets, and the consequent risk profile of the choices.

They are also responsible for the raising of funds, choosing from a wide variety of institutions and markets, with each source of finance having different criteria as regards cost, availability, maturity and risk. The place where supply meets demand is called the financial market, which is made up of the short-term money markets and the long-term capital markets. A major source of finance available to a company is internal rather than external, that is, to retain part of the earnings generated by its business activities. The managers of the company, however, will have to strike a balance between the amount of earnings they retain and the amount paid out to shareholders as a dividend.

In this Unit, we shall look at the relationship between finance and overall operations of an organization.

### **2.0 OBJECTIVES**

After a careful study of this Unit, you will be able to:

- Discuss the aims of finance functions;
- Discuss the relationship between finance and overall operations of an organization.
- 

### **3.0 MAIN CONTENT**

#### **3.1 AIMS OF FINANCE FUNCTIONS**

The functions of finance include sourcing and application of funds, and demands that money is used in the firm wisely, that is, when and where it is desired. Money sourced, for example, to improve on the production base of a firm should be appropriated wisely. It will be most inappropriate to use such funds to acquire assets unrelated to the course of production.

The following are the aims of finance function:

### **1. Acquiring Sufficient and Suitable Funds**

The primary aim of finance function is to assess the needs of the enterprise, properly, and procure funds, in time. Time is also an important element in meeting the needs of the organization. If the funds are not available as and when required, the firm may become sick or, at least, the profitability of the firm would be, definitely, affected. It is necessary that the funds should be, reasonably, adequate to the demands of the firm. The funds should be raised from different sources, commensurate to the nature of business and risk profile of the organization. When the nature of business is such that the production does not commence, immediately, and requires long gestation period, it is necessary to have the long-term sources like share capital, debentures and long term loan etc. A concern with longer gestation period does not have profits for some years. So, the firm should rely more on the permanent capital like share capital to avoid interest burden on the borrowing component.

### **2. Proper Utilization of Funds**

Raising funds is important, more than that is its proper utilization. If proper utilization of funds were not made, there would be no revenue generation. Benefits should always exceed cost of funds so that the organization can be profitable. Beneficial projects only are to be undertaken. So, it is all the more necessary that careful planning and cost-benefit analysis should be made before the actual commencement of projects.

### **3. Increasing Profitability**

Profitability is necessary for every organization. The planning and control functions of finance aim at increasing profitability of the firm. To achieve profitability, the cost of funds should be low. Idle funds do not yield any return, but incur cost. So, the organization should avoid idle funds. Finance function also requires matching of cost and returns of funds. If funds are used efficiently, profitability gets a boost.

### **4. Maximizing Firm's Value**

The ultimate aim of finance function is maximizing the value of the firm, which is reflected in wealth maximization of shareholders. The market value of the equity shares is an indicator of the wealth maximization.

## **SELF-ASSESSMENT EXERCISE**

1. What are the aims of the finance functions?

## **3.2 FINANCE AND OVERALL OPERATIONS OF AN ORGANIZATION**

Here, we shall explain how the financial function fits in or interacts with the other areas of the firm. Note that the financial manager is typically responsible for:

- Managing cash and credit;

- Issuing and repurchasing securities such as stocks and bonds;
- Deciding how and when to spend capital for new and existing projects;
- Hedging (reducing the firm's potential risk) against changes in foreign exchange and interest rates;
- Purchasing of insurance;
- Oversees the accounting function.

Finance affects the firm in many ways and throughout all levels of a company's organizational chart. Finance permeates the entire business organization, providing guidance for both strategic and day-to-day decisions of the firm and collecting information for control and feedback about the firm's financial decisions.

Operational managers use finance daily to determine how much overtime labour to use, or to perform cost/benefit analysis when they consider new production lines or methods.

Marketing managers use finance to assess the cost effectiveness of doing follow-up marketing surveys.

Human resource managers use finance to evaluate the company's cost for various employee benefit packages.

#### **4.0 CONCLUSION**

No matter where you work in business, finance can help you do your job better.

#### **5.0 SUMMARY**

In this Unit, we have been able to:

- Discuss the aims of finance to include acquiring sufficient and suitable funds, proper utilization of funds, increasing profitability, and maximizing the firm's value;
- Discuss the relationship between finance and overall operations of an organization – operations, marketing, and human resource management.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

Discuss the relationship between finance and overall operations of an organization.

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## **UNIT 13 SOURCES OF FINANCE: SHORT-TERM SOURCES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Short-Term Sources of Finance
  - 3.2 Evaluation of Costs of Funds
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

Sources of funds available to financial managers can be divided into two broad areas: short-term funds and long-term funds. Short-term funds are used to finance supplies, payrolls, and are obtained for one year or less. Long-term funds are used to purchase buildings, land, long-lived machinery, and equipment. Good financial management requires that a funding source be matched to the intended use of the funds. In this Unit, we shall concentrate on the short-term sources.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- Classify the sources of funds for a firm;
- List and discuss the short-term sources of funds.

### **3.0 MAIN CONTENT**

#### **3.1 SHORT-TERM SOURCES OF FINANCE**

Short-term sources of funds represent current liabilities (funds owed). They represent short-term obligations. Since they are supposed to be settled by cash, they represent cash payments which must be settled as at when due. Examples of current liabilities and their sources are explained as follows.

- **Bank Overdraft**  
The source of overdraft is commercial banks, and they grant this to creditworthy firms. Funds could be advanced to such firms within a period ranging between one day and one year. These loans are supposed to be repaid on self-liquidating basis (paying from proceeds which accrue from normal course of business operations).
- **Account Payable**

This can be referred to as trade credit. A firm can buy something on credit. Supplies could be made on credit, and they give rise to trade credits. The repayment period and terms of payment depend on the commercial and credit policies of the suppliers.

- **Bill Finance**

In simple terms, a bill is a promissory note. But there are different types of bills and complexity exists in their meanings. In our case, a bill is a trade bill of exchange which could be domestic or foreign. If a bill of exchange (inland) is accepted from discounting operations, it could represent an important source of fund.

- **Deferred Tax Payment**

Tax payment could be looked at from two perspectives:

1. Self-imposed (a firm will not pay when it is supposed to pay and that becomes a source);
2. Late assessment.

- **Factoring**

Debt could be factored. This is another source of short-term funds. Factoring involves handing over of account receivable or any other debt to factors for collection with or without recourse.

- **Hire Purchase Finance Arrangement**

Firms that engage in selling on installment basis can make arrangement with hire purchase firms to make credit facilities available to customers. Alternatively, a firm may make hire purchase agreement with its customers. This may be known as block discounting. Thirdly, a hire purchase firm can buy the product directly from the manufacturer, and thereafter make direct arrangement with customers.

- **Stock Finance**

Stocks could be used to raise short-term funds in a number of ways. They could be used as collaterals for secured loans from commercial or merchant banks. Raw materials could be financed en route by means of trade bills and/or warehouse receipt. This represents another type of secured loans on the value of stock of raw materials. The bill could become negotiable if endorsed by a reputable commercial house or bank, and could thereafter be sold outright or used as collateral for a loan.

### **SELF-ASSESSMENT EXERCISE 1**

1. List and explain six short-term sources of funds for a firm.

### **3.2 EVALUATION OF COSTS OF FUNDS**

- **Costs of Trade Credit**

This is the cost of cash discount for not paying promptly as required by the supplier.

**Example:**

An invoice of N1,000 attracts 2% for paying in these 10 days and 30 days credit period. What is the cost of not facing the cash discount?

**Solution:**

Workings:

Cost of Goods = N1,000

Cash Discount = 2% x N1,000

= N20

Period of credit = 30 days

Discount period = 10 days

Therefore

Cost =  $\frac{D}{\text{Amount} - d} \times \frac{365}{\text{CN} - \text{CD}}$

DD = Cash discount in amount

CN = Normal credit period

CD = Period for cash discount

Cost =  $\frac{20}{1,000 - 20} \times \frac{365}{30 - 10}$

=  $\frac{20}{980} \times \frac{365}{20} = 0.37$

The annual interest cost = 37%

• **Cost of Bank Overdraft**

The rate of interest charged on the amount borrowed from day-to-day to be above the bank rate, depending on:

(i) The credit worthiness of the borrower.

(ii) The nature and discount of security offered.

(iii) The bank assessment of the adequacy of the management of the company.

Assuming the interest on bank overdraft is an allowance charge against corporation tax, the normal rate will be reducing by the rate of company tax.

**Example:**

The nominal interest rate charged on bank overdraft is 9%. Given a company tax rate of 40%, calculate the effective cost of the overdraft.



**Solution:**

Nominal rate = 9%

Company Tax rate = 40%

Effective interest rate on the overdraft is:

Nominal Rate (1 – tax rate)

= 9% (1-40)

= 0.09 (60)

= 5.4%

**4.0 CONCLUSION**

A firm can source for funds, internally or externally, to finance its activities. These sources could be short-term or long-term, and the funds so acquired are used in turn to acquire assets. Short-term sources of funds represent current liabilities (funds owed). Thus, they represent short-term obligations.

**5.0 SUMMARY**

In this Unit, we have been able to:

- Classify the sources of funds into short-term and long-term, and dealt with the short-term sources extensively;
- Evaluate the various costs of funds.

**6.0 TUTOR-MARKED ASSIGNMENT**

1. Why do businesses need funds?

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## **UNIT 14 - SOURCES OF FINANCE: LONG –TERM SOURCES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Long- Term Sources
  - 3.2 Methods of Issuing the Instruments of Debt
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

In the previous Unit, we considered that sources of funds available to financial managers can be divided into two broad areas: short-term funds and long-term funds. Short-term funds are used to finance supplies, payrolls, and are obtained for one year or less. Long-term funds are used to purchase buildings, land, long-lived machinery, and equipment. We have treated the short-term sources, and in this Unit, we shall concentrate on the long-term sources as well as the methods of issuing the instruments of debt.

### **2.0 OBJECTIVES**

After a careful study of this Unit, you should be able to:

- List and discuss the short-term sources of funds;
- Discuss the methods of issuing the instruments of debt.

### **3.0 MAIN CONTENT**

#### **3.1 LONG-TERM SOURCES**

Two major external sources of long-term funds are:

- Financial institutions (including lease finance companies), and
- Capital market.

Capital market is classified into:

- Organized;
- Unorganized.

The organized capital market will be our focus because it is the capital market that will assess the performance of the firm.

Firms raise money from the capital market by:

- Issuing common stock (C/S);
- Issuing instruments of debt (long-term liabilities).

Note that a firm cannot issue debt instruments if it has no common stock.

### **3.1.1 Common Stock**

Equity shares, common stock and ordinary shares, all mean the same thing, but a stock is a group of shares, that is, a stock is made up of shares.

Ordinary shares could be issued by firms which have been quoted on the stock exchange. Ordinary shares constitute the equity base of a firm, and represent ownership of the firm on pro-rata basis. This implies that an individual investment is a small proportion of total investment.

Thus, each equity shareholder is entitled to a proportionate part of the firm's residual profit and asset. The capital contributed by the shareholders is, therefore, known as risk capital. But they have some compensation like voting rights.

### **3.1.2 Preference Shares**

The next class of shares which ranks above equity shares are the preference shares. They are also known as preference stocks. Preference shares occupy an intermediate position between common stock and debenture stocks.

Preference shareholders are entitled to fixed dividend payment as different from equity shareholders which are entitled to variable dividend payments. They are imperfect creditors because tax is paid before fixed dividend is paid to them; they are not creditors and they are not the owners of the firm. They do not normally have voting rights unless otherwise stipulated in the terms of the issue.

There are various types of preference shares:

- (1) Cumulative preference shares
- (2) Participating Non-Cumulative shares
- (3) Participating Cumulative shares
- (4) Redeemable and irredeemable Preference shares
- (5) Convertible Preference shares

#### **1. Cumulative Preference Shares**

Preference shares could be cumulative or non-cumulative. Cumulative preference shares allow for dividend payment to be deferred if a firm does not make adequate profit to pay such dividend. Therefore, such firms are normally required to pay such dividends in arrears before dividend could be paid to common shareholders. Non-cumulative preference shares do not allow for any form of deferment of dividend payment.

We can say that all preference shares are deemed to be cumulative unless otherwise stated in the terms of the issue.

## **2. Participating Non-Cumulative Preference Shares**

This class of shareholders is entitled to a non-cumulative dividend at a fixed rate but without a right to participate in the residual profit of a firm after the equity shareholders has been paid.

## **3. Participating Cumulative Preference Shares**

This class of shareholders is entitled to participate in the residual profit of a firm in addition to the cumulative fixed dividend rate (i.e. they combine the features of cumulative and participating).

## **4. Redeemable and Non-Redeemable/Irredeemable Preference Shares**

Preference shares could be redeemable or irredeemable. Redeemable preference shares are normally redeemed after a fixed period of time. We can say that this class of preference shares has a definite maturity period while irredeemable preference shares do not have definite maturity period (but it could be sold at the security market – an artificial maturity period).

## **5. Convertible Preference Shares**

Convertible preference shares convey upon the holders the right to convert these shares into equity shares in accordance with the terms of issues. This is an issue with speculative features. These shares are corporate fixed-income securities that the investor can choose to turn into a certain number of shares of the company's ordinary shares after a predetermined time span or on a specific date. The fixed income component offers a steady income stream and some protection of the investors' capital. However, the option to convert these securities into stock gives the investor the opportunity to gain from a rise in share price. It can be summarized that convertible preference shares give the assurance of a fixed rate of return plus the opportunity for capital appreciation.

### **3.1.3 Debenture Stocks**

These are corporate bonds.

Two categories of debentures are:

- All banks debentures  
This involves one to one relationship between a bank and a firm, and lending is based on the assets.
- Debenture Stocks – Debenture stocks or corporate bonds are normally issued under a firm's seal. This represents the legal evidence of a firm's indebtedness. A debenture stock holder is a creditor to the firm, therefore, he is entitled to a fixed interest payment whether a firm makes profit or not.

Debenture stock holders do not have any voting right and their interest in the firm is limited to the fixed interest payment no matter how successful the firm may be.

### 3.1.4 Lease Financing

This is an important source of long-term funds. It may be used as a source of financing company expansion or for modernization of the productive apparatus of the firm. Thus, through leasing, a company may make use of equipment without actually owning it. The main objective of leasing is to put at the disposal of a firm a plant or any fixed asset which serve the productive need of such a firm. The firm, in making use of that equipment, is obliged to pay to the lessor adequate sum of money which constitutes cost on the part of the firm.

Three units are involved in lease and they are as follows:

- A company which has the aim of expanding its productive capacity and/or requires equipment for modernization;
- A supplier which specializes in manufacturing specialized equipment;
- A company which is in a position of buying equipment from the manufacturer or supplier and placing the equipment at the disposal of other companies for productive use.

Three types of leases are:

- Operating lease;
- Financial lease;
- Sale and leaseback.

In the **operating lease**, we have the supplier/lessor and the lessee. The supplier is also the manufacturer. Here, there is a leasing contract between the lessor and the lessee which lasts for a short-term period. Operating lease has the following characteristics:

- (i) It lasts for a very short-term period.
- (ii) Either the lessor/supplier or the lessee/firm can terminate the contract after a month's notice.
- (iii) The supplier has the responsibility for every expenses relating to ownership and operational expenses. He is also responsible for maintaining the equipment.
- (iv) The lessee normally pays to the lessor a fixed sum of money which can be called a rent. This fixed sum of money takes into consideration depreciation, maintenance expense and a profit margin. Thus, operating leasing can be called 'maintenance leasing' or 'gross leasing'.

**Financial lease** is of a medium-term or long-term nature, and it is normally based on a leasing contract which involves movable or immovable property. However, the emphasis here is on movable property – equipment leasing. The main partners involved are the producer, the lessor and the lessee, and there is no direct link between the producer and the lessee. While the producer specializes in manufacturing certain equipment, the lessor (in normal case) may be a financial institution. The lessee, in most cases, is a small scale industry.

The lessor buys equipment from the producer and places it at the disposal of the lessee. The responsibility of the lessor is to acquire the equipment while the lessee makes periodic payment (rent) of a fixed sum, and the sum of these payments normally exceeds the cost of the equipment.

The characteristics of financial lease include the following:

- (i) Expenses for insurance contracts, installation expenses, maintenance expenses and repairs are normally borne by the lessee. Such expenses are not normally included or considered while calculating periodic payment. This makes this type a 'Net Leasing'.
- (ii) The duration of the contract is normally based on the technical/economic life of the equipment.
- (iii) Only highly specialized equipment are normally involved in this type of leasing contract.
- (iv) The leasing contract, when finally entered, cannot easily be terminated either by the lessor or the lessee. This can only happen by the lessee if and only if he is able to pay in advance sum of the periodic payment remaining. In this case, the average market rate of interest is applied to determine the remaining part of the periodic payment.

At the maturity of the contract, the lessee can decide to take any of the following actions:

- (i) He might renew the contract but with lower periodic payment because of reduction in cost of the equipment.
- (ii) He can return the scrap.
- (iii) He can pay the residual value of the asset in order to take over the ownership of the asset.

On the other hand, **sale and leaseback** (or leaseback for short) is a financial transaction, where one sells an asset and leases it back for the long-term, therefore, one continues to be able to use the asset but no longer owns it. The transaction is generally done for fixed assets, notably real estate and planes, trains and automobiles, and the purposes are varied, including financing, accounting and taxing.

In respect of leaseback arrangements, after purchasing an asset, the owner enters a long-term agreement by which the property is leased-back to the seller, at an agreed rate.

One reason for a leaseback is to transfer ownership to a holding company, while keeping proper track of the ongoing worth and profitability of the asset. Another reason is for the seller to raise money by offloading a valuable asset to a buyer who is presumably interested in making a long-term secured investment.

### **SELF-ASSESSMENT EXERCISE 1**

1. Explain the conditions under which a firm cannot issue instruments of debt.
2. Enumerate and discuss the various types of preference shares.

### **3.2 METHODS OF ISSUING THE INSTRUMENTS OF DEBT**

The "organized" stock market can be classified into:

- Primary market/issue (controlled by the Securities and Exchange Commission, SEC);
- Secondary market/issue (controlled by the Nigerian Stock Exchange, NSE).

The secondary market induces the allocative efficiency in the primary market. Our focus is on the primary market. There are different methods/ways a firm can raise funds from the capital market but they have to satisfy the listing requirements.

### **3.2.1 Issue by Prospectus**

This involves an offer of new securities direct to the investing public. A firm normally makes use of the services of an issuing house which will provide advice on the terms and conditions of the issue.

A prospectus could be defined as any notice, circular, advertisement or any other form of invitation which is used in offering shares or bonds to the investing public for investment. Any prospectus must satisfy the laid down requirements of the Stock Exchange. The prospectus provides the basis for valuing the company.

### **3.2.2 Offer for Sale**

This involves a situation where an issuing house purchases securities from a firm and thereafter places/offers them to the investing public at a fixed price. The difference between the purchase price and the selling price constitutes remuneration to the issuing house. The issuing house will spend a part of this remuneration on activities involving the issue. The expenses include the following:

- underwriting commission;
- advertising expenses.

An issuing house is involved in this kind of activities because they are finance houses. Issuing houses are mostly merchant banks. Offer for sale might originate from a transaction between the firm and the issuing house (giving/ advancing money to the firm).

### **3.2.3 Issue by Placement**

Issue by placement is a situation in which an issuing house makes arrangement for securities to be placed with a number of individual and institutional investors (like the insurance companies, banks, National Provident Fund, and Investment Trusts) at the issue price. Therefore, issue by placement is not open to every investor. The placement or issue price is normally fixed and could be fixed below the expected market price to attract investors. This type of issue is usually cheaper than the first two discussed above (Issue by prospectus and Offer for sale) since some forms of expenses are normally avoided). These expenses include underwriting commission and allotment procedure expenses.

### **3.2.4 Introduction**

This type of issue does not concern new securities. The main objective is to enable a firm whose shares are fairly widely held to obtain stock exchange quotation. This type of issue, therefore, confers the benefits of marketability upon the securities of the company. It also makes it easy to determine the market price of such securities.

### **3.2.5 Right Issue**

Right issue involves the issue of securities on cash basis to only the existing shareholders. This type of issue is made by firms whose securities have already been quoted on the stock exchange. The number of new shares to be purchased by the existing shareholders is based on the number of old shares. The issue price is normally

lower than the current market price. This could make the current shareholders to sell their rights without relinquishing their old shares.

For example, suppose the share capital of a company is 3 million and one (1) share is N1.00 and the market price is N1.50, the company decides to issue additional 500,000 shares at N1.00 per share, six (6) old shares will entitle the investor to buy one (1) share. The shareholder's right could be calculated as follows:

The cost of 6 old shares @ N1.50=	N9.00
1 new share	= N1.00
7 shares will cost	= N10.00
1 new share will cost	= N1.43 (N10/7)

The 7 kobo drop (N1.50 – N1.43) is known as the value of the right of the old share. Since only N1.00 will be paid for each new share, 43k represents the premium for each new share but the shareholder has the choice of either selling his right or subscribing to the new issue. The implication of this is that an investor will lose 43k if he sells his right but will lose 7k if he keeps his right.

### 3.2.6 Bonus Issue

Bonus issue is also known as capitalization or scrip issue. This does not imply raising money from the capital market but a rearrangement of the existing capital structure.

For example, let us consider a Balance sheet of ABC Company:

Capital	₦
100,000 ordinary shares @ N1.00 each	100,000
Revenue Reserve	<u>250,000</u>
Total	<u>350,000</u>
<b>Assets</b>	
Fixed Assets	190,000
Current Assets	<u>160,000</u>
	<u>350,000</u>

The company can now decide to capitalize a part of the revenue reserve. If the amount to be capitalized is N100,000, each old share will now attract one (1) new share.

So, the financial statement (balance sheet) could be rearranged as follows:

Capital	₦
200,000 ordinary shares @ N1.00 each	200,000



Revenue Reserve	<u>150,000</u>
Total	<u>350,000</u>

The asset side will remain the same but what is important is that each shareholder will have 1 new share for each old share.

Bonus issue can result in lower dividend rate because of the increase in the number of shares. It also tends to bring down the market price of shares into a more popular range.

### **3.2.7 Issue by Tender**

This speaks to a little used auction-style method of releasing a new issue of stock to the public by an investment bank wherein the banks are offered on a tender basis and allocated based on competing bids.

The lowest acceptable price is stated on the tender documents prior to the issue.

## **SELF-ASSESSMENT EXERCISE 2**

1. Discuss the different methods a firm can raise funds from the capital market.

### **4.0 CONCLUSION**

A firm can source for funds, internally or externally, to finance its activities. These sources could be short-term or long-term, and the funds so acquired are used in turn to acquire assets. The capital market is very important to the firm in the acquisition of long-term funds.

### **5.0 SUMMARY**

In this Unit, we have been able to:

- classify the sources of long-term funds for a firm;
- enumerate and discuss the various long-term sources of funds;
- Identify and discuss the various methods of issuing the instruments of debt.

### **6.0 TUTOR-MARKED ASSIGNMENT**

1. Discuss the three types of leasing and show how each should be differentiated from the other.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 15      ENTREPRENEURIAL THEORIES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
- 3.1 Need for Theories in Entrepreneurship
- 3.2 Existing Entrepreneurial Theories
- 3.3 Elements of Opportunity
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

In the last unit, we defined the concept of entrepreneurship and intrapreneurship; discussed the importance of intrapreneur in organizations; described corporate entrepreneurship skills in organizations; explained the operational link between corporate entrepreneur and entrepreneur; defined entrepreneur and distinguish between entrepreneur, Intrapreneur and Technopreneur; and enumerated the functions and characteristics of an entrepreneur.

In this unit, we shall examine the theories of entrepreneurship.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

Understand the theoretical frameworks in entrepreneurship;

Discuss entrepreneurship as an interdisciplinary field;  
Discuss the contributions of various disciplines in development of entrepreneurship as a field of study;  
Understand inter-linkages existing among these disciplines and their contributions.

### 3.0 MAIN CONTENT

#### 3.1 Need for Theories in Entrepreneurship

The field of entrepreneurship continues to struggle with the development of a modern theory of entrepreneurship. In the past 20 years, development of the current theories of entrepreneurship have centered neither on opportunity recognition nor the individual entrepreneur. At the same time many theoretical insights have come from economics including a rediscovery of the work of Schumpeter. However because there is a lack of clarity about the theoretical assumptions that entrepreneurship scholars use in their work, assumptions from both individual opportunity recognition and economics have been used as if they are interchangeable. This lack of theoretical distinction has hampered theory development in the field of entrepreneurship Alvarez, (2005).

While explanations of entrepreneurship have adopted different theoretical assumptions, most of these concern three central features of entrepreneurial phenomena: the nature of entrepreneurial opportunities, the nature of entrepreneurs as individuals, and the nature of the decision making context within which entrepreneurs operate. Nonetheless, various theoretical traditions in the field have adopted radically different interpretations with respect to these assumptions of entrepreneurial phenomena, therefore arriving at different explanations of these phenomena. Theories of Entrepreneurship investigate two sets of assumption about the nature of opportunities, the nature of entrepreneurs, and the nature of the decision making context within which entrepreneurs operate. It is suggested that these two sets of assumptions constitute logically consistent theories of entrepreneurship. Moreover, these two theories are complementary and can be applied to widely studied entrepreneurial phenomena—the organization of the entrepreneurial firm. These applications demonstrate both the differences between these two theories and how they can be complementary in nature.

#### 3.2 Existing Entrepreneurial Theories

As noted above, several theories have been developed over the years in attempts to explore and explain the entrepreneurship phenomenon. These include among others, economic, socio-cultural, managerial, educational, developmental, experiential, innovation, network, structural and multi-dimensional theories. Each of these theories had been used in the study of the processes of entrepreneurship.

Entrepreneurship as a process involves recognizing opportunities in the environment, mobilizing resources to take advantage of such opportunities, in providing improved goods and services to the ultimate consumers and making profit as a reward of risk taking. As a consequence an entrepreneur is regarded as the individual who perceives opportunities and takes actions to obtain required resources for the provision of new and or improved goods and service (Timmous, 1994 and Smilor, 1997).

Let us focus on summary of existing entrepreneurship theory.

**Economic Theory:** The economists see the entrepreneur as the man who perceives business opportunities and takes advantage of scarce resources to use them. Relevant, therefore, are the

structure of economic incentives that are available in the market. Writers on this approach include (Schumpeter, 1934; and Drucker, 1985). The patterns of economic incentives have acted as stimuli for the emergence of entrepreneurs. They have also influenced the positive responses in terms of behavior and their performance (Kilby, 1965; and Singh, 1985).

**Political Theory:** The influence of the political factor on the emergence, behavior and performance of entrepreneurs had been reported by several writers. Schatz (1962 and 1964) discussed two forms of assistance that were provided for indigenous entrepreneur by government in Nigeria. These were (1) the financial support through the federal loans board and (2) the establishment of the Yaba Industrial Estate for use by indigenous entrepreneurs. Ogundele (2000) discussed the provision of training and financial assistance by government to indigenous entrepreneurs through National Directorate of Employment (NDE). Government by way of legislations and provision of infrastructures and other support systems have aided the entrepreneurial processes.

**Ecological Theory:** This approach is concerned with the influence of the environment on business startup, without having to obtain information about the characteristics and motivation of the organization founders (Left, 1979; Marret 1980, and Penning, 1982).

**Historical Theory:** This approach considered past historical antecedents as independent variable on the emergence, behavior and performance of entrepreneurs. To the writers in this group belong (Cole, 1959; Akeredolu-Ale, 1975; and Rostow, 1982). Akeredolu Ale (1975) specifically emphasized the pre-empting of postwar opportunities in explaining the underdevelopment of indigenous entrepreneurship in Nigeria.

**Managerial Theory:** This perspective focuses on the perception of market opportunities. It in addition emphasizes the operational skills required to run a successful enterprise (Kilby, 1971; Meredith, Nelson and Neck, 1991, and Osuagwu, 2001). Kilby (1971) listed thirteen managerial functions, which the entrepreneurs might have to perform for the successful operation of their enterprises. Carland, Hoy Boulton and Carland (1984) regarded the employment of strategic management practices as the function of entrepreneurs. Therefore managerial skills will have direct positive effect on the entrepreneurship processes of emergence, behavior and performance. The environment that provides opportunities for relevant skills acquisition will tend to promote entrepreneurship.

**Educational Theory:** It is concerned with general level of education in the society. Its proponents contended that education tends to broaden peoples' outlook. It equips people with needed skills to look at the world around them in a more organized and coordinated fashion. This will make them to perform better in entrepreneurial role (Aluko, 1983; Brown and Hisrich, 1986 and Singh, 1986). Akeredolu-Ale (1975) found that more entrepreneurs had lower level of formal education than the civil servants. He could not establish any direct association between the level of formal education of entrepreneurs and the degree of success achieved. Bowen and Hisrich (1986) reported that the general conclusion the entrepreneurs are less well educated than the general population was not supported by their study. Also Singh (1986) found that earlier notion that those lacking educational qualification were usually the ones who went in for business was not borne out on his study. Earlier on Aluko (1983) reported that new breeds of highly educated entrepreneurs were emerging in Nigeria. Ogundele (2000) found that the performance of some entrepreneur in his studied groups was aided by better education which many of them had. The broaden outlook through the educational process could aid in accurate perception of opportunities, and therefore affect entrepreneurial emergence, behavior and performance.

**Innovation Theory:** Entrepreneurs are here considered as innovators whose task is creative destruction.

This results from bringing about novel combination of products and ideas, thus rendering obsolete previously existing products or ideas. Consequently, the process of endowing resource with new wealth producing capacity is central to any conceptualization of entrepreneurship (Schumpeter, 1934, Tushman and Nelson, 1990, Amit Glosten and Muller, (1993). Kiby (1971) considered adaptation as innovative function of entrepreneurship in a developing economy. Amit, Glosten and Muller (1993) and Hobdat (1995) considered innovation as a distinguishing feature of entrepreneurship. It is, they noted, the process of extracting profit from new, unique and variable combination of resources in uncertain and ambiguous environment by exploiting opportunities. Innovation, therefore, is about exploiting opportunities.

**Network Theory:** This theory focuses on the social links which promote or hinder entrepreneurship. This is because, it considers entrepreneurship as being involved and as interacting in network of continuing social relations that open up or block entrepreneurs' link with existing resources and opportunities. It is concerned with the intricate nature of interpersonal relationship (Aldrich Rosen and Woodward, 1987, Dubini and Aldrich, 1991 and Cardor, Zietsma, Saporito, Matheme and Davis, 2005). As a result relationship in social settings can provide opportunities for entrepreneurship.

**Structural Theory:** This approach examines the effect of internal patterns of relationship among various parts and components of an organization on entrepreneurship. It had been noted that the quality of organizational resources and the efficiency with which entrepreneurs' carry out organizational functions affected their performance. The structure of entrepreneurial organization was found to have enabled them to react fast to changing environment and adapting to new demands. In addition internal structural arrangement to context was found as a significant basis for achieving effective performance (Akeredolu Ale, 1975; and Inegbenebor, 1995). Akeredolu-Ale (1975) noted that the entrepreneurs' quality of organizational resources and consequently the efficiency with which they carry out organizational functions affected their performance. Inegbenebor (1995) argued that internal structural arrangement to the context as a significant basis for achieving effective performance. Emphasis was placed on the dynamic flexibility of entrepreneurial organizations. Thus the structural arrangements in entrepreneurial organization make them to be very adaptive to exploiting opportunities.

**Technological Theory:** This theory is concerned with machines, equipment, and tools used in producing goods and rendering services. (Woodward, 1965; Kiby, 1965; and Ekpo Ufot, 1990). Woodward (1965) found that technological complexity considerably influenced administrative structure, thus emphasizing the influence of technology on performance. Kilby (1965) noted that small indigenous entrepreneurial organization exhibited a feature of permissive technology leading to fast adaptation. Entrepreneurial technological innovation can be regarded as direct response to opportunities in the relevant environment.

**Multi-Factor Approach:** Ogundele and Opeifa (2003) note that the existing theoretical framework reveals that several factors in combination affect the entrepreneurial processes. It is proposed therefore that several rather than a single factor will affect entrepreneurship. In Ogundele (2000), the specific set of factors used as explanatory variables were: (1) social relations (involving elements of socio-cultural and network theories), (2) political factor, (3) economic environment, (4) technology, (5) training and development (6) formal education, (7) previous work experiences, (8) innovation and (9) structural elements of the entrepreneur's organization. This is multi-dimensional factor and interdisciplinary approach to the study of entrepreneurship. It is to be noted that this approach is also based on the opportunities that exist at the appropriate level of analysis. The study predicted that the determinants listed above could positively

and negatively affect entrepreneurial emergence, behavior and performance in Nigeria.

Each of the various levels of theoretical formulation presented above is linked with opportunity of one type or the other. The recurrent emphases by various writers on opportunities in relation to entrepreneurship have provided the impetus for proposing the bounded opportunity approach to entrepreneurial study.

Researchers have also shown that perception of opportunities and the employment of strategic management practices are the functions of entrepreneurs (Kilby 1971, Carland, Hoy, Boulton and Carland 1984 and Amit, Glosten and Muller, 1993). Stevenson (1998) and Timmons (1999) emphasized the dynamic nature of the opportunity in the environment and their actions of the entrepreneur on entrepreneurial team in cashing on the opportunities.

### **Uncertainty Bearing Theory**

Burnett (2000) stated that 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.

### **3.2.1 Features of the Opportunity Approach**

From the summary of the literature on opportunity perspective the following facts are apparent:

- (1) There are several possibilities of opportunities in an environment at any particular point in time.
- (2) All these opportunities at the appropriate place and time affect the emergence, behavior and performance of entrepreneurs.
- (3) The fact that the opportunities in combinations affect the entrepreneurship processes can be used to show the superiority of this approach over those that were focused on single factor.
- (4) The process of innovation, identification and creation of opportunities by entrepreneurs at a time and over time reflect the dynamic nature of the opportunity approach.
- (5) Among the studies reviewed on entrepreneurship no one raised the opportunity concept to the level of a theoretical proposition or model building.

### **3.3 Elements of Opportunity**

Based on literature review and very careful observation of the entrepreneurial environment the following elements of opportunity are identified.

**Opportunities Are Often Tied to Specific Purposes:** Opportunities are tied to specific purposes and circumstances. There is a specific purpose for every opportunity and in a given location. People have to meet certain individual, read book, listen to radio or tapes and do several other things in given locations. The privatization and commercialization processes in Nigeria open up investment opportunities based on current circumstance.

**Opportunities Are Endless:** Just like waves of these, life is a succession of opportunities (Dangote (2005)). The opportunities that come on individual or organization's way may determine the rate of his/its growth or progress. They are arranged as an interjection that terminates a phase and opens up the next. The Nigerian Enterprises Promotion Decree 1972 opened up

wide opportunities for Nigerians to venture into entrepreneurial career. On the other hand the 1986 Structural Adjustment Programme (SAP) created many hardships and blocked several areas of opportunities for entrepreneurs.

**Greatness or Success is a Product of Opportunity:** Abioye (1996) noted that every greatness is a product of opportunity. There were great names that had made marks in the generations who would never have been mentioned if it was not for an opportunity that came their way.

**An Opportunity opens up to another:** An opportunity well utilized opens up to another. Opportunities are in sizes and phases. Just as in the home, an outdoor leads to an inner one so it is with opportunities. Dangote (2005) as pointed out above illustrates this point.

**Opportunity Elevates people and organization:** Abioye (1996) observed that opportunity does not reduce people rather it increases them. He illustrated it with the Biblical parable of a man with five talents. For utilizing well the opportunity of five talents she received the opportunity to set ten.

**Opportunities have Companions:** Another aspect of the concept of opportunity is its features of companionship. Opportunities are often enveloped in challenges. To refuse or rise up to challenges or not to see it when it comes one's way is to allow opportunity pass by unattended to (Batty, 1974).

**Opportunities involves risk taking:** Risk in this sense relates to deliberate departure from the known to the unknown. The individual forsakes what he/she has in the hope of getting a better one that await him or her (Schumpeter, 1934, Drucker 1985 and Tushman and Nelson, 1991).

**Opportunity involves facing opposition:** There is the fact of opposition to opportunity which is failure to utilize it. The reason why some live better than the others is their attitude to opportunities that come their ways. Some embrace theirs while others despise and toy with theirs. The key to success is to learn to emphasize one's advantages and de-emphasize what looks like disadvantages. (Kilby, 1971 and Inegbenebor, 1995).

**Opportunity may be in form of Luck:** People often say that an element of luck is involved in entrepreneurship. This, others call destiny. However, any destiny not given an appropriate drive will lie dormant and impotent. Every destiny is to be driven to its destination (Batty, 1974).

**Exploitation of opportunity involves discipline:** This relates to having a sense of denial and control. Discipline places an non negotiable and uncompromising demand on people. By discipline, one responds to issues of life not as he or she wants or likes it to be, but as they are required or needed to be done. One refuses to respond to emotions in order to face the realities of life (Abioye, 1996). It requires disciplines in man, money and material management (Stevenson and Sahlman, 1990).

**One should expect opportunity always:** To look for opportunity as a matter of necessity is a normal thing to do. It is entrepreneurship. This is because opportunity is to be expected always. It is this expectation that translates pictures into reality. What you do not expect you cannot see. Therefore, one should always expect business opportunity (Meredith, Nelson and Neck, 1990).

#### 4.0 CONCLUSION

We noted from the unit that development of the current theories of entrepreneurship have centered neither on opportunity recognition nor the individual entrepreneur. We also noted that the theories include economic, socio-cultural, managerial, educational, developmental, experiential, innovation, network, structural and multi-dimensional and that each of these theories had been

used in the study of the processes of entrepreneurship.

Finally, we discussed the features of opportunity approach to the theory of entrepreneurship as well as the elements of opportunity.

## 5.0 SUMMARY

In this unit, we have,

- Discussed the theoretical frameworks in entrepreneurship;
- Explained entrepreneurship as an interdisciplinary field;
- Discussed the contributions of various disciplines in development of entrepreneurship as a field of study; evolved inter-linkages existing among these disciplines and their contributions.

In the next unit, we shall discuss another interesting topic titled 'entrepreneurship development'.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. From the unit, you will note that there are some elements of opportunity in the existing theories on entrepreneurship. List five and discuss them briefly.
2. Write short notes on the following:

Economic Theory  
Political Theory  
Ecological Theory  
Historical Theory  
Managerial Theory  
Educational Theory  
Innovation Theory  
Network Theory  
Structural Theory  
Technological Theory  
Multi-Factor Approach  
Uncertainty Bearing Theory

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