



# ENTREPRENEURSHIP DEVELOPMENT

CREATIVITY, INNOVATION AND TALENTS

AYUBA A. AMINU, Ph.D

*Entrepreneurship Development:  
Creativity, Innovation and Talents*

*Ayuba A. Aminu, PhD*

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## **PREFACE**

The words “Entrepreneurship” and “Entrepreneur” have become very pronounced in both developed and developing countries as the whole world is facing unprecedented economic downturn resulting from the collapse of socialism and the acceptance of capitalism which provide for free trade and making the world a global village for free competition. Entrepreneurship became necessary as the world is facing economic challenges in terms of stiff competition, few available jobs, high rate of unemployment, increase in crime rate especially cybercrime. Furthermore, the non-availability white collar job has necessitated many countries to re-think on how to provide jobs for its teaming unemployed youths. Nigeria is not an exception, the government is encouraging youth to be empowered and that is only possible when the youths are given the appropriate vocational and technical education that will teach them how to be self-reliant. And the best is to educate them on how to acquire entrepreneurial skills and knowledge. This is possible through entrepreneurial education. This book is prepared specially to help the reader understand who an entrepreneur is, types of entrepreneurship and entrepreneurs and classification of entrepreneurs. The book attempts to provide potential entrepreneurs and students of entrepreneurship the pre-requisite knowledge required to establish and invest in a new business. It is my believe that this book is handy to assist potential entrepreneurs and students to appreciate the importance of creating a business enterprise as an avenue of encouraging self-employment by putting theory into practice. The book also dwelt extensively on entrepreneurial risks which many entrepreneurs seem to be frightened. It is also envisaged that this book would enhance the positive thinking of individuals who want to venture into entrepreneurship because it serve as prima-facie for entrepreneurship development.

Prof. Dr. Ayuba A. Aminu  
21<sup>th</sup> September, 2020

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“This book is dedicated to my students and celebrating my 34 years of University teaching experience”

- *Ayuba A. Aminu, PhD* -



# Chapter 1: Entrepreneurship and Entrepreneurs

Entrepreneurship is the process of setting up a business from infancy to growth and profitability by taking financial risk. It is the creation of value through risk taking associated with the enterprise. While an entrepreneur is a person who has the ability to forecast a business opportunity and takes advantage to put it into practice to yield a profit. He is a person who is creative, risk taker, innovative and hardworking with the passion to venture into business with the hope of establishing, nursing and managing the business to profitability. Therefore, what is the difference between entrepreneurship and an entrepreneur? In simple term, entrepreneurship is the *act* while entrepreneur is the *actor*. Therefore, the process of venturing into entrepreneurial venture/business is the entrepreneurship and the person who performs the act of entrepreneurship is the actor referred to as an entrepreneur.

## Types of Entrepreneurship

Types of entrepreneurship and entrepreneurs vary from different perspective depending on how various authors viewed it from their own discipline. However, the diagram below depicts the types of entrepreneurship and entrepreneurs from five different perspectives as follows:

1. Private Entrepreneurship
2. Public Entrepreneurship
3. Corporate Entrepreneurship
4. Social Entrepreneurship
5. Academic Entrepreneurship

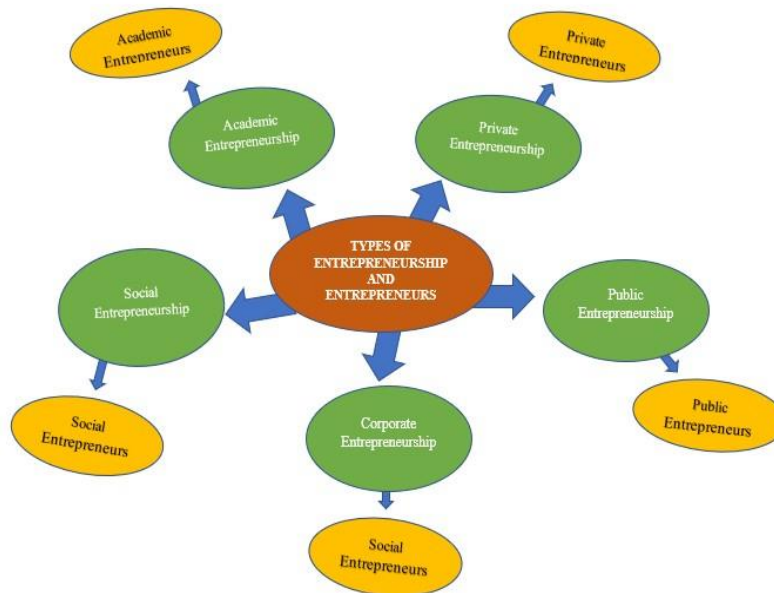


Figure 1.1 Types of Entrepreneurship and Entrepreneurs



### *Private Entrepreneurship*

This is an entrepreneurial activity that is privately owned and control by certain individuals ranging from the identification of the business opportunity, setting-up the business, nursing the business to growth and profitability. One can say that most micro, small and medium-term enterprises in Nigeria fall under private entrepreneurship because most of these enterprises are privately owned. Private entrepreneurship often refers to as independent entrepreneurship and contributes significantly to the economic growth and development of a nation as well as the gross domestic product (GDP) of a country. In private entrepreneurship decision making is very critical to the success of the enterprises and requires a wide range of decision and decision-making process for the enterprises to succeed.

### *Public Entrepreneurship*

This is the type of enterprises that is owned by the government. It could be owned by the federal government or the state. These companies were formed by government as part of privatisation policy with the aim of providing better and efficient services to its citizens through accountability and transparency. The purpose of forming public sector entrepreneurship is to provide access for equity participation and management buyout for developmental purposes which serves as a catalyst to economic and industrial development of the state or federation.

### *Corporate Entrepreneurship*

This type of entrepreneurs carried out entrepreneurial activities involving big, large, multinational or conglomerate companies that are fully engaged in the production, manufacturing or services industry that involves research and development in the creation of new products or services to its customers. They are fully engaged in continues innovation for the improvement of its product or services through new technological advancement process and usage. Corporate entrepreneurship involves large corporations that are concerned with expansion and diversification of its product line in order to sustain it growth and market shares and to remain a dominant brand in the market. For example: Coco-cola, Mc Donald's, Dangote group etc.

### *Social Entrepreneurship*

Social entrepreneurship is a phenomenon in the entrepreneurship literature. It exists for a long time and only came to be recognised recently. Social entrepreneurship is an activity carried out by social enterprises/entrepreneurs, Non-Governmental Organisations (NGOs) and charitable organizations in order to improve the social life of its citizens. It involves recognition of a social problem and provide solution through the application of entrepreneurial approach using the principles of management to achieve the social objectives or social return on investment of the venture. For example, the microfinance banks in Nigeria is an economic-based social entrepreneurship project aimed at reducing poverty among Nigerians by creating easy access to credit to those that want to venture into micro small and medium enterprises. The purpose of social entrepreneurship is to uplift the life of individuals living below poverty line where necessary. The National Social Investment Programmes (NSIP) being set up by the Federal Government of Nigeria in 2015 is to deliver socio-economic support to the disadvantaged Nigerians across the nation is a good example of social entrepreneurship. The purpose of the programme is to ensure a more equitable distribution of resources to vulnerable populations including children, youth and women. Another social investment by Nigerian Government is the Government Enterprise and Empowerment Programmes (GEEP), which is a micro-lending investment programmes targeting entrepreneurs with a focus on young people and women. The programme provides no-cost loans to its beneficiaries helping to reduce the start-up costs of business ventures in Nigeria.

### *Academic Entrepreneurship*

These types of entrepreneurship are found in academic institutions such as universities, polytechnics, research institutes or colleges of education. It is often referred to as knowledge entrepreneurship because most discoveries, inventions and innovations come out from these academic institutions and research institutes. These academic and research institutions are fully engaged in research and development of new products, processes, systems, materials with the sole objectives of providing innovations that will lead to intellectual property right such as copyright, patents, or trademark and its subsequent commercialisation.

### *Types of Entrepreneurs*

There exists different type of entrepreneurs depending on the classification and entrepreneurial activities carried out by the enterprise and those who manage the enterprise. The categorisation of entrepreneurs is based on roles, functions and responsibilities they performed in the enterprise. Suffice to say that, just like we have types of entrepreneurship so also, we have types of entrepreneurs. The types of entrepreneurs are as follow:

1. Private Entrepreneurs
2. Public Entrepreneurs
3. Corporate Entrepreneurs
4. Social Entrepreneurs
5. Academic Entrepreneurs

### *Private Entrepreneurs*

These are entrepreneurs who take the risk of establishing a business venture and have absolute control over the business enterprises and decision making is solely their responsibility. They invest and manage their own businesses without any outsider interference because they are the sole owners of the enterprise. More so it is also their responsibility to ensure success of the business. Private entrepreneurs usually exhibit high level of talents, hard work, perseverance and commitment to their enterprise.

### *Public Entrepreneurs*

Public entrepreneurs are those who manage public enterprises owned by government often refer to as managers of government or state-owned companies. They are similar to corporate entrepreneurs only that they manage government or state-owned corporations or companies and they are not owners and are referred to as Intrapreneurs.

### *Corporate Entrepreneurs*

These are managers that manage big, large and conglomerate companies that are listed on the Stock Exchange of any country. The entrepreneurs usually hold the position of Chief Executive Officers (CEOs)/Managing Directors (MDs) and at the same time, they are either employed or own shares in the companies. They are employed because they are Professionals in nature to manage the companies.

### *Social Entrepreneurs*

Social entrepreneurs are the social leaders, managers or agents of transformation in instilling entrepreneurial mind-set to their target audience or groups. Social entrepreneurs focus on resources utilisation to achieve Social Return on Investment (SROI) than Financial Return on Investment (FROI). Social entrepreneurs used both the principles of management and application of entrepreneurship principles in managing their respective organisations to achieve result in the most efficient and effective way.

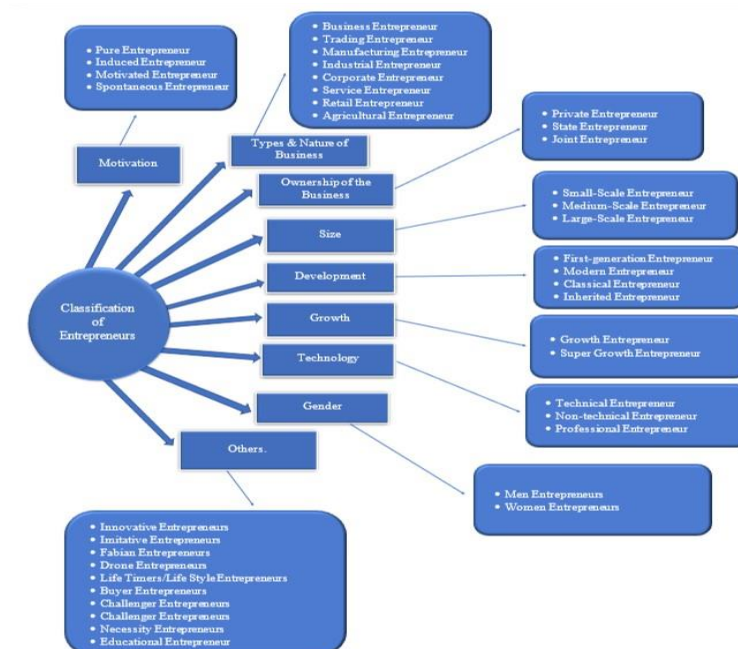
### *Academic Entrepreneurs*

Academic entrepreneurs are Lecturers and Research Fellows in educational/academic institutions or research institutes that are involved in a series of research to invest, discover and bring in innovation in products and services for the well-being of humanity. They are involved in researches that lead to new inventions and innovations and subsequent commercialisation. They are referred to as knowledge entrepreneurs.

### *Classification of Entrepreneurs*

Entrepreneurs are classified into different categories depending on their, roles, functions, responsibilities and interest in the chosen venture. Entrepreneurs are classified as empirical, rational and cognitive. Empirical Entrepreneurs refer to persons who hardly introduce anything revolutionary in nature and use rule of thumb. The Rational Entrepreneurs describe persons well informed about the general economic conditions thereby introduces changes, which look more revolutionary while Cognitive Entrepreneur describe persons well informed but draws upon the advice and services of experts and introduces changes that reflects complete break of the existing scheme of the enterprise. It is difficult to draw a precise boundary between classification and types of entrepreneurs. However, we can broadly classify them as follows:

1. Classification by Motivation
2. Classification by Types and nature of business
3. Classification by Ownership of the business
4. Classification by Size
5. Classification by Growth
6. Classification by Technology
7. Classification by Gender
8. Classification by Others



*Figure 1.2 Classification of Entrepreneurs*

### Classification by Motivation

**Pure entrepreneur:** A pure entrepreneur is a person who gets personal satisfaction in venturing into entrepreneurship. He/she is motivated by psychological and economic rewards from entrepreneurial activities and returns.

**Induced Entrepreneur:** An entrepreneur who is motivated and influenced by measures taken by government to provide assistance, incentives, concessions, and loan facilities to start a business venture.

**Motivated Entrepreneur:** Is an entrepreneur that is motivated by economic factors such as reward in terms of profit gain from the enterprise. He/She is motivated by the possibility of making profit in marketing new products to customers with the hope of capturing the market.

**Spontaneous Entrepreneur:** Is a person who start a business out of their natural talents or gifted talents. Some of the characteristics of spontaneous entrepreneurs include boldness and confidence.

### Classification by Types or Nature of Business

#### **Business Entrepreneur**

These types of entrepreneurs are those who conceive new ideas for a product or service and materialize their ideas into business reality by creating a business venture or an enterprise. These are usually micro or small business enterprise business units such as advertising agency, printing press, confectionery, bakery, textile or garment processing plant.

#### **Trading Entrepreneur**

A trading entrepreneur is a person who creates a trading activity only and not manufacturing by identifying potential markets for his product or service and stimulating demand among buyers both at domestic and international market. They also act as middlemen, wholesalers, dealers and retailers between the manufacturers and customers.

**Manufacturing Entrepreneur:** Is someone who manufactures products to satisfy the customers' needs and demand using appropriate technology. They convert raw materials into finished goods.

**Industrial Entrepreneur:** Is a person who manufactures his own product and identifies the potential needs of customers and tailored the product or service to meet the marketing needs of his customers. He/She is often refers to as a product- oriented man.

**Corporate Entrepreneur:** Is a person who exhibits his innovative skill in creating, organising and managing corporate undertaking successfully. A corporate entrepreneur is an individual who plans, develops and manages a corporate entity which is registered under company law that gives it a legal backing as a registered company under the companies and allied matter Act as a corporate undertakings.

**Service Entrepreneur:** Is someone who provides services to customers in order to make profit by the services rendered. An example of service entrepreneur is running a restaurant, hotel, barbing saloon, dry cleaning services etc.

**Retail Entrepreneur:** These are entrepreneurs who undertake daily trading activities and have direct contact with customers and are often seen to be *customer oriented*. An example is an entrepreneur running a kiosk, grocery or departmental store.

**Agricultural Entrepreneur:** Is someone who engaged in agricultural activities such as farming and marketing of agricultural inputs and crops through innovative mechanization, irrigation and use of modern of technology in farming and post-harvest of agricultural products. They are often referred to as “agripreneurs”.

#### Classification by Ownership

**Private Entrepreneur:** A private entrepreneur is an individual who creates and sets up an enterprise or business venture for the purpose of creating value and profit. He/She is the sole owner and bears the profit and risk of the business enterprise alone.

**State Entrepreneur:** Any entrepreneurial venture or business enterprise owned by the State or the Government is called State Entrepreneur.

**Joint Entrepreneur:** When entrepreneurial venture is jointly owned by private individuals or with the government is referred to as joint entrepreneur.

#### Classification by Size of Enterprise

**Small-Scale Entrepreneur:** An entrepreneur who investment in a business enterprise or an industrial entity that is small in size is called small-scale entrepreneur.

**Medium-Scale Entrepreneur:** An entrepreneur who investment in a business enterprise or an industrial entity that is medium in size is called medium-scale entrepreneur.

**Large-Scale Entrepreneur:** An entrepreneur who investment in a business enterprise or an industrial entity that is large in size is called large-scale entrepreneur.

#### Classification by Development

**First-generation Entrepreneur:** Is a person who starts a enterprise venture with an innovative skill to produce a marketable product or service through innovative technologies.

**Modern Entrepreneur:** Is a person who undertakes an entrepreneurial venture in line with the changing demand and taste of consumers to suit the current market needs.

**Classical Entrepreneur:** A classical entrepreneur is a person who maximises economic returns at a level consistent with the survival of the firm with or without an element of growth.

**Inherited Entrepreneur:** These are entrepreneurs who have inherited a family business and have the experience from the family business. These types of entrepreneurs sometimes diversify the business a little from what they inherited, but in most cases the business collapse due poor management and ineptitude.

### Classification by Growth

**Growth Entrepreneur:** Is someone who takes up high growth industry which has good substantial prospects for growth.

**Super Growth Entrepreneur:** This type of entrepreneur exhibited exceptional growth or performance in their enterprise venture, going by profitability index, liquidity of funds and asset management.

### Classification by Technology

**Technical Entrepreneur:** Are those who are creative in nature by developing and improving the production of goods and services. Technical entrepreneurs are also referred to as technopreneurs. They are involved in production and manufacturing only and do not engage in marketing of the products or services. They involved in the development of new technology in high growth areas like information technology, hardware and software for cellular phone-based technology, e-commerce, e-government, biotechnology, environmentally friendly green technology, multimedia-based technology, health and leisure-based technology, pharmaceutical, application of nano-technology. A good example of Michael Dell of Dell Computers and Bill Gates of Microsoft.

**Non-Technical Entrepreneur:** These entrepreneurs are not concerned with the technical aspects of the product or service; rather they engage in marketing and distribution strategies only to promote the business.

**Professional Entrepreneur:** These are those who are interested in establishing a business but do not have interest in operating and managing the business when established. In most situations, professional entrepreneurs do sell out their businesses and start a new one with the proceeds of the sale. They are sometime referred to serial entrepreneurs.

### Classification by Gender

**Men Entrepreneurs:** Business enterprises owned, managed, and controlled by men are called men entrepreneurs.

**Women Entrepreneurs:** Business enterprises owned, managed, and controlled by women are called women entrepreneurs.

### Others

Apart from those aforementioned classifications of entrepreneurs, other ways of classifying it are listed as follows:

- Innovating Entrepreneurs
- Imitative Entrepreneurs
- Fabian Entrepreneurs
- Drone Entrepreneurs
- Life-Timers/lifestyle Entrepreneurs
- Buyer Entrepreneurs
- Challenger Entrepreneurs
- Necessity Entrepreneurs
- Educational Entrepreneurs

***Innovating Entrepreneurs:*** These are entrepreneurs who introduce new goods, new method of production, new distribution system and discover new market for their goods and services. These are entrepreneurs who create change and improvement through innovation using new technological techniques.

***Imitative Entrepreneurs:*** These are entrepreneurs who do not innovate changes by themselves, but only imitate techniques and technology of others. Most entrepreneurs fall under this category.

***Fabian Entrepreneurs:*** These are entrepreneurs who imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprise.

***Drone Entrepreneurs:*** These are entrepreneurs who usually have the habit of refusal to adopt opportunities to make changes in the production facilities which in most situations lead them to suffer losses and they are not ready to make changes on their existing production methods and techniques.

***Life-Timers/lifestyle Entrepreneurs:*** These entrepreneurs take business as an integral part to their life. They cannot live without venturing into business and their whole lifetime depends on organizing and managing their own business enterprise. Lifestyle entrepreneurs develop and grow their businesses in order to make a sustainable living in the field of business that they have passion, interest and talented on. Example of such is family business, mostly practiced by people in the Eastern part of Nigeria. (i.e Igbos).

***Buyer Entrepreneurs:*** Buyer entrepreneurs are those who do not like to bear much risk in venturing into business in order to reduce risk of starting a new business enterprise but prefer to buy an existing business to avoid risk taking.

***Challenger Entrepreneurs:*** These are entrepreneurs who always like challenge in their business enterprise to find solution. When one challenge seems to be met, they begin to look for new challenge. The Chinese and Japanese are good examples.

***Necessity Entrepreneurs:*** Necessity entrepreneurs are persons who found themselves in entrepreneurial activities not by their own choice but by necessity of life. They usually start their businesses as micro enterprises and some of them manage to develop and grow the businesses and become very successful businessmen out of necessity.

***Educational Entrepreneurs:*** These are entrepreneurs that are involve in creating and setting up educational institutions privately owned such as nursery, primary, secondary, polytechnics, universities, centers of learning etc. with the sole objective of making profit and being managed as a business entity with entrepreneurial principles. Such entrepreneurs are also referred to as “edupreneurs”.



## **Chapter 2: Establishing a New Business Enterprise**

### **How to Start a New Business**

Business establishment requires a comprehensive understanding of what business means and what it takes to establish and operate it. Business is defined by different authors based on their perception and understanding of what business is. Business is an organization or economic system where goods and services are exchanged for one another or for money. Every business requires some form of investment and enough customers to whom its output can be sold on a consistent basis in order to make a profit. Business can be privately and publicly owned which can be for profit making or not. Business is any human activity directed towards producing goods and services for the purpose of acquiring wealth through buying, selling or exchange. Business can be defined as deliberate planned activities geared towards the production of goods and services with the aim of satisfying customers at profit margin using capital, labour and materials at a less cost. The essence of every business is to make profit and business can be privately and publicly owned depending on the owner's decision at the point of inception. There are pertinent questions that require answers in starting a new business enterprise.

These are:

- Why am I starting a business?
- What kind of business do I want?
- Who is my ideal customer?
- What products or services will my business provide?
- Am I prepared to spend the time and money needed to get my business started?
- What differentiates my business idea and the products or services I will provide from others in the market?
- Where will my business be located?
- How many employees will I need?
- What types of suppliers do I need?
- How much money do I need to get started?
- Will I need to get a loan?
- How soon will it take before my products or services are available?
- How long do I have until I start making a profit?
- Who is my competition?
- How will I price my product compared to my competition?
- How will I set up the legal structure of my business?
- What taxes do I need to pay?
- What kind of insurance do I need?
- How will I manage my business?
- How will I advertise my business?

These may not be only questions that entrepreneur that require answers but rather a guide as every business has its peculiarities. In starting a business enterprise, an entrepreneur may consider either of three options thus:

- Start a new business enterprise
- Buying an existing business enterprise
- Inheriting an existing business enterprise from a deceased parent or relation.

Starting a new business enterprise involves planning, making key financial decisions and completing a series of legal activities. These eight steps can help you plan, prepare and manage your new business enterprise.

*Step I: Write a Business Plan*

Business plan is a blue print containing the goals of the business and the goals to be achieved and within a time frame. This written guide called business plan will help you map out how you will start and run your business successfully with a clear-cut direction.

*Step II: Get a Business Training and Assistance*

An entrepreneur needs a good training and assistance from those that have the knowledge of the proposed business which can be counselling services on how to a business plan and securing financing, to start or expand their business.

*Step III: Choose a Business Location*

Ensure that in starting a new business, you are expected to start at a good location for easy access by customers and ensure to have a good customer-friendly location.

*Step IV: Financing your Business*

What is expected of an entrepreneur is to find out how he can finance his new business. How can you get loans from government or financial institutions or discount houses, venture capital and research grants to start a business?

*Step V: Choose the types of Business you want legally*

A businessman or an entrepreneur must decide from the beginning which form of ownership will he venture into legally or best suits his business. This could be sole proprietorship, partnership, Limited Liability Company Corporation, Corporation, non-profit or cooperative depending on his choice or financial strength of the proposed business.

*Step VI: Register your Business name*

All businesses are expected to be register with a business name either at the state or federal level.

*Step VII: Register Your Business with Tax authorities*

Register your business with tax office to have Tax Identification Number (TIN).

*Step VIII: Get Your Business Licences and Permits*

All businesses are required by law to have a licence or permit to operate either at the local government, state or federal level. Each of the three-tiers of government has separate laws on how businesses can operate in their respective domains.

**Business Plan**

A business plan comprises of the following procedure in the processing of writing it:

*Executive Summary* - The executive summary of a business plan comprises of the following depending on the business nature and type because every business has its own uniqueness and therefore the following are the steps to writing a business plan. The steps also vary with the type of business an entrepreneur want to venture into. Some businesses require an elaborate and detail plan while others require a little.

To establish a big manufacturing plant and small garment making industry have different requirements in a business plan. However, this business plan is a guide for students and practitioners.

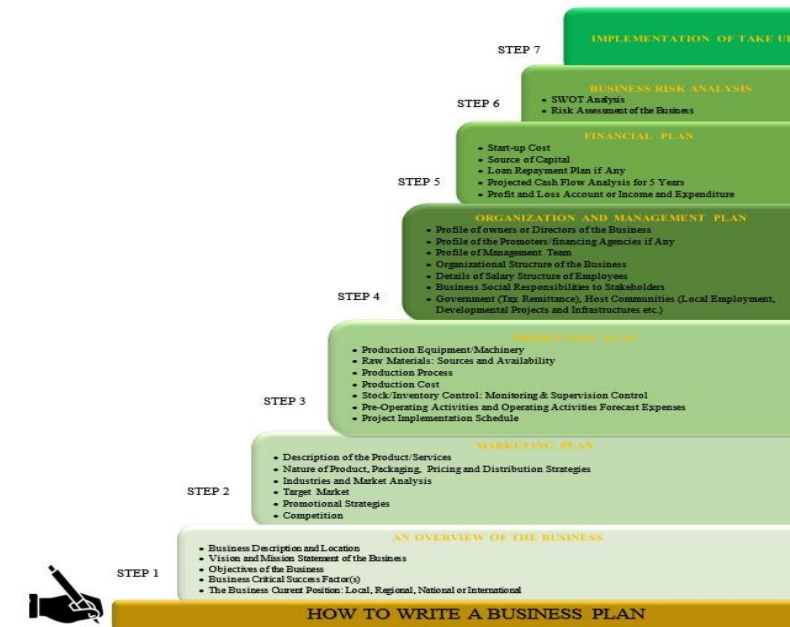


Figure 2.1 Business Plan

### Step I: An Overview of the Business

- 1.1 Business Description and location
- 1.2 Vision and Mission Statement of the business
- 1.3 Objective of the business
- 1.4 Business Critical Success Factor(s)
- 1.5 The Business Current position: local, regional, national or International

### Step II: Marketing Plan

- 2.1 Description of the product/service
- 2.2 Nature of product, packaging, pricing and distribution strategy
- 2.3 Industry and Market analysis
- 2.4 Target Market
- 2.5 Promotional Strategy
- 2.6 Competition

### Step III: Production Plan

- 3.1 Production Equipment/machinery
- 3.2 Raw Materials: sources and availability
- 3.3 Production Process
- 3.4 Production Cost
- 3.5 Stock/Inventory Control: Monitoring & Supervision Control
- 3.6 Pre-Operating activities and Operating Activities forecast expenses
- 3.7 Project Implementation Schedule

*Step IV: Organization and Management Plan*

- 4.1 Profile of Owners or Directors of the business
- 4.2 Profile of the promoters/financing agencies if any
- 4.3 Profile of Management team
- 4.4 Organisational Structure of the Business
- 4.5 Details of salary structure of employees
- 4.6 Business Social Responsibilities to Stakeholders
- 4.6.1 Government (tax remittance), Host communities (local employment, developmental projects and infrastructures etc.)

*Step V: Financial Plan*

- 5.1 Start-up Cost
- 5.2 Source of Capital
- 5.3 Loan Repayment Plan if any
- 5.4 Projected Cash Flow Analysis for 5 years
- 5.5 Profit and Loss Account or Income and Expenditure

*Step VI: Business Risk Analysis*

- 6.1 SWOT Analysis
- 6.2 Risks Assessment of the Business

*Step VII: Implementation or Take up*

This is the final take up of the project as planned.

**Advantages and Disadvantages of establishing or starting a new Business Enterprise**

Establishing or starting a new business enterprise has its advantages and disadvantages. However, establishing or starting a new business takes a lot of resilience, passion, talents, determination, hard work and perseverance. It also requires a lot of research and planning. Before establishing or starting a new business, an entrepreneur is expected to appraise his strengths, weaknesses and assess his goals to determine whether he can do the business based on his skills and knowledge. And he is expected to create a business plan which translate and explain his business ideas into writing. The business plan will reveal the inflows of his ideas as well as give him the opportunity to correct any problem or issues raised before investing into the new business enterprise.

**Advantages of establishing or starting a new Business Enterprise**

The following are the advantages of establishing or starting a new business enterprise enumerated below:

- Newer and better equipment
- New Location
- New and up to date stock of goods
- Cultivate Customer loyalty
- Efficient management of employees
- Not bound by any existing rules, policies and practices
- Financial rewards
- Staffing and independent
- Freedom of creativity
- Responsible

- Market and Marketing
- Image/Reputation of the business
- Name and Logo
- Resale potential

#### *Newer and better equipment*

An entrepreneur when establishing or starting a new business, he starts the business by acquiring newer and better equipment for a start. These attract customers to the patronage of the products because of its newness of equipment.

#### *New Location*

When an entrepreneur establishes a new business in a new location the business may be better than the one located in an old location. The new location may have a proximity to market, suppliers or raw materials.

#### *New and up to date stock of goods*

A new business starts with new and up to date stock of goods. When an entrepreneur establishes a new business, the stocks of goods are expected to be new and this will eventually encourages patronage from new customers.

#### *Cultivate Customer loyalty*

Establishing or starting a new business help the entrepreneur to select new customers and cultivate customer loyalty or clientele without inheriting any ill will that an existing business may have fostered.

#### *Efficient management of employees*

The new business has the freedom to organise its own personnel to serve it adequately. If you acquire a business it is not easy to dismiss the workers, there is a law against this practice but if you are to start a new business you hire the workers that you feel are competent and good for your new business.

#### *Not bound by any existing rules, policies and practices*

A new business is not bound by any existing rules, policies and practices while, an existing business rule, policies and practices adopted by the business has to be followed and it is difficult for an entrepreneur to change existing rules, policies and practices of an already existing business.

#### *Financial rewards*

In spite of high financial risk involve in establishing a business and running your own business gives you a chance to make more money than if you were under someone else. You benefit from your own hard work, dedication and perseverance at work.

#### *Staffing and independent*

You can employ skill and unskilled employees as well as expert to work in your new business without any interference from anybody while its at your discretion to employ whoever you want and the number you want without hindrances from any external pressure. You are not depending on anyone for control, management and decision on the operation of the new business.

#### *Freedom of creativity*

You have the freedom create, innovate new business, expanding the business, introducing new product without directive from anyone.

### *Responsible*

Having established a new business of your own make you to be responsible and have control over your business.

### *Market and Marketing*

When a new business is established, the advantage is that the entrepreneur can explore new markets for its products and chooses its own channel of distribution.

### *Image/Reputation of the business*

When a new business is established, the entrepreneur is not jeopardized by the previous image or reputation of an existing business.

### *Name and Logo*

When a new business is established, the advantage is, you can name your business and create your own logo the way you want unlike if its an existing business which already has name and logo.

### *Resale Potential*

When a new business is established, the entrepreneur finds it easy to resale the business for cash at any time because of its newness.

## **Disadvantages of establishing or starting a New Business Enterprise**

The following are the disadvantages of establishing or starting a new business enterprise:

1. Learning process/period in business
2. Difficult to start and Start-up cost
3. Competitors
4. Suppliers
5. Location
6. History
7. High Risk
8. Registration and legal charges
9. Cost of advertisement
10. Difficulty of building customer's loyalty
11. Huge capital required/Limited Finance
12. Delay in profit Making
13. Financial Risk
14. Time Commitment and Stress
15. No existing customer database
16. Difficult to source for fund

### *Learning process/period in business*

Starting a new business enterprise from the scratch is the toughest test of the entrepreneur's energy, perseverance and entrepreneurial skills of the founder and it is referring to as a learning process or period and there is high level of uncertainty in a new business in terms of success or failure. During the learning process/period, an entrepreneur who is the founder of the new business needs to adjust his/her business skills/ideas to the realities of the business environment he/she is operating. However, during this learning process/period, entrepreneur may sustain losses or no income flows/revenue.

### *Difficult to start and Start-up cost*

The first disadvantage of establishing a new business is the difficulty when starting because, one need to answer some salient questions such as; 'why am I starting a business', 'what kind of business do I want to start', 'where should my business be located', 'what kind of employee do I need to employ', 'how many number of employee do I need to employ', etc. The ability to answer these questions will go a long way in determining the viability and success of the business. In terms of Start-up cost, before one starts a new business, registration formalities, notification, evaluation, examination and issuance of permits have to take place by experts, professionals, organizations, regulators and even the government. These costs and others if added up will give a large chunk of money which might be costly. Many entrepreneurs spend a lot of money in starting a new business and are sceptical about making profit and collapse within the first financial year.

### *Competitors*

Competition is another disadvantage of starting a new business. An entrepreneur will invest his money and time into a business and his competitor will sell the same product to consumers at a lower price than his own and render the entrepreneur's new business unprofitable.

### *Suppliers*

Since an entrepreneur business is new, he/she is starting from the scratch and some suppliers might not like to sell their goods on credit because of fear that new business might fail, and the entrepreneur may not be able pay up his debts.

### *Location*

The premises and the building of the new business might not be suitable for starting a new business. An entrepreneur might build his new business in a place that may turn up to be unfavourable to customers or may not be accessible to customers. If the new business is not located nearer to the people or raw materials source and good roads then the new business is definitely going to collapse.

### *History*

Since the business is starting newly or afresh and may have no history of patronage from customers, therefore, suppliers might not like to supply the new business for fear of uncertainty.

### *High risk*

A new business is always risky to the owner who invests his money without knowing the outcome or how profitable the business will be. In case of any dereliction, the entrepreneur suffers the loss. Most entrepreneurs starting a new business cannot anticipate if the business will make profit or loss but they venture into it and face the risk. There is also a high risk involved in starting a new business, a business that has no customer base must employ staff and also develop line of credit with its suppliers. A new business associated with higher risk tends to be ignored, and regarded as a threat. The new business owners or new start-up businesses that defy all odds to invest in such areas tend to find it difficult to survive, because of lack of proper management or the inappropriate adoption of a system that will guide the venture into success. New businesses in this era tend to spend a lot of resources because; they are starting new, without experience, probably with inexperienced workers coupled with lack of distinct knowledge of the terrain. All these things require defying odd decisions and self-confidence for success to be achieved, but if none is found then the new businesses are bound to fail.



### *Registration and legal charges*

The details of starting a new business required payment of registration permit, license and other charges and these Registration and legal charges are always exorbitant. In establishing or starting a new business, the issue of registering the business becomes difficult. Sometimes it may take some months before new businesses get registered due to the legal process.

### *Cost of advertisement*

In establishing or starting new business, cost of advertising the product is another disadvantage, because to make your business be known you have to advertised. In order to do so an entrepreneur must spend money for advertisement.

### *Difficulty of building customer loyalty*

When a business is new and had just started its operation, it is difficult to win customer's patronage and establish customer loyalty especially if the new business don't have good business relationship. There is also fear of continuity in a new business that may make customer fill reluctant for the patronage of business.

### *Huge capital required/Limited Finance*

In starting a new business, it requires a large amount of money to establish it and also for the day to day running of the business. New business requires more money compared to buying an existing business in most situation provided the entrepreneur want to start the business on a sound footing. In terms of limited finance, financing a new business is difficult because it is not easy to get a financial assistance to start a new business. In Nigeria many newly established businesses or start-ups are denied access to loans, by the just a singular belief that it is new and therefore its records and financial stability cannot be ascertained and this renders it unqualified. In order to obtain capital for the new business to be funded, a lengthy business plan must be put together which jeopardize the effort of entrepreneurs in getting financial assistance especially from financial institutions.

### *Delay in Profit Making*

It may take longer time for a new business to have a good number of customers to enable it make profit. A new business usually have a very slow turn over, this can also delay the profitability of the new business.

### *Financial Risk*

In every business there is risk that is involved, as a beginner you may incurred lost because of market penetration, therefore, to be a successful businessman look start a business that is less risky.

### *Time Commitment and Stress*

The business is time consuming; you must be present at any time and be committed to the business. There is too much stress because everything is on your head.

### *No existing customer database*

An entrepreneur has to be up and becoming looking for customers through different mean of advertisement to attract customers because there is no existing customers.

### *Difficult to source for fund*

Since the business is entirely new, it has no track record and therefore, it will be harder to source for fund by the entrepreneurs as most banks find it difficult to guaranty loan repayment by a newly established business.

## Chapter 3: How to Invest in a New Business Enterprise

### Introduction

To invest in a new business enterprise, an initial sum of money is required. It is also a temporary equity or equity-financing of potentially high growth, high risk, and small to medium sized enterprises lacking access to conventional sources of finance. It is an integrated approach to assistance involving the provision of risk capital with value added management, marketing and other technical input. Venture capital is a private equity financing that an investor or new business provides to start a small business believing that it will have a long-term potential growth. Venture capital firms usually are start-ups promoters while private equity uses both cash and debts in their investment activities. Venture capital firms deals with equity only. There is always high risk involve in venture capital financing. Venture capitalist raise, finance, purchase, add value, take risk and wait for a long term returns. Equity is the amount of capital contributed by the owners of a company or business venture. In other words, the capital needed for business expansion that could occur at any phase of the business venture. These phases are seed capital, financing start-up operation, financing expansion of existing business and rehabilitation and revitalizing.

### Financing new business

*Seed capital:* This involves provision of fund for developing a promising but unproven idea or product. It is the amount of money or capital in a form of securities in which an investor invests as a startup capital for an entrepreneurial venture or new business with promising return.

*Financing start-up operation:* These are funds provided for commercial production and marketing of developed idea and product.

*Financing expansion of existing business:* Funds are provided for the financing of the expansion of business.

*Rehabilitation and revitalizing:* This involves the financing or rehabilitation and restructuring of entrepreneurial or commercial ventures toward revitalizing and modernizing them for a good return.

One should note that, in many developing countries especially Nigeria, the start-up of new business has a peculiar appeal. It provide a ready avenue to transfer funds directly to investors who are presently cut off from conventional sources of financing that are potentially capable of generating economic growth and development. The amount of start-up required at any point in time depends on the business plan. The business plan could be for short, medium or long term proposals. It also depend on the size of the business whether micro, small, medium, or large scale business enterprises. Some new businesses do not have enough collateral to warrant obtaining credit facilities from bank. Those that have may not qualify because the banks are very careful in their approval of loan facilities for fear of not recovering their investment. Banks want to advance their loan facilities to short term investment with very high expected return. They want to monitor the loan given out to make sure it does not become a bad loan. This explains why they concentrate on trade financing whereby they hold the document either in the form of warehouse receipts and ensure that the sale is made, and return paid directly to the

accounts of the customers in their banks. The banks are averse to taking risk. In Nigerian case where the banks agree to give any facility to the entrepreneur, the leading interest rate is very high at a rate of an average of 30% depending on the bank in question. It is therefore not recommended to any aspiring entrepreneur or even those already in the business to take bank loan to finance start-up operation or even expansion unless where it is absolutely necessary. The best alternatives on how to invest in a New Business Enterprise are as follows:

1. Boot strapping
2. High net worth individuals
3. Venture capital
4. Barter
5. Crowdsourcing

**Boot Strapping** - This is starting a business from the smallest possible size using all the resources and opportunities available to the enterprise. In this situation there is no cash coming from outside sources of the company and the company has decided to source funds from within. Boot strapping using one's resource get out of a business situation and learning how best to manage cash flow for a business start-up. The boot strapping enables a businessman or investor to start his business without losing control and financial resources. Boot strapping technique includes:

- Negotiating extended credit term from suppliers.
- Receiving advance payment from customers.
- Exchanging equity stakes for outside service and suppliers.
- Developing internal cash generating projects.
- Getting free flow or low-cost help from friends and family members

**High net worth individuals** - Prospective entrepreneurs wanting to operate micro, small or medium scale businesses can raise capital from private investors that have the funds needed for investment in entrepreneurial ideas. This could be in exchange for equity share and for agreed percentage returns on profit. These private investors are known as angels because they are rich businessmen, lawyers, accountants, bankers or other entrepreneurs who are willing to trade where institutional investors are afraid to venture into and these types of investors are looking for stratospheric return (extremely high return). With that in mind, they do assist genius prospective entrepreneurs financially.

**Venture capital** - Venture capital is an investor contribution to a new micro or small-scale enterprise in return for an equity position in that enterprise. As the business grows, this equity can be sold for capital gain. Venture capital investment funds have three stages in an enterprise development.

*The start-up phase or Series A funding stage:* This is first round of venture capital, by now the start-up must have a developed product and a customer base with consistent revenue flow. And this stage it is significant to have a plan that will generate long-term profits. Many times, start-up comes with great ideas that can generate a substantial amount of enthusiastic users; however, they do not know how to monetize it in the long run.

*The growth phase or Series B funding:* This stage may appear to be similar to the former funding stage in terms of processes and key players, however, series B funding is often led by same characters, including a key anchor investor that helps to attract other investors. The major difference is the addition of a new wave of venture capital that specializes in investing in well-established start-up so that they can further exceed expectations.

*Establishment phase or series C funding:* At this stage investors happily fund successful start-ups. They are hopeful to receive a profit that is more than the money they invest. The series funding C funding stage focuses on scaling the start-up as rapidly as possible. Start-up that engages in this phase are well-established, hold a strong customer base, have procured stable revenue streams alongside proven histories of their growth, and want to expand their operations on a global scale. If you have not accomplished any of the above, then you are not ready for the series C funding.

**Barter** - As the name implies barter is the exchange of goods and service without cash. It can help any cash-starved organization to turn its excess inventory into purchasing power. For example, if a business venture is into the production of accounting service and wishes to expand its office and scope of operation. It could approach an estate organization for provision of accommodation. It could also approach a bank for provision of computer, all in the exchange for the accounting services that must be rendered for a specified time.

**Crowdfunding and Crowdsourcing** - Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance. It is a method of raising capital through the collective effort of friends, family, customers, and individual investors. It is also another way people, businesses and charities to raise money. It works through individuals or organizations who invest in (or donate to) crowdfunding projects in return for a potential profit or reward. This approach taps into the collective efforts of a large pool of individuals - primarily online via social media and crowdfunding platforms - and leverages their networks for greater reach and exposure. Even though investing in crowdfunding can be risky, you must be sure of who are dealing with. While **Crowdsourcing** is the process of sourcing information, or skills or end products from a group or groups of people and using the knowledge and power of the crowd to speed up a process.

Other ways to invest in a new business include:

**Partnership** - Instead of investing in a business in exchange for an equity stake, you can look into becoming a partner in an existing business. This can mean doing day-to-day work in the business focusing on something the founder doesn't have time for, such as marketing or finance or it can be a more hands-off role. This can give you the entrepreneurial experience, minus the start-up phase, and allow you to choose the type of work you want to do. Even if you are absolutely set on starting your own business, the right partner can make the start-up phase go more smoothly, depending on the experience and skills they bring to the table.

**Intrapreneurship** - Another option is to become an entrepreneur within a larger organization. Some companies have structures encouraging employees to pioneer new business lines in return for equity or bonuses. If you can find a company with a strong culture of innovation, you can build your own business within it, with the advantage of having start-up capital from the beginning and less personal risk. You may even be able to kick-start an Intrapreneurship program by asking to spend a percentage of your time working on pet projects with bonus structures. Intrapreneurship can offer some of the same benefits as entrepreneurship without forcing you to give up the security of a day job.

**Buy a Franchise** - A business in a box is one way to avoid many of the hassles involved with starting from scratch. Essentially, a franchise owner is following a script proven to be successful in other locations. Benefits of a franchise include a recognized brand, resources to draw from, and economies of scale the franchise network creates.

The drawback to franchise ownership is primarily the cost of the initial purchase and the royalties, which can be expensive. People who want a true entrepreneur experience will also have issues with the limitations the franchise office imposes as far as creative control. That said, franchises have a stronger support network and generally have a better success rate compared with the vast majority of start-ups.

**Buy an Existing Business** - Buying a business that is already in operation and profitable is another shortcut. There are some obvious benefits, like less time spent in the planning and creation stage, infrastructure such as supplies already in place, and existing customers who recognize the brand. The major downside is that the cost of acquiring a profitable business is usually much higher than the start-up costs of the same type of business. This cost reflects the efforts of the person who started it, plus an additional premium charged for the business having proven its viability. If you choose this route, it is important to perform due diligence, such as confirming all the revenue figures and finding out why ownership is selling a seemingly successful business.

## Chapter 4: Buying an Existing Business Enterprise

Going into business is a pleasure to a lot of businessmen and this is undisputable as one passes through many villages, towns and cities in Nigeria, one is likely to see some businesses bearing different kind of names, others have merely the proprietor's names printed above the shop, while others have more than one name displayed. Businesses are owned and organized in a number of ways and each has its distinguishing features with various advantages and disadvantages associated with them. Some businesses are bought, others started as new enterprise while a host of others are inherited.

### **Advantages of buying an existing Business Enterprise**

The following are the advantages of buying an existing business enterprise:

- Less time is needed to start operations
- Old Location
- Acquiring the existing equipment at lower cost
- Nucleus of customers
- No Delay in waiting for stock of goods or supplies
- Reputation or goodwill
- Prospective of an existing business
- Established customers, suppliers and market
- Established existing employees and Blueprint
- Recognized name

#### *Less time is needed to start operations*

There is no need to create your own setup from the foundation because the predecessor has rendered the services, facilities and staff are already in place.

#### *Old Location*

An old location of an existing business may be better than a new one, since the former may have been proved and known to customers and the public.

#### *Acquiring the existing equipment at lower cost*

The prospective owner may be able to acquire the existing equipment at lower cost since he did not buy a new business. And the cost of the equipment may be low compared to buying a new business.

#### *Nucleus of customers*

The prospective entrepreneur may start with nucleus of customer if he/she acquires an existing business because the customers are already there, but in case of a new business getting customers is another problem.

#### *No Delay in waiting for stock of goods or supplies*

There will be no delay in waiting for stock of goods or supplies in order to operate because the existing business may have some stocks at hand.

#### *Reputation or goodwill*

The prospective entrepreneur may be able to take advantage of good reputation or goodwill established by the existing business.

### *Prospective of an existing business*

It is easier to evaluate the prospective of an existing business with reasonable accuracy because of the existing historical data on which one can base his assessment. Groundwork of running the business is already established and put in place

### *Established Customers, suppliers and Market*

Buying an existing business, you already have established customers, supplier's relationship and established market for your products or services. There is no need to search for market for the business but just to expand the market if feasible. The business has established channel of distribution on how to market the products.

### *Established existing employees and Blueprint*

The business already has existing employees which can be manage easily by making few changes in the business. And the business plan on how to run the business is already on ground and there is no need to draw or come up with another business plan, but you can update from the existing one as most of the business problem might have already been solved.

### *Recognized name*

An existing business is a known entity with a proven method of operation and with recognized name which makes it advantageous to the owner.

## **Disadvantages of buying an existing Business Enterprise**

The following are the disadvantages of buying an existing business enterprise:

- Insufficient knowledge of the business
- Re-negotiation of previous contract
- Bad location
- Obsolete facilities
- Bad reputation
- Competition
- Managing existing staff and unskilled personnel
- Over-valuation
- Management problems and business of growth

### *Insufficient knowledge of the business*

The owner may possibly be dishonest about the business. The fact that the business is not doing well might be hidden by false pretence or statement by the owner and managers. The financial statement and other documents might have been carefully compromised or falsified.

### *Re-negotiation of previous contract*

The previous owner may have got into some unfavourable long-term contractual obligations, which may threaten viability of the business. For example, a commitment to produce and supply a fixed quantity of material at a prefixed rate would have worked well in situation of suppressed raw materials prices but any rise in raw material price would render such a contract unviable.

### *Bad location*

What was once an ideal location may have become obsolete location over time due socio-economic changes, Prospective buyers should always evaluate the existing business market in the area surrounding an existing business as well as its potentials for expansion.



Buyers must remember that they are buying the future of a business, not its past. And therefore, business success is closely linked to good location. Acquiring an existing business in a declining area is not a good idea as the value of the business can erode faster and render the business unprofitable. The location may be bad or likely to become bad due to some policy changes. For example, a talk with the town planners may reveal that the place may be prone to future demolition for fly-over or some kind of modern construction of roads. Any business sited in a place where there is no customer for its products goods and services, may be investing in a waste bin, because it entails that there is none or little patronage of its products and is bound to fail.

#### *Obsolete facilities*

Entrepreneurs/Investors sometimes neglect to have an expert to evaluate a company's facilities and equipment before they purchase it. Which they may later discover that the assets are obsolete and inefficient and that the business may suffer losses from excessive high operating cost while the equipment may be old and out dated. There may have been some recent technological changes that may have rendered the existing machinery obsolete.

#### *Bad reputation*

A socially responsible existing business creates good will from its customers while improper business behaviour creates ill will. Therefore, an entrepreneur requires due diligence process so as to reveal its customers, suppliers, creditors or employees who may have negative feelings about the business reputation because of the unethical action of its current owner. Any bad reputation that the business had acquired among suppliers, distributors, and other people in the industry is likely to continue notwithstanding the change in ownership.

#### *Competition*

The business may have stronger competitors who produce the same product and offer at a lower price than that of the business or company you are buying. That may be the reason why the owner wants to sell it due to its inability to compete with those strong competitors that already exist. An entrepreneur who is buying an existing business may not be able to compete with strong firms that exist for long.

#### *Managing existing staff and Unskilled Personnel*

While you can benefit from relying on the experience of existing employees, there are many potential problems that can arise. First of all, they may not be the type of staff you would personally like to hire. Negative aspects such low morale, distrustful attitude and absenteeism, pilferage may be common in the business. And also employees may be unproductive or incapable of meeting the standard required of a prospective investor. It is also possible that the employees have been at odds with the management and there has been a poor work culture. In most situations, the disadvantage of buying an existing business is that when a business changes hands, some few skilled employees also leave in form of resignation. The good number of employees' loss can be devastating to an entrepreneur who is acquiring the existing business since the value of a business is based on the efforts of the employees.

#### *Over-valuation*

It is possible that the actual purchase price of an existing business is inflated due to established image, customer base, market share and fictitious financial statement etc. Businesses that are purchased higher than their net worth value tends to take longer time before the new owners come to realise. As such many entrepreneurs that purchased existing business at a price in excess of the real value of the business which later impaired the business ability to earn profit.

*Management problems and business of growth*

Employees may not be loyal to the new owner, causing management problems. The existing staff may not be happy with the new management rules and regulations which might lead to low staff morale, low productivity and turnover. And there's no guarantee the business will be going concern under your ownership. Hidden problems with an existing business could re-surface such as debts, liens or misrepresentations about income and profitability. As a business owner, you'll probably have to perform some unpleasant tasks and goodwill to people in order to find business back to track.

## **Chapter 5: Managing an Existing Business Enterprise**

Managing an existing business enterprise is simply a combination of the processes and activities carried out in order to properly manage the business enterprise so as to achieve the aims and objectives of the business. Managing an existing business enterprise is an herculean task for any entrepreneur; this is because he/she is inheriting an already established rules and regulation, norms, business culture and most importantly management process which will require things to be done differently. Entrepreneurs must do things differently whether they're an unemployed person striking out on their own or a seasoned veteran trying to get their morale back in order to survive. Hence, the uniqueness of management in any business enterprise can't be overemphasized.

It is therefore necessary for us to appreciate the nature, scope as well as importance of management to the survival of an existing business. Management therefore, plays the role of a catalyst that effectively and efficiently coordinates and combines the available materials and human resources to the benefit of the business. The management of an existing business cannot be properly explained without appreciating definitions of management and how the use of management functions will help in the management of an existing business.

Management is achieving results through other people with an appropriate interconnected function of planning, organizing, leading, motivating, staffing as well as controlling so as to meet organizations tangible and financial objectives.

Management is the process of getting things done through or by other people. Management is tasks, discipline as well as people. Every achievement of management in a business is the achievement of the manager and every failure in a business is the failure of the manager. People manage rather than forcing or imposing. The vision, dedication and integrity of managers determine whether there is proper management or mismanagement.

### **Application of Management functions and principles in management of an existing business Enterprise**

The proper management of an existing business will best be achieved through the application of the management functions and principles; however, there are other factors that are important to the management of an existing business which will be discussed in addition to the functions of management.

*Planning:* The planning function of management controls all the planning that allows the existing business to run smoothly. It involves review of existing goals, defining new goals and determining the most effective course of action, policies, procedures needed to achieve the goal of the business. For effective planning, the planner must coordinate with all levels of management and leadership of the business to ensure effective and efficient implementation of the plan, which should be set based on the prevailing business environment. At this stage all financial strategies should be set, plans on how to acquire new and maintain existing fixtures, plan on how to respond to competition in the market are all set at the planning stage for proper management of the existing business.

*Organizing:* Business should establish a structure of tasks which have to be followed to achieve the existing business objectives. Tasks and responsibilities should be divided to employees with the specific set skills needed to complete the tasks. Organizing also involves developing the organizational structure and chain of command within the company.

Therefore, organizing will structure the day-to-day operation of the business and ensure that the staffs do not lose focus.

*Staffing:* The existing business should ensure it get the people to do the task that the business requires in the best way possible. The main purpose of staffing is to hire the right people for the right jobs to achieve the objectives of the business. Staffing involves more than just recruitment; staffing also encompasses training and development, performance appraisal, promotions and transfers. Without the staffing functions, the business would fail because the business would not be properly staffed to meet its goals.

*Coordinating:* All functional activities of the business should be harmonized so that individuals work towards the common goals of the business. Coordination should also involve communicating to employees what to do, how to do it and when to do it and supervision to ensure task are carried out as required.

*Monitoring/Controlling:* This involves measuring and evaluating the business performance as well as making all needed changes to ensure that they match with the planned objectives. It is also useful to ensuring all other functions of the business are in place and are operating successfully. The level of performance affects the success of all aspects of the business.

*Managing change:* Change is constant and inevitable. For proper and effective management, the business needs to be prepared for change due to the dynamic nature of the business environment. Therefore, business should be able to initiate and absorb changes to be successful than those who resist needed changes, e.g.; transitioning from a crude method of production to an automated method.

*Motivation:* A key aspect of managing an existing business is motivation. Motivation is a basic function to maximize employment efficiency. By boosting morale, employees will carry-out their specific tasks in an effective manner. Motivation could be in form of cash, promotion, a paid trip or even a simple tap on the back.

*Communication:* A good entrepreneur will communicate regularly with staff. You need to know what they are observing in the business, how they feel about their jobs, and whether any problems are brewing. It also helps for the staff to hear from you and know, in advance, if any changes are coming or anything else that will affect their work. Regular communication can resolve many unsolved problems before it emanates. Communication can be improved in an existing business through:

1. Regularly scheduled staff meetings
2. Written newsletter or other bulletins
3. Regular informal email communications
4. Business/company bulletins or online virtual site
5. A shared calendar of events

*Network with other business leaders:* By going out of the comfort of your office and get to know other business leaders in your neighbourhood. Speaking with other business managers can help you generate ideas for your own business. You can also build up goodwill with both consumers and suppliers. By meeting community leaders you can spread the name of your business and generate informal publicity. Such meetings often lead to an increase of business awareness.

*Deal with customer disputes and Conflict Management:* If your business has regular customers, you are likely to run into complaints at some point. Handle these as respectfully as possible. Let the customer know that you respect their business and you are sorry for the problem (even

if you don't believe you are at fault). If the customer is someone with an open contract with you, then refer to the terms of the contract to see if that will provide a solution. In the end, you should balance whether possibly losing the customer's business is worth the cost of addressing the complaint. For example, suppose your business supplies personalized stationery to other offices and a customer refuses to pay for a shipment because the quality is poor. If you disagree, you should balance the price of that one invoice against the costs of suing for collection and losing that customer's future business. It may be better for your business to lose the value of one shipment but keep a longstanding satisfied customer. Conflict occurs when two or more values, perspective and opinion are contradictory in nature and have not been aligned or agreed. Conflict is inevitable in business settings as long as people compete for scarce resources, when they occur, they should be managed in a way that builds rather than harms personal business relationships. Effective conflict management in business will provide a good sense of direction to the business and attainment of business objectives.

*Compliance:* This is an important aspect of managing an existing business which could easily lead to failure of business if not given proper attention. For companies, there is need for compliance with Companies and Allied Matters Act (CAMA) and other laws regulating business practices in Nigeria. This means that all annual reports are filed, shares issued, shareholder and director meeting minutes are signed and in the minute book and the shareholder agreement is up to date. There should be compliance with tax authorities and environmental policies.

#### *Factors that Affect Managing Micro, Small and Medium Businesses*

Businesses, be it Micro, Small and Medium Enterprises or Conglomerates do not exist in a vacuum, they operate in an environment and as such are influenced and affected by everything around it. An entrepreneur can as well view an existing business from the lens of a systems theory which can be applied to a business as an open system, one that receives inputs from its external environment, processes it using some internal resources and returns some output back into its external environment in the form of products or services. In the process of interaction and exchanges between the business and the external environment, certain factors which could be classified as uncontrollable and controllable factors affect the business. A good combination of controllable and uncontrollable factors determines an organization's level of success or failure.

### **Uncontrollable and Controllable Factors in Managing an existing Business Enterprise**

#### *Uncontrollable factors*

These are external factors and can be termed as macroeconomic events or circumstances which significantly affect business conditions, be it positively or negatively. These factors after being figured out are grouped into opportunities and threats of the company. Such conditions include:

*Competition:* Business firms compete not only for sale of their products but also in other areas. When it comes to stiff and cutthroat competition in which every seller is seeking to gain the larger market share and sales profit by offering the best practicable combination of price, quality and services, entrepreneurs must strive to be successful or be frustrated out of the market.

For the good side, competition brings about innovation, better customer service, core market understanding and understanding of your own business, your strength and your weakness. Since products and services have different quality, their prices also vary in accordance with the level of the quality.

This is already evident in the grade of fuel in Nigeria in 2020 where filling station sale at the range of 143 Naira to 145 Naira per liter. With this, the enterprises can position the goods and

services at various price levels considering what the competitor's price range are. We have the direct and indirect competition:

1. Direct competition exists where organization produce similar products that appeals to the same group of consumers. For example, when two supermarkets offer the same range of chocolate bars for sale.
2. Indirect competition exist when different firms make or sell items which although not in head to head competition still compete for the same \$200 in the customer's pocket.

One of the results of the competition is fluctuation. In this event, the supply and demand relationship is compared to a seesaw because as one increase, the other decreases in value. This is also the same with the pricing strategy development. So if your business has several competitors offering the same goods or services, the lower the price will be. Now if you don't have competitors in the area, the price of your goods will increase. This is a common thing that happens if there is competition that is why you are advice to check first if you have competitors in the area you are planning to venture your business. If you will sell your goods for lower price, this is negative one because you will only earn a small income.

*Technological Change:* Small business rely on technology to help them operate on daily basis, technology has the potential to affect small scale businesses positively or negatively. Small scale entrepreneur must adapt to technological change in order to be successful in business. Small scale businesses can increase their employee's productivity through the use of technology; otherwise the competitors would frustrate their businesses out of market. However, small scale businesses are faced with a lot of challenges in financing their business. Change in technology brings about failure to small scale entrepreneurs due to over dependence on single market:

1. Failure to adjust to the dynamic technological environment causes business failure because small scale entrepreneurs assumed they can do everything by themselves and also risk can be reduced by the use of technology.
2. Change in technology brings about new product advantages to buyers and opportunities by creating entire new market.
3. New knowledge often becomes substantially useful only in fairly large amount so that the required minimum investment outlays and risk will sometimes exceed the capacity of individual investor.
4. Entrepreneurs can only reduce risk through improve access to information and knowledge, which technology can easily produce.
5. Businesses have been at the forefront of technologies for ages, whatever can speed production draw in more business opportunity.
6. Inability of SMEs to update their technological facilities and operations brings about drastic failure to small scale businesses due to dynamic nature of technology.
7. Poverty: When a business refuse to embrace changes in technological advancement, the business becomes stagnant and could result in loss of customer, market share and sales profit. Consequently, the business would be unable to meet market target and eventually leads to business failure. Business failure will obviously result into poverty if proper reactive measure is not taken.
8. Unemployment: A business failure could result in unemployment for several staffs working with a failed business. It is important to embrace changes in technological advancement so as to ensure staffs keep their job to meet ends means.

*Interest Rate:* Price of the money is one of the uncontrollable factors that affect the smooth operation of small-scale business, it is defined as the amount charged, expressed as a

percentage of principal by a lender to a borrower for the use of his assets. Interest rate is normally expressed as a percentage describing the amount a lender charges a borrower for access to capital.

Below are some of the ways in which interest rate as an uncontrollable factor, affect small scale business enterprises in Nigeria:

- **Business Growth:** Interest rate can have a significant effect on a firm's growth plan. Because high interest rate reduces overall corporate earnings, it may hinder the ability of a small-scale business to expand or grow. On the other hand, a fall in interest rate makes business loans more affordable. As a result, small scale business enterprises attempt to plan their expansion to coincide with period of lower interest rate.
- **Cash flow:** High interest rate can have a serious effect on small scale business, which tends to operate with limited cash flow. When interest rate rise, small business owners must set more money to repay loans and other debts; this in turn reduces a business available income and can affect its ability to meet its obligations.
- **Debt:** The amount and type of debt a small-scale business takes on can determine the impact of fluctuating loan rate on the firm. While small business owners with fixed loans may not suffer greatly when interest rate rise, small business with variable loans; where interest rates fluctuate based on the official rate, may find themselves in trouble.

Therefore, since interest rate is an uncontrollable factor, that an entrepreneur cannot manipulate, it is beyond their control. It is advisable for any prospective entrepreneur to think twice before accepting or applying for a loan with a high interest rate, most especially in today's economic climate of Nigeria.

*Government Policy:* This is one of the uncontrollable factors that work against the growth of enterprises in Nigeria. It can occur due to changes of policies especially, when there is change in leadership at the helm of affairs. Applications of new policies due to Economic upheavals, which is intended to help salvage the situation at hand. It is worthy of note that, there is no specific policy that can be favourable to all sectors of the economy equally. So if wrongly implemented, will lead to closure of some enterprises. In this regard, the entrepreneur can do nothing to avert the collapse of the business rather can only chart a soft landing. Uncontrollable factors are therefore those elements in business which the Entrepreneur cannot control but only try to reduce its effects on his or her business by creating palliative measures to cushion its negative effects on the said Enterprise. These policies are created to help develop the economy for the wellbeing of its citizenry. The enterprises related policies are targeted at developing the business environment for optimum productivity in the sector and also for job creations. In an attempt to reduce the threat posed by government policies on enterprises, the Government should have a long-term business policy which should be devoid of political manoeuvring. The formation of the policy makers should cut across players and academicians in the sector.

*War and Terrorism:* The effect of war and terrorism on the small and medium enterprises has become one of the uncontrollable factors which affect the environment of small and medium enterprise and hamper the business success. The effect of war and terrorism on the external environment of business can be explained in the following dimensions:

- *The Buyer Behaviour:* War and terrorism is unrest to the environment where small and medium enterprise are performing their daily activities, and this affect the life of both existing and potential customers to patronize product and services because the buyers



may feel unsecured to purchase goods except where necessary. Thus, constraint will limit the performance of small business.

- *Cost of Doing Business:* The cost of running business will automatically be affected by the impact of war because access to raw materials becomes difficult and as such result to expensive cost of production/purchase.
- *Fear of Capital Reinvestment and Diversification:* Small and medium businesses owners are easily traumatized with the effect of war and terrorism and as such cut down investment in businesses and reduce willingness to diversify.
- *Hiring of Personnel:* Hiring of personnel will be more expensive and difficult and nobody would like to work in a place where there is unrest as such, they will like to charge above the expected range likewise, the willingness of some expatriates to work in such environment will be difficult.
- *Loss of Customers:* Customers could be loss either through displacement or death as a result of the war. This will also have adverse effect on the profit maximization on the small business.

*Strike:* It is of utmost important for entrepreneurs to understand the environment in which they carry out their business activities. The general environment consists of those nonspecific dimensions that might affect the business activities. It includes those sectors that may not have direct impact on the daily operation of the business, but will indirectly influence it. Therefore, the uncontrollable factors are therefore external factors that can influence business strategies and decision making. Strike is a collective, organized, cessation or slowdown of work by employees to force acceptance of their demand by the employer such as increased wages and improved employment condition. Strike can also be referred to as a refusal to work, organized by a body of employees unions as a form of protest, typically in an attempt to gain a concession from their employers. Strike can be specific to a particular business where workers will refuse to work and it can be general where the entire industry, state or country is involved.

#### *Effect of Strike on Micro, Small and Medium Business*

Strike as an uncontrollable factor affects existing businesses in the following ways:

1. Strike affect supply channel, especially if the business is highly dependent on a single delivery channel.
2. Strike leads to stoppage in the production of goods and services as well as hindering business from meeting their customers demand.
3. Strike can also lead to loss of profit and the business may be crippled because of loss of market connection beyond the period of Strike.
4. Goodwill may be lost especially where the strike could not be resolved for a long time. This might give a change for competitors to outsmart them in the market since their product is short of supply in the market.
5. During period of strike, idle machines may get spoilt and additional expenditure may be incurred on maintaining/securing the plant.

*Employees Personal Problem:* In small and medium businesses, employees serve as steppingstone that lifts the business to greater heights. They are considered as one of the great assets in any enterprise. The success of business enterprise largely depends on the effective performance of workers. It has been discovered that the objective of business owners is profitability and can only be achieved if employees have been motivated, and then put their best ability. In fact employees are likely to be the lifeline of any business because they are entrusted with the task of production and distribution of goods and service of the company. In Nigeria, there is concern that the importance of employees is often overlooked by most business

owners. However, the primary concern of employees is their personal problems which reduce their expected performance in business. Furthermore, employees personal problems (EPP) is one of the uncontrollable factors that has been in the forefront of entrepreneurs decision making concerning the decrease in output as a result of poor performance. These problems are unavoidable and stick to the life of business. Therefore, entrepreneurs find it very difficult to know how to identify and avoid them completely because they are invisible, unlike raw materials when it is scarce more would be supplied. It is important to look at some of these problems which are:

- *Illness*: Sick employee cannot be compared with the healthy one, in terms of performance. This problem, however, cannot be avoided if the employee remains healthy therefore the performance of such person would be reduced due to his condition. It has been discovered that chronically sick employees would seek excuse to stay long at home receiving treatment. But business owners may lose a lot because of his/her long absenteeism.
- *Marriage Issues*: Personal issues such as marital problems decide an employee's attention. His performance would likely reduce because he cannot concentrate on work as expected. To resolve the marital problems will at least take much time to get over.
- *Relationship Problems*: An unmarried employee sometimes faces relationship problems that may reduce performance and splits their attention for not concentrating on work.
- *Job Security*: Fear of company's future sometimes sparks the heart of employees, if they are unsure about the future of the company. This may affect their performance because they may not work to their full potential.
- *Financial Stress*: This is one of the major problems faced by employees in an organization. It however reduces performance when the situation arises. If employees had to settle debt, pay medical bills etc., there is not enough money left for them.

*Investors Personal Problems*: Investors personal problems is one of the uncontrollable factors that frustrate micro small and medium enterprises (MSMEs) in Nigeria and make some of them to either die within their first two years of existence or perform below standard even after surviving the early years. Micro, Small and Medium enterprises (MSMEs) traditionally have faced difficulty in obtaining formal credit. Investors loan extended to micro, small and medium enterprises (MSMEs) are often limited to a period which is very short to pay off sizeable investment, meanwhile access to competitive investment is reserved for only few selected blue-chip micro, small and medium enterprises (MSMEs), while loan interest offered to MSMEs by investors remain high. Traditionally investors have been reluctant to services of Micro, Small and Medium enterprises (MSMEs) for a number of well know reasons, some are:

- Small and medium enterprises are regarded by investors as high-risk borrowers due to insufficient assets and low capitalization.
- Information arising from small and medium enterprises, lack of accounting records, inadequate financial statement or business plan makes it difficult for investors to assess the credit worthiness of potential micro, small and medium enterprises proposal.
- High administration/transaction cost of lending or investing small amount do not make small and medium enterprises financing profitable business. Investors are generally biased toward large corporate borrowers who provide better business plan, more reliable financial information, and better chances of success.

*Changing Customers Taste and Preference*: The uncontrollable factors affecting changing customers taste and preference in business are as follows:

- *Norms and Values of Customers*: Is one of the uncontrollable factors affecting firms because a norm is the conglomerate of human customs, culture, knowledge, arts and religion which are elements that influence the customers to naively believe in the brand of a product (Brand Loyalty) for example; native dresses in Nigeria, most cultural attires like for the Yoruba people believe in wearing Asoke and Buba dress in most of their occasions and mode of dress which make such attire of Ankara their brand products.
- *Product Quality and Customers Service*: Means the level of excellence or goods which determine its desirability and which can be controlled by a manufacturer to meet certain basic requirements of customers. Most businesses that produce goods for sale have a product quality or assurance department that monitors the outgoing product to consumer acceptability. For example, Samsung Company, some customers have brand loyalty for their product because of the product quality, warranty and sales services that is provided by the company which make the company product their choice in electrical appliances.
- *Social class*: A change in social class is another factor that can affect businesses and this change from one class to another which cannot be controlled by the entrepreneur. Sociologists have viewed social class as a group of individuals who occupy a similar position in the economic system. Within that system, occupation is very important because it provides financial rewards, stability and benefits like healthcare. Social class can be classified based on esteem and prestige acquired mainly through economic success and accumulation of wealth. Social class may also be classified in such a hierarchy, there are three (3) common social classes recognized in Nigerian traditional societies, which are:
  - ✓ Upper class (Elite)
  - ✓ Middle class (Average)
  - ✓ Lower class

These classes are a basis for determining customers' taste and preference of the individual product, for example, an individual in the upper class mostly isolates themselves in terms of their taste because of their cumulative wealth in the societies compared to other classes, they prefer to go for specialty products in the market, in other instances, transitioning from one of these classes to the other affects the buying behavior of customers and thus, outside the control of an entrepreneur; if a customer transitioned from being a graduate assistant in a university to being a senior lecturer, there is 90% chance that certain things about him/her will change and thus affect his taste and preference and as a result lead to change in the type of products/service he/she patronizes.

*Natural Hazards/Disaster*: Natural disaster/Hazard is a major adverse event resulting from natural processes of the earth; examples are storm, tremor, typhoon, flood, earthquakes, tsunami, tornadoes, volcanic eruptions and other geologic processes. A natural disaster can cause loss of life or damage property and typically leaves some economic damage in its wake, the severity of which depends on the affected population's ability to recover and also on the infrastructure available. It is very important for entrepreneurs to understand the environment within which their business operates because the environment is an integral part of the business. It dictates the nature and type of business that will flourish within the context of that environment. There are different types of environment within which a business operates, the controllable environment where the business operates its daily activities, it is also referred to as internal environment, and the uncontrollable environment which is beyond the reach of the businesses rather it is beyond their control. Uncontrollable factors are the external factors that can influence the business strategies and decision making process. Business is affected by a

variety of factors ranging from government regulations to company's natural environment. One of the biggest factors influencing the success or failure of an existing business is the natural environment. Natural hazard/disaster most often affects existing businesses significantly in the following ways:

- **Capital:** Capital represents the financial resources the company used to purchase goods or labor for their business operations. Natural hazards/disasters frequently have negative effects on company's available capital. Since they must now spend money to restore assets rather than advance business operations. Large companies can set aside a portion of their operational profit for unforeseen contingencies or recovery plans. Small businesses do not usually have copious amount of capital saved for future business purposes, therefore, in such events they are automatically out of business.
- **Assets:** Assets are the physical items/equipment the business uses in its operations. Disasters often render physical assets unusable. Large business can mitigate the loss by operating in multiple locations with multiple business assets, if disaster renders one location impossible to operate, they can transfer their operation's output. But small businesses usually operate in a single location, so the business assets are commonly at this location or it can be the owner's residential house. Such event can prevent the business from continuing its operations.
- **Personnel:** There are human resources that implement the business objectives and goals. Natural hazards/disaster can affect them directly which might lead to delay or inability to continue with the operations as a result of some injuries or loss of lives. Large businesses often have more personnel available when restoring its operations. But small businesses often do not have employees who can help restore operations after disasters. Business owners who are injured or unable to work may face significant setbacks from natural hazards/disasters; the business might not be re-open because the owner is unable to physically operate the business.

*Demographic Change:* Demography relates to the human populations, with respect to their size, structure, and dynamics. For demographers, a population is a group of individuals that coexist at a point in time and share a defining characteristic such as residence in the same geographical area. The structure or composition of a population refers to the distribution of its members by age, sex, and other characteristics, such as place of residence and marital or health status. Demography can affect business negatively or positively, depending on whether the population is increasing or decreasing. For example, India has about 16% of the world's population and is second to China. Also, India has a relatively younger population compared to China. Therefore, many international companies are targeting India as a potential market for various products/services. Demography effect on businesses as an uncontrollable factor could be discussed in the following way:

- **Population Size:** Some businesses require a minimum volume of potential customers for the business model to make sense. Therefore, any changes in the population size can have a critical impact on the business. Some such changes in the population size are:
  - ✓ Increase/decrease in the population's birth rate
  - ✓ Changes in the average family size
  - ✓ An overall increase/decrease in the population size

These changes can have important implications for businesses that are depending on the population size, as an important demographic characteristic.

- **Ethnic Mix:** There are times when the ethnic mix of the population undergoes a change. This can affect the definition of the business potential customers and also have impact on the workforce. For example, if an entrepreneur supplies Biski and Kuka in an environment

populated with Kanuri people and they suddenly relocated from that area and Fulani people moved into the same, it will definitely affect the business. The following are some issues that need consideration:

- ✓ Understand how change in ethnic mix of the target population affects the design and delivery of products or services.
- ✓ Is the modification of existing products/services sufficient? Or, should the organization design new ones?
- ✓ Are the current employees ready to accept a more culturally diverse workforce?
- ✓ A strategic plan to help the organization take advantage of the increased heterogeneity in the workforce.

### **Controllable Factors**

The internal factors refer to anything within the existing business and under the control of the business, regardless of their nature (tangible or intangible). These factors after being figured out are grouped into strengths and weaknesses of the business. If one element brings positive effects to business, it is considered as strength. On the other hand, if a factor prevents the development of the business, it is a weakness. Within a business, there are numerous criteria need to be taken into consideration.

*Human Resources:* In the modern global economy, where ideas and digital skills - rather than physical resources are increasing and economic value is realized, human resource can be a company's greatest treasure. In general, the employees can be either a strength or weakness of the company depending on the level of practical skills, attitudes toward work, performance and so on. For example, if a business has skilled and motivated workers, they are sure to be the biggest asset of this enterprise. Conversely, employees without carefully trained and have negative attitudes to their task will be an enormous challenge for the company to address. In short, the Entrepreneur should have a strategic and effective human management not only for the sake of the business benefits but also for the positive development of their employees.

### *Capital Resources:*

From a general view, financial capital is the funds necessary to grow and sustain a business. Entrepreneurs takes financial capital to invest in not only tangible goods such as factories, machines, tools and other productive equipment to produce an output but also intangible resources such as marketing, employee training, etc. No company can survive without having capital resources. Once a business has enough budgets, they can easily launch their projects, expand its scale and even achieve impressive result. For instance, in 2010 Coca Cola, the "84 biggest economy" spent 2.9 billion USD for marketing, which was more than that total marketing investment of Microsoft and Apple. It can be said that without the big investment and stable financial resource, Coca Cola success would not be guaranteed.

*Operational Efficiency:* The concept of operational efficiency encompasses the practice of improving all of your processes, which are all your business's activities leading to your final product or service.

Because Operational efficiency directly affects the company's success in the marketplace, a businessman needs to truly know his company's processes and follow them to discover whether they're being performed in the correct manner or not. Here are some suggestions for you to achieve this efficiency:

- Study the business situation
- Pay attention to product cost
- Map process failure and discover failure
- Use technology for better operation productivity

*Organizational Structure:* To have a suitable organizational structure required, Entrepreneur to have considered carefully how to set up a system to work smoothly within the company. Whether it is a centralized or decentralized system, the most important thing is how effective the structure is when applied for the company. The heads of departments need to make sure that the information flow is widely conveyed to all customers. Suitable rules and regulations are being applied to ensure the benefits of employees, and the business as well.

*Infrastructure:* When you already have well-trained and motivated workers, an effective operational and organizational system, make sure that the infrastructure of the company is good enough for all your functions. With the modern and high-quality facilities, stable power, internet and Wi-Fi connection, and so on your company is likely to perform better. In other words, the better your infrastructure, the more opportunities for your company to perform successfully.

*Innovation:* In the competitive marketplace and industrial revolution we are living now, no company can survive without upgrading new ideas and technology served overall success. Fundamentally, innovation refers to the introduction of something new into your business with the ideas come from inside the business such as from employees, developers, managers or from the outside world like suppliers, customers, etc. Successful innovation can bring about productivity, cost reduction, higher competitiveness, brand value, turnover increase. In contrast, companies which fail to be innovative will surely face the risks of losing market share to competitors, underlying profit loss and losing key staff. Innovation is rewarding for your business only when you step by step start to holistically approach to innovation, plan and encourage innovation and spread investment (rewards) for innovation in your business.

## Chapter 6: Inheriting a Business Enterprise

Inheriting a business enterprise means transfer of ownership of business organization or its shares from one person (predecessor) to another (usually the inheritor) in the event of death of the original owner. In most situations, inheriting a business may take place from parents to their offspring's or heirs and in exceptional situations from relations. And therefore a business enterprise whether micro, small or medium can be inherited.

### Advantages of inheriting a Business Enterprise

Inheriting a business has its own advantages and disadvantages. And some of the advantages of inheriting a business include the following:

- Goodwill of Established Customers
- Maintaining Trained Employees
- Proven Relationship with Customers
- Business Community Relationship
- Location
- Low Operation Costs
- Continuous Operation
- Quality Product
- Credits with Suppliers
- Management style
- Capital Formation
- Possession of Necessary Licenses and Permits
- Relationship with Tax Authorities

*Goodwill of Established Customers:* An inherited business is already an existing business that has lasted for many years and has already established Goodwill. Goodwill in this sense is a kind of reputation in the eyes of the costumers which is an asset to be maintained. Thus the inheritor of the business sells his products or services with ease and spends less money in advertising as Goodwill has already been established.

*Maintaining Trained Employees:* A business enterprise inherited will not incur cost in recruitment, selection and training of new employees. It is most likely to inherit a business along with existing staff that are well-trained. This would reduce cost and boost production and sales.

*Proven Relationship with Customers:* If the relationship between an inherited business and customers is good then it is very possible to continue with this good relationship and this would go a long way in helping the inheritor of the business to maintain a relative sale index that can lead to low cost of advertisement for the promotion and generation of customers' patronage.

*Business Community Relationship:* Business community relationship is the relationship that exists between Business owners and the community in which they operate their business activity. Business Owners are expected to establish a good relationship with the community by adhering to the culture of corporate social responsibility. There must be a proven good relationship of an existing business with its external environment as a responsibility to the society.

A business as a social entity has social obligations to the society not only for profit. These public demands on business if fulfilled enhance good community relations and make businesses to prosper.

*Location:* A good location matters in business planning or layout. A business should be located in such a good place that it attracts potential customers. This is very difficult to achieve most of the time. But it is possible for one to inherit a business that is located in a good place. Good location of a business attracts prospective and potential customers which an inherited business enjoys.

*Low Operation Costs:* An inheritor of a business enterprise would find it very easy to operate as cost of operating the business would be generally low. This is as a result of reduced cost of advertisement, training of employees and a host of other recurrent expenditure that would have already been settled out by its predecessor.

*Continuous Operation:* The operation of the business that is inherited is likely to be perpetual than the one that is established anew. Thus, the possibility of business failure is low in such business due to already established management techniques it possessed.

*Quality Product:* To maintain a quality product depends on a host of factors. Among these factors are expertise, specialization and division of labour. The ability of the business to cope with technological innovation also matters in producing quality products.

*Credits with Suppliers:* It is possible for an inherited business to maintain a good financial position and records due to its already existing suppliers. Thus, credit facilities can be easily made available to the firm by these suppliers. It is difficult to achieve this if the business is bought or newly established. Also the financial records can be easily ascertained by experts than in a new business.

*Management style:* To establish and maintain a good management style in managing business is difficult. But an inherited business may already have a well-established management technique in organizing, planning, directing, controlling and coordinating the activities of the business. An inheritor of such business is likely to derive the benefits of a well-designed management style.

*Capital Formation:* Capital formation of a business can be made in a number of ways which include, borrowing, personal savings, credit, leasing, hire purchase etc. An inherited business has all the physical facilities, capital and assets and therefore it is considered as a ready-made business for the inheritor. The inheritor will not suffer much in seeking ways of acquiring new facilities, capital and asset to run the business.

*Possession of Necessary Licenses and Permits:* If the business is a registered corporation, partnership, cooperative or private limited company then it is assumed that all necessary licenses and permits already exist and the inheritor of such business would likely find it easy to run and control it without any legal restrictions.

*Relationship with Tax Authorities:* A newly established business is likely to suffer a strenuous relationship with the tax authorities because of its newly established nature. An already existing business that is inherited will find it easier and less tedious to relate with the tax authorities as it is assumed that the previous owner was paying tax promptly and timely. The inherited business is likely to enjoy some tax subsidies where available by the tax authorities provided the required terms and conditions are met.



### **Disadvantages of inheriting a Business Enterprise**

Inherited business enterprise also has its disadvantages which sometimes lead to business bankruptcy and failure. Some of the disadvantages of inheriting a business enterprise are as follows:

- Difficulty in Capital Expansion and Financial Improvement
- Difficulty in Adopting to New Management Techniques
- Differences in Ideology
- Problem of Obsolete Equipment
- Identification of Business Problems
- Problems of Maintaining Enterprise Goodwill
- Difficulty of Division of Labour and Specialization
- Problems of Financial Matters
- Management with Sentiment
- Lack of Succession Plan

*Difficulty in Capital Expansion and Financial Improvement:* There are different ways of sourcing capital for a business enterprise, likewise the difficulty of getting capital for business expansion and improvement. If these sources are not open to the inheritor of a business then there is that tendency of not getting enough capital for business expansion and improvement. Even if the existing capital is in abundance, the inheritor of a business may find difficulty in financial planning and control because of difficulty in maintaining the financial ideology used by the predecessor. Financial improvement is vital for the smooth operation of a business; it is sometimes difficult to be managed by the inheritor of such business.

*Difficulty in Adopting to New Management Techniques:* An inheritor of a business may decide to introduce a new management technique to the business which may be new to the business enterprise. Whenever a new management technique is introduced in a business enterprise, the employees react negatively. Even customers and clients sometimes show some degree of resistance and opposition to newly adopted techniques. This will in turn have a negative impact on the smooth running of the inherited business enterprise. In certain situations, the employees exert pressure on the inheritor of the business enterprise thereby causing a drawback to the effectiveness and efficiency of the business. Measures have to be taken to ensure that newly adopted management techniques are in consonance with the opinion of workers and labour union within the business enterprise and the environment in which it operates.

*Differences in Ideology:* Differences in ideology between the inheritor of the business and its workers may vary. The new ideology that may be introduced by a successor of a business may cause conflict between him and the employees. When ideological differences arise in an inherited business enterprise, it causes a lot of drawback to the progress of the enterprise. One of the drawbacks is that production would be low and the relationship between the employees and the new owner will suffer some negative setback.

*Problem of Obsolete Equipment:* The already existing equipment, plants and machineries in the inherited business enterprise may be obsolete in view of modern technological breakthrough. When this happens, there is the danger of spending a lot of funds to procure new equipment and machines to cope with modern technology. This results in huge expenditure that can consume part of the enterprise profit that would otherwise have been re-invested or ploughed back into the business by the inheritor.

*Identification of Business Problems:* An inheritor of a business is like a newcomer into the business and will face a lot of difficulties in tracing the major causes and sources of problems of the business enterprise and its environment. Thus, it takes time and effort to make and take a decision in business and any mistake done cannot be easily corrected and has cost implications. The time, resources and energy that is used in decision making could have been used in other business operations that may generate profit to the enterprise.

*Problems of Maintaining Good Human Relations:* An inheritor of a business enterprise may find it difficult to maintain a good public relationship with employees and customers of the enterprise and also with the external environment of the business organization. However, a good public relation is useful to any business enterprise and to create this is not an easy task. It requires energy, money and time. An inheritor of a business is faced with many problems to maintain this relationship because of differences in ideology. The relationship with bankers, suppliers, employees, clients and customers could be difficult to maintain in a business enterprise.

*Problems of Maintaining Enterprise Goodwill:* It is difficult to effect changes without risking the loss of goodwill of established customers. A business inheritor may come out with new innovations that may go contrary to the needs and interests of customers, suppliers and clients thereby reducing the goodwill of the business enterprise that was already existing. Goodwill is an intangible asset that is considered invaluable to an enterprise.

*Difficulty of Division of Labour and Specialization:* Introduction of modern equipment and machinery may lead to changes in manpower positioning and role playing in the operation of the firm. This greatly affects areas of division of labour and specialization, as well as profit/loss sharing ratios if the business is a partnership organization.

*Problems of Financial Matters:* There are other problems that may set in if a business is inherited. These are concerned with preparation of periodic financial statement for auditing, investigation and control. An inheritor who is new in the enterprise may act financially contrary to the already existing financial methods and procedures thereby hindering the smooth operations in the financial matters of the inherited business enterprise.

*Management with Sentiment:* There is always sentiment in managing inherited business because of lack of trust among the family members, some vital information in term of increase profit or turn over will only be known to some not all members. There is always rivalry among family members in inherited business

*Lack of Succession Plan:* Most of family business has no succession plan of who will oversee the inherited business, every member of the family will insist on managing the business thereby leading to failure or closure of the business.

In conclusion, whatever type of business you want to venture into, operating a business is not easy as it takes a great deal of time, hard work and motivation. It is also important to note that starting a business requires capital, time, and ability to take risk. It is this risk that scares people from starting a new business rather they prefer inheriting a business to avoid the risk of the business collapsing at the starting stage. Even though, inheriting a business enterprise is faced with a number of disadvantages as discussed.

## **Chapter 7: Problems Facing New Entrepreneurial Ventures and Businesses**

A new enterprise can be regarded as a newly commissioned or about to commissioned business for operation. The new enterprise can be for the production of goods and services which is likely to render personal and financial rewards in the future for the owner. Similarly, an enterprise is a business that has been set up by an individual or group of individuals for a certain purpose (Aminu 2012).

### **Problems Associated with New Enterprises**

The following has been identified as the problems associated with new enterprises and their explanation follows respectively:

- Practical implementation of the original vision and the business idea/model
- Sourcing for additional capital
- Lack of experience
- Managerial knowledge requirement
- Finding the right business location
- Finding good employees
- Finding good customers
- Unforeseen business challenges
- Dealing with competition
- Keeping up with industrial changes and trends
- Knowing when to embrace change
- Technology

*Practical implementation of the original vision and the business idea/model:* This is the process of turning into real life the feasibility studies of an entrepreneur. At this point, all that is needed to make the enterprise work has been put in place. It is highly recommended that the visionary/entrepreneur should dedicate more time to the enterprise at this stage of initial formation. If properly implemented at this stage, then every other subsequent stage will fall in place.

*Sourcing for additional capital:* In the process of sourcing for additional capital, an enterprise must have a convincing business plan and good persuasion skills. Enterprises get stocked at point of sourcing for additional capital simply because of some factors. For example, short fall in funding, underestimation and the type of ownership involve. If there is no more funding to purchase the raw materials and other stationeries for day to day running of the enterprise, then it might lead to stoppage of operation immediately after the organization has opened for business.

*Lack of experience:* One of the major problems faced by new enterprises is lack of experience of the sector chosen by the entrepreneur; it always becomes a problem if an entrepreneur chooses a sector where he/she has little or no knowledge about the sector, in turn it will amount to under performance of the business generally and may even lead to total collapse. Therefore, it is always good for business owners to choose sector where they have some basic knowledge, professional training, and competent staff that can stand the test of time.

*Managerial knowledge requirement:* Since the enterprise is new and its entire staff is new to the company, there is need for the entrepreneurs to put in place back up managerial team. This can be in form of franchise arrangement or consultant that will serve as a supervisor to the trainee of the company that will take over the role.

*Finding the right business location:* In setting up new enterprises, location of the business sometimes determines the success or failure of the business. For instance, business that is situated in a location where it has a rapidly growing population, good road network and other social amenities stand a better chance of succeeding than a business situated in a place where there are no such features. A good business location at the right place is definitely not easy. Therefore the issue of location has always been a problem in setting new enterprises.

*Finding good employees:* Business owners know how difficult it is to get a hardworking and trustworthy employee. Most employees want to work less and get paid more. Finding a good employee who will be passionate about delivering his or her services is quite difficult. Again, finding good employees is a minor task compared to having good employees that are not working as a team. Employees are the representative of the enterprises to your prospective customers and other stake holders. Therefore, it is always difficult to get the right calibre of employees to make the business start favourably.

*Finding good customers:* The major reason businesses exist is because there is a customer as it was said “the customer is always the king”. Therefore, the task of finding a good customer has been given serious headache to both new and existing businesses. Furthermore, to mitigate the problem of finding good customers, there is the need to embark on rigorous and systematic ways of wooing customers by way of advertising, packaging, promoting and good pricing to penetrate the market at the initial stage of the enterprises and also maintain same pace. However, owners of new enterprise should try and focus on finding good customers not bad ones. A good customer will be loyal to the company and will be willing to forgive if the business make a mistake and make appropriate suggestions to move forward. While a bad customer is always looking for loopholes to exploit and make gains.

*Unforeseen business challenges:* Another problem faced by new businesses is the issues of encountering unforeseen challenges in business which is always unpredictable and out of control. Therefore, businesses have to plan accordingly as most of the challenges occurred unexpectedly. Just as sailor prepares for unexpected storm, or a soldier at war front is always on alert for unexpected attacks by his enemies. Most of unforeseen challenges can come in the following forms:

- Inconsistent government policy.
- Dwindling working capital
- Loss of market share
- Unexpected resignation of staff from sensitive office
- Unpaid bill and taxes
- Natural disasters
- Bad debt from customers
- Unforeseen business expenses

Entrepreneur should always put in place contingency plans to take care of any of these challenges in case they occur.

*Dealing with competition:* It will be a serious competition for new enterprises to enter where prominent companies have taken market share. In this direction, the firm must have a clear cutting edge on how to penetrate the market. To achieve this, entrepreneurs should see competition as a challenge not as a threat so that it will keep businesses on their toes and also drive them to constantly improve their products and services for them to be relevant in the industry generally.

*Keeping up with industrial changes and trends:* When starting new businesses, entrepreneurs must be prepared to make sure they follow the industry trend as they change. Trends have made and broken lots of businesses. The ability of the business owners to spot the trends as they change is also a challenge and the ability of the business owners to quickly adjust is most important. For instance, pure water companies are now moving with the trends of the likes of FARO and SWAN.

*Knowing when to embrace change:* This is another problem faced by new businesses. Enterprises should determine the best period to embrace change and when to stay the course. Not everything new is better; yet avoiding every change runs the risk of becoming obsolete. “Earlier adopter or late to the game” we are living in an era of constant change for the foreseeable future. Preparing for and embracing that change by investing in the right kind of decision making is the best way to meet this challenges ahead on.

*Technology:* Enterprises are faced with the challenges of technological advancement. As technologies change practically at the speed of light, it’s vital for businesses to innovate or to be left behind. Not all businesses can afford the expense of every technological change.

## Chapter 8: Basic Capital Required for Financing Small and Medium-Term Enterprises

There exist various methods of financing Small and Medium-Term Enterprises but our concerned here are the basic capital required for financing Small and Medium-term enterprises.

Basic capital required for financing small and medium-term enterprises include:

1. Promotional Expenses Capital
2. Fixed Asset Capital
3. Operating Capital
4. Personnel Expenses Capital

*Promotional Expenses Capital:* Promotional expenses are cost that a business incurs to make its products or services better known to customers, usually in the form of giveaways. Promotion is paying to support your marketing expenses such as advertising, promotions and public relations, under one expense category. Promotional expenses capital is a capital set aside by business for running promotional activities to make its products or services better known to customers.

*Promotion Creation Expenses* - Calculate the cost of pre-promotion expenses directly related to planning and creating a promotion. Site visits, consulting fees travel, lodging and other pre-event planning expenses are example of promotion creation expenses. Giving your retailers, the media or event organisers gifts or entertaining them would be expenses indirectly associated with a promotion and considered part of creating, rather than executing the promotion.

*Promotion Delivery Expenses* - Examples of promotion include event sponsorships, giveaways, on-site sampling, contests and discounts. Promotions often include items such as T-shirts, stickers, coupons and prizes. If you sponsor an event and require staff to work at the event, include your staff time as part of the promotion expenses. If you sign a one year contract with a celebrity to endorse your product, you would record the celebrity fee as annual promotional expenses for accounting purpose.

*Fixed Asset Capital:* To start an Entrepreneurship venture, one must incur some cost even before operations start. While some cost might be varied and traced in the product or service provided, others are cost incurred on things that do not vary and may not directly be traced in the product or service provided, but is prerequisite for production or operation. Fixed asset capital is cost associated with a business product or service provided, that must be paid regardless of the volume of the product it sells. No matter how much a business sells or don't, it must still pay your fixed asset. Typical examples are cost of business space/land, office equipment, equipment and machines, fixtures and fittings. A new venture in primary school for instance, must provide for the cost of land, structures (classrooms and offices), seats and tables, and black/white board are all costs incurred before the business formally starts

*Operating Capital:* Operating capital is the cash used for daily operations in an entrepreneurial venture, firm, company or any private or public organisation. As a result, it is essential to the survival of each and every business. Whether small or large, across industries, and under any other conditions that a business faces, lack of cash is one of the main reasons why a company fails. Due to this fact, it is of key importance that businesses monitor and plan for future cash

holdings to assure that the business will have the money needed to continue doing commerce. Operating capital is the most essential asset in any business as it allows a company to stay open. Also known as working capital, it can come from many sources. The initial operating capital for small business will come from owner investors. This could come in the form of savings of the owners, friends and family of the owners and banks. For an existing business, operating capital outlay will come from more providers than for the start-up. The same options exist with current owners, friends and family and banks. Additionally, however, a business can receive operating capital by becoming a public company and selling shares on the Nigerian Capital Market. Operating capital is the money required by an enterprise to meet its daily operational expenses. Such expenses include cost of consumables like fuel, lubricants, transport and maintenance services of tools and equipment.

*Personnel Expenses Capital:* Personnel expenses capital is the amount of money required by an entrepreneur to make payments for expenses such as Wages/salaries, rewards, pension expenses and other expenses relating to personnel/staff. Personnel expense capital is one among the basic initial capital required by small and medium enterprises, such expenses need to be put on record prior to venturing into any entrepreneurial business. Example, an entrepreneur who needs to venture into any kind of business, is required to plan for expenses like employment, payment of wages/salaries, employees/personnel welfare among others. All the aforementioned expenses put together is what referred to as personnel expenses capital.

## **Chapter 9: Entrepreneurial Risks**

Risks and hazards are two sides of a coin. In any entrepreneurial venture there are risks associated with it. Risk is phenomenon that cannot be over ruled in business operations. As we know, one of the qualities of an entrepreneur is the ability to take risk and they are often referred to as risk takers and therefore, risk is inevitable in any business venture, transaction or undertaking. For an entrepreneur to succeed, he must have the ability, zeal and courage to accept risk that can occur any time in the process of discharging his entrepreneurial or business ventures. Risk is a situation where an entrepreneur is left with two alternatives whose potential likely outcome is not known and thereby subjected to uncertainty. It is an unforeseen circumstance and an entrepreneur must make a decision in any entrepreneurial venture with a known fact that the outcome of the venture could either be success or failure. The entrepreneur is left with the option of taking risk and in business; the idea of venturing into business is a speculative risk, thereby showing that an entrepreneur can only succeed by taking risk. A successful entrepreneur cannot be risk averse to succeed rather he must take risk in order to succeed because risk is associated with taking good decision amongst alternatives. In most situation, risks are known to entrepreneurs and it is left to them to take an action whether to venture into the business or not as it has been said, the riskier a business is, the higher the profit and therefore, risk is a integral part of business.

There are many types of risks associated with entrepreneurial ventures ranging from business idea generation, implementation and how the business could be managed to profitability. At every stage of business or entrepreneurial venture risk cannot be isolated but how it will be avoided or minimized to enhance the entrepreneurial success is the concern of every businessman. An entrepreneurial risk refers to the possibility of an entrepreneurial venture not making adequate returns or suffering losses due to uncertainties.

### **Types of Entrepreneurial Risks**

There exist different types of entrepreneurial risks which include:

- Market risk
- Currency risk
- Interest Rate risk
- Equity risk
- Commodity risk
- People risk
- Operational risk
- Economic risk
- Technological risk
- Carriage risk
- Competitive risk
- Credit risk
- Financial risk
- Political risk
- Strategic risk
- Psychological risk
- Cyber Security risk
- Reputation risk



- Health and Safety risk
- Career risk
- Personal risk
- Geographic risk
- Natural risk
- Privacy risk
- Personnel risk
- Property risk

*Market Risk:* Market risk is a situation where a businessman, an entrepreneur or an investor suffers losses due to fluctuation as a result of financial market turbulence. Market risk could be a result of economic recession, insurgency/terrorism attack or natural disaster. Such risk is often referred to as systematic risk as it could not be eliminated through diversification and market risks do affect the entire market systematically and simultaneously.

*Currency Risk:* Currency risk is a risk arising from the exchange rate of one country's currency in relation to another country's currency. Currency risk in Nigeria is risk associated with the exchange rate of Dollar to Naira with respect to the United States of America currency-the dollar. Currency risk is more associated with firms or investors having fixed assets in another country.

*Interest Rate Risk:* Interest rate risk is risk associated with interest rate fluctuation as a result of Central Bank monetary policy changes in which most of the risk relates to fixed-income securities. e.g. Bond, shares, and debentures.

*Equity Risk:* Equity risk is a risk due to fluctuations or changes in stock prices as it affects entrepreneurs or investors in stock market business.

*Commodity Risk:* Commodity risk is a risk due to price changes in commodity market on certain commodities like Crude Oil, Corn, Beans, etc.

*People Risk:* This is a risk that is directly affecting the performance of workers as the most valuable assets in an organization. People risk could be a cost associated with the consequences of recruiting and maintenance of employees or any hazard associated with people which could be a loss in the organization.

*Operational Risk:* Operational risk is a risk resulting from system failure and could be as a result of employee's errors, faulty implementation of rules, procedure or policies from either the managers or the employees related to the operations. The risk associated with administrative procedures is called operational risk. This includes outdated IT systems, poor supply chain and disorganized record keeping.

*Economic Risk:* Economic risk is a risk associated with macro-economic variables and these macro-economic variables include government regulations, exchange rates, political instability, inflation etc.

*Technological Risk:* Technological risk is a risk associated with technological failure that disrupts business or entrepreneurial activities such as system failure like the website crash or theft of essential customers' data or information which could lead to reputation damage of the enterprise.

*Carriage Risk:* Carriage risk is a risk as a result of damage or loss of goods being transported from one country to another. It is a risk in international trade, where the seller is required to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain them from the carrier. Any damages done to the goods are carriage risk.

*Competitive Risk:* Competitive risk is a risk associated with loss of customer's goodwill and reputation due competitive pressure or as a result of competitive threats from other competitors from the same business or elsewhere. It is a risk of a business facing competition from its rivals. Every business besides monopolies face competition because there are substitutes easily available in the market.

*Credit Risk:* Credit risk is a risk arising from failure of debtors to honour their obligation in term of purchase of goods or services.

*Financial Risk:* Financial risk is a risk of a business running out of money or funds which could be the inability to manage cash flow properly, sudden financial loss or bad debts accruing. A good example of financial risk is where California farm selling its products in Europe. When it makes sales in France or Germany, its revenue comes in euros, and its UK sales comes in pounds. The exchange rates are always fluctuating, meaning that the amount the company receives in dollars will change. The company could make more sales next month, for example, but receive less money in dollars. That's a big financial risk to take into account.

*Political Risk:* Political risk is risks associated with political changes due to uncertain government policy changes or complete change of government leadership in a country. This includes the changing political scenario including the changes in laws and regulations.

*Strategic Risk:* Strategic risk is a risk associated with a strategy failing due to certain reasons or happenings. Though companies do have strategic plan keeping in mind about the future, there is always a chance of things going wrong as the future is uncertain and cannot be predicted correctly. Entrepreneurs need to have foresight so that they can plan properly for strategic risk since it is a long-term plan or otherwise, they will be out of business. A good example of companies that faced strategic risk is Kodak, which had such a dominant position in the film photography market that when one of its own engineers invented a digital camera in 1975, it saw the innovation as a threat to its core business model and failed to develop it. It's easy to say with hindsight, of course, but if Kodak had analysed the strategic risk more carefully, it would have concluded that someone else would start producing digital cameras eventually, so it was better for Kodak to cannibalize its own business than for another company to do it. Failure to adapt to a strategic risk led to bankruptcy for Kodak. It's now emerged from bankruptcy as a much smaller company focusing on corporate imaging solutions, but if it had made that shift sooner, it could have preserved its dominance. Another good example for survival of strategic risk is the company called Xerox. Xerox relied on single successful product-the Xerox photocopier. But the development of laser printing was a strategic risk to Xerox's position, but unlike Kodak, it was able to adapt to the new technology and change its business model to Laser printing and became a multi-billion-dollar business line for Xerox, and Xerox company survived the strategic risk.

*Psychological Risk:* Psychological risk is a risk associated with the wellbeing of an entrepreneur that affect his life in terms of losses suffered. For example, entrepreneurs who have suffered financial set back or catastrophes and have not been able to bounce back, suffer psychological

risk that affects their personal wellbeing. It is believed that money can be replaced again in business, a new house can be built, friends and family can adjust and adapt to changes due to financial loss, but the psychological risk suffered by an entrepreneur is difficult to repair.

*Cyber Security Risk:* This is the latest type of risk that entrepreneurs face today. It is a risk associated with confidential leakage of company's information to rivals, competitors and the general public on the internet. A good example is repercussions of Cambridge Analytical scandal and how biggies like Facebook were engulfed in the data breach scandal. This was followed by public indignity for Facebook as well as their CEO Mark Zuckerberg. And this wasn't the end of it.

*Reputation Risk:* This is a risk associated with image of the entrepreneur or the company. Where there is loss of reputation in an entrepreneurial venture than the enterprise suffers:

- Reputation is damaged
- loss of revenue
- loss of customers
- Employees gets demoralized
- High employees' turnover
- Very difficult to hire good employees
- Suppliers may discontinue business of supplying supplies
- Advertisers, sponsors or other partners may no longer want to be associated with you.
- It leads to product recall
- Negative publicity about you or your company
- High-profile criticism of your products or services
- It could lead to negative tweets within seconds via online, and social media platforms.

*Health and Safety Risk:* It is a risk associated with the work environment and the labour laws had made clear regarding rules of maintenance of health and safety at a work placing emphasis having a changing room, clean environment, proper lighting, and provisions of canteen, bathroom and toilets. It is the duty of the company to provide the right environment to its employees so that they do not have to face any kind of health hazard or security threats at work. Where there is no appropriate health and safety device it may lead to lawsuit by an injured workforce.

*Career Risk:* Career risk is a risk involving loss of position or status in an entrepreneurial venture and could also be a failure of meeting goals or decline in quality of life in work environment.

*Personal Risk:* Personal risk is a risk that could lead to destruction of entrepreneurial venture of an entrepreneur or an investor as a result of the influence of family, friends and close associates. It could be a true commitment of personal sacrifices made by an entrepreneur through the influence of others that lead to personal risk especially of not taking vacation leading to personal health risk or being a surety to relations that failed to oblige his obligation.

*Geographic Risk:* Geographic risk is a risk associated with the environment and risks cannot be controlled because it is as a result of natural disasters like flood and drought, earthquakes, tornadoes and hurricanes. But minimize Geographic risk requires environmental scanning using modern General Packet Radio Services (GPRS).

*Natural Risk:* Natural risk is a risk associated with natural calamities like earthquake, drought, flood, famine which is a result of natural circumstance beyond the control of humans as is an uncontrollable risk in business. Natural risk is a natural disaster that happens anytime, anywhere and is considered as unforeseen events that affects entrepreneurial ventures without notice. However, with recent technological innovation in science and technology, some of these natural risks can be minimized through Disaster Emergency Plan.

*Privacy Risk:* Privacy risk is a risk associated with the reproduction and distribution of counterfeit and unlicensed products not permitted by the law or any authority. Privacy risk is associated with entrepreneurial ventures or company that produces quality and genuine products but subjected to privacy risk by other fake companies that illegally and un-permitted reproduction and distribution of their products it damages the image of the genuine company due to imitation. In most situations, piracy of unauthorized duplication of copyrighted products is being sold at lower price than the original product. Example of privacy risk is common in video, cable, DVD/CD and other social media products.

*Personnel Risk:* Personnel risk is a risk involving loss of quality and competent personnel by an entrepreneurial venture or an enterprise arising from death, accidents, injury, disability, resignation, termination or dismissal of employees. Personnel risk is a threat directed to owners of business organizations and entrepreneurial ventures.

*Property Risk:* Property risk is a risk associated with loss of property or fixed asset by an enterprise as a result of legal issues, partnership problems, fire or theft risk, loss of rental income etc.

### **Entrepreneurial Risk Management**

Entrepreneurial risk management is an essential element in managing any entrepreneurial or business venture because businesses are normally faced with risk associated with complete failure or loss of substantial profit and the inability of the enterprise to grow. It is very clear around the globe that today's business world is full of risks signifying that risk is now real in every business. But one should note that, entrepreneurial risk is inevitable in an enterprise because without risk the free enterprise system cannot function. But entrepreneurial risk could be minimized by avoiding risk, preventing risk and containing risk. For an enterprise to succeed, the entrepreneur must:

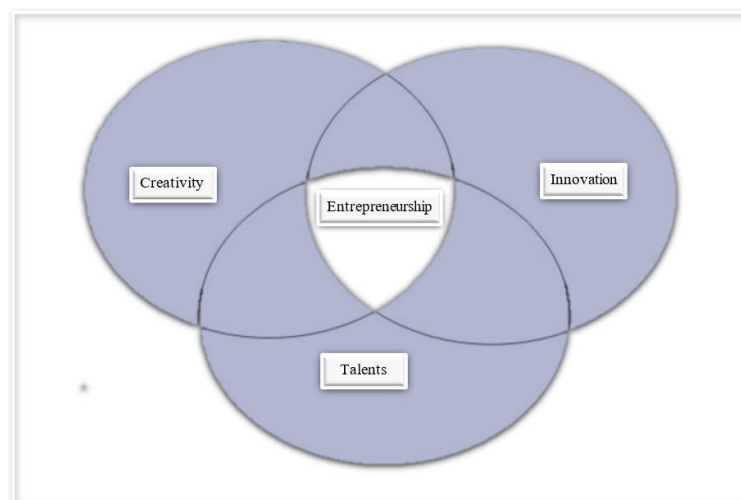
- Avoid entering a risky business or a risky entrepreneurial venture
- Take preventive measure not to allow risk into a business venture
- Transfer the risk to a third party by taking insurance policy or any other strategy of risk transfer
- Share the risk with other enterprise(s).

Therefore, there is need to manage risk because the mastery of risk in today's business is what makes the difference between modern times and the olden days of operating businesses.

## **Chapter 10:**

### **Entrepreneurship - Creativity, Innovation and Talents**

Nigerian entrepreneurs were at a very high risk of Covid-19 pandemic which many of them saw as one of the toughest problems they have had to face. The lockdown directives by both Federal and State Governments in a bid to curtail the spread of the coronavirus disease have led to the shutdown of many businesses leaving only a few that are rendering essential services. The lack of capacity to address the health system challenge, enforce social distancing, carryout massive testing, isolate/quarantine and treat affected persons in good time by government might lead to economic collapse because of the lockdown directive. Also, the dominance of the informal sectors and extreme dependence on daily wages to keep families afloat mean that economic disasters will deepen beyond expectation as micro, small and medium enterprises (MSMEs) are likely to collapse without sales or production due to lockdown order as customers are under lockdown, shops shuttered, cash flow drying up and staff or workers are on furlough (temporary layoff from work). The lockdown directives however, posed considerable economic costs that, in turn, threatened lives, put livelihoods at risk and exacerbated poverty. As dynamics are still unfolding, and even sophisticated forecasting cannot sufficiently model the effects of Covid-19, what is left is for the Nigerian entrepreneurs to use their creativity, innovation and talents to find solution to the economic hardship. The coronavirus disease known as Covid-19 pandemic which originated from Hunan seafood market in Wuhan, China in December 2019 has thrown the world of business into confusion as many MSMEs were closed down during the pandemic and has caused many entrepreneurs into financial crisis due to the closure of businesses, low patronage and the inability of entrepreneurs to cope with the challenges. Covid-19 has necessitated for creativity, innovation and talents on how entrepreneurs can sell their products or services online right from home in order to be safe from the pandemic. Therefore, creativity, innovation and talents are inseparable from entrepreneurship for the prospect of entrepreneurial ventures. However, the three components of entrepreneurship that are inseparable are; creativity, innovation and talents as depicted in figure 10.1



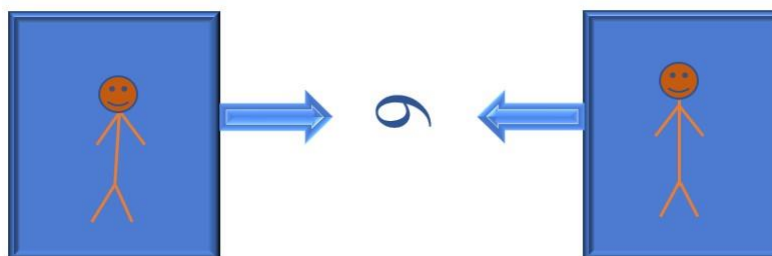
*Figure 10.1: Relationship between Creativity, Innovation, Talents and Entrepreneurship*

Figure 10.1 shows that entrepreneurship which is an Act or entrepreneur who is an actor both requires creativity, innovation and talents to succeed. One should note that even at the Covid-19 pandemic of the year 2020, creativity help business to recover from the covid-19 pandemic through providing an enabling environment with strong recovery initiative using technology (the Internet) to work from home and achieve result. This is because even the most digital brands were surprised with the speed of change heralded by the novel corona virus (Covid-19) pandemic. What is expected from a creative entrepreneur is to adopt a new marketing and creative approach combined to boost business recovery through innovation and talents. Therefore, during the Covid-19 pandemic, businesses are to embrace marketing and creativity as a business strategy or a business model for success. For an entrepreneur to embrace creativity during Covid-19 requires managers that encourages and creates space for innovation as creativity is one of the most powerful tools for business success though difficult to be accepted or implemented in organizations.

An entrepreneur only succeeds if he/she is able to break the nexus between productions of content to give a space to be more creative in the enterprise, than to remain in its status quo for years. In entrepreneurship, there is need to give creativity freedom to be creative and use available technology and tools to captivate the talents of entrepreneurs in order to bring innovations into the system.

### **Entrepreneurship and Creativity**

Creativity is a concept used in entrepreneurship to expose the talents of an entrepreneur. Creativity, innovation and talents are inseparable words in entrepreneurship because it is the three words that make up an entrepreneur. Every entrepreneur is expected to have creativity, innovation and talents in the pursuance of his entrepreneurial venture. Creativity is the use of imaginary ideas to create what is considered to be new, inventive, or innovative that adds value to an enterprise which could be tangible and intangible. In other words, creativity is the act of turning or improving imaginative ideas into reality of life. It is the ability of an entrepreneur to perceive or look at the other side of the world in bringing up a new pattern of doing things such as new method of production, distribution and marketing as a solution to the imaginary ideas.



*Figure 10.2: Looking at Ideas*

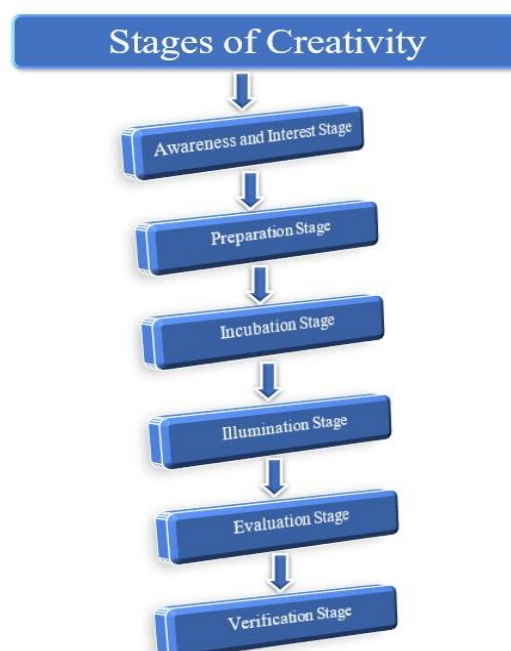
The figure 10.2 depicts how entrepreneurs see the ideas before them through creativity. These two entrepreneurs look at the figure from their perspective and use it to their own understanding which makes them creative not challenging what is seen. One entrepreneur sees it as figure 6 and the other sees it as figure 9. For understanding creativity, each one of them uses his imagination as the figure appeared to him and venture into entrepreneurship using his creativity without looking at what other entrepreneurs see and that which makes an entrepreneur creative. Franken (1993) defined creativity as the tendency to generate or recognise ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others and entertaining ourselves and others.

According to Franken, in order to be creative, you need to be able to produce new things in new ways or from a different perspective and you should be able to generate new possibilities or new alternatives. But creativity is linked with other fundamental qualities of thinking, such as flexibility, tolerance of ambiguity or unpredictability, and the enjoyment of things heretofore unknown. And also, all who study creativity agree that for something to be novel, it must have value, or be appropriate to the cognitive demands of the situation. Therefore, it's clear to us that for creativity to be considered creative, it must have values, and relevant to the demand of the situation. Entrepreneurs are motivated to be creative simply because of the need for novel ideas, the need to communicate new ideas and values, and the need to find solutions to problems for human values and benefits. Creativity happens when an entrepreneur comes up with a new idea by transforming his ideas, imagination, thought and dreams into the world of reality. Therefore, creativity is the discovery of something that is novel or new idea that is useful, relevant, and economical and of value to human race. Creative entrepreneurs are persons who are very passionate, humble, proud, smart, discipline, rebellious, independent and naïve of their work.

### **The Creativity Process**

There exist various stages of creativity depending on the nature and types of creativity. The stages are as follows:

- Awareness and Interest stage
- Preparation stage
- Incubation stage
- Illumination stage
- Evaluation stage
- Verification stage



*Figure 10.3: The creativity process*

*Awareness and Interest stage:* In the awareness and interest stage, creativity is the ability to evolve an idea by identifying or recognising a particular problem or issue.

This idea awareness comes as a result of curiosity by an entrepreneur's interest in the idea generation. This normally comes through critical thinking that provides avenue for the interest to produce something new through problem solving skills techniques.

*Preparation Stage:* At the preparation stages, an entrepreneur is expected to have generated his idea, gather materials that would help him conduct research that will provide an interesting outcome (idea). At this stage, there is need for a thorough analysis on how to approach the task, how to accommodate divergent views and thoughts. An entrepreneur is expected to allow the tolerance of ambiguity and openness to criticisms at the preparation stage. It is a situation that provides for brainstorming to generate more knowledge and experiences to get an original idea for possible incubation.

*Incubation Stage:* The incubation stage provides the avenue for testing your ideas by actively putting the idea to let it go or work through imagination and seeking for solutions to your idea. You must maintain independence and be free from psychological tendencies that may affect the incubation stage.

*Illumination Stage:* Illumination stage provides for the spontaneous new idea connection that brings solution to your problems. At this stage, the answer to your creative quest strikes you. And that means "an idea has emerged" because the illumination gives you the ability to switch from intuitive to analytical pattern of thought. It gives valid solution to problems and that is why it is called the insight stage.

*Evaluation Stage:* During this stage, you consider the validity of your idea and weigh it against all possible alternatives. It is a stage at which you are expected to look back at your critical concept or problems to see if your solution aligns with your initial vision at inception. It is expected at the evaluation stage; to do market research to test the validity of the idea so as to have an insight to whether to go back to drawing board or to forge ahead to come out with what is expected as a good outcome.

*Verification Stage:* This is the final stage of the creativity process where the object that you set out to create needs to be designed and to bring up your idea to life and expose it to the world for sharing purpose having passed the appropriate testing stages after verification.

### **Process of Creativity in creating New Products/Services**

The process of creativity in creating new products/services comprises of the following.

- New ideas Generation
- Developing the Ideas
- Conversion of Ideas into Products/Services
- Result Protection



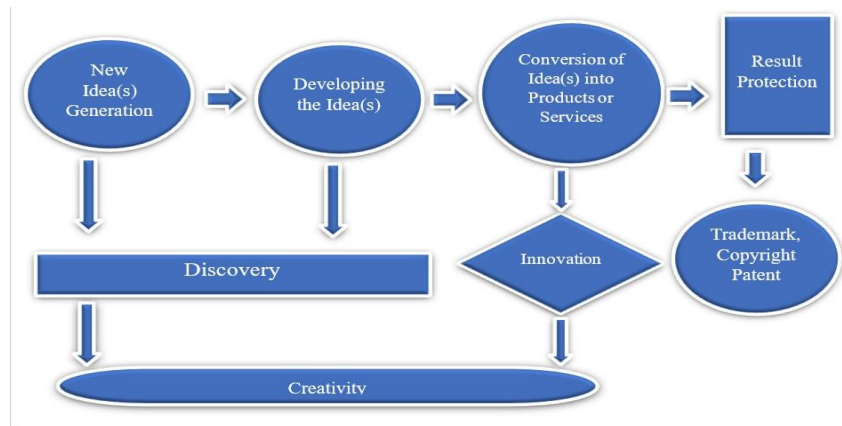


Figure 10.4: Process of Creativity in creating New Products/Services

**New Ideas Generation:** New generation of ideas has been a very difficult task for entrepreneurs. When idea is generated, it's also difficult to determine whether it will be successful or not. Entrepreneurs should also note that coming up with fresh ideas has often been a very difficult task because it requires reasoning, critical thinking and it will be profitable.

**Developing Ideas:** When idea is conceived, the next process is to identify how the idea can be developed through proper idea generation. In most situations, entrepreneurs come up with many ideas, but only a few of the suitable and profitable ones see the light of the day. For any idea to be accepted, it must undergo the developing stage which requires proper filtering and choosing the best option. Entrepreneurs require analogical thinking and reasoning method to serve as guiding principles for successful idea developing strategy. At the developing ideas stage, a number of questions do arise.

- Can the idea be viable?
- Can this idea work?
- How do we get the idea work?

These are some pertinent questions that help in shaping idea generated by entrepreneurs through an integrated approach to creative thinking and reasoning.

**Conversion of Ideas into Products/Services:** The conversion process gives details of procedures, process, method and stages of converting the ideas into products/services by providing the durability, design, and appeal of the products/services. It provides for the marketability of the products/services. The conversion process outlines the novelty and utility of the products.

**Result Protection:** It is expected that when an idea is tested and accepted as a viable products/services, its results is protected by an enabling law which makes the outcome of the products/Services being protected by trademark, copyright, patent etc. From figure 10.6, it is clear to us that new ideas generation and developing ideas are considered to be a discovery while new idea generation, developing the ideas and conversion of ideas into products/services is creativity. But, conversion of ideas into products/services alone is innovation in itself. In summary, discovery occurs without a purpose or accidentally, invention is directed in line with a certain goal. It has a purpose, for example, an entrepreneur may see some technological changes when a product may become obsolete within a year then invention process may start to find solution. While innovation is seen as an exploitation of invention and innovation should be based on novelty, newness, utility, or has value to be added.

## Types of Creativity

There are four types of creativity which include:

- Primary creativity
- Secondary creativity
- Technical creativity
- Inventive creativity

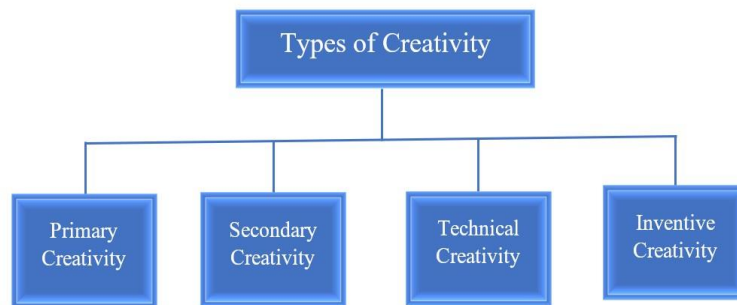


Figure 10.5: Types of Creativity

*Primary Creativity:* Primary creativity is the type of creativity emanating from spontaneous creations which is hypothetical in nature. It is associated with Artists. Spontaneous creativity is an idea coming from nowhere or it suddenly happens or the ideas appear suddenly. In most situations, spontaneous creativity or primary creativity comes up naturally from a collection of thoughts and beliefs that shape the entrepreneur's thought habits i.e. the entrepreneur's mindset.

*Secondary Creativity:* This type of creativity comes deliberately as a result of skilled application of ideas and insight to inventions. It has a positive relationship with primary creativity because it is in line with the outcome of primary creativity.

*Technical Creativity:* Is aimed at finding out improvement in the process as a means of improving efficiency. It is where people create and also put into practice new theories, technologies, ideas and imaginations using their skills. It is an interdisciplinary and transdisciplinary field combining computing, design, art and the humanities to improve efficiency in doing work. In other words, the field of creative technology is concerned with art, digital product design, digital media or an advertising and media made with a software-based electronic and or data-driven engine to enhance efficiency of a work.

*Inventive Creativity:* Is the combination of making or devising new methods, or combination of ingredients to produce an improved variety that is different from other people's work or new inventions.

Creativity is highly needed or sought after in today's world because it plays a significant role in all businesses as it helps entrepreneurs to see things differently from different perspective of business environment and prepares them to deal with the uncertainties of the future. Creative entrepreneurs are better able to live with uncertainty in their business life because they have the creative thinking to adapt to any unknown situation favourably. It is believed that creativity is one of the most important characteristics of being human as it gives entrepreneurs the ability to think and create value for their businesses through Critical Creative Thinking (CCT).

However, being creative does not mean producing new things but to be more than that by creating value for the betterment of today and the future generation. Creativity broadens the mind, expands human thinking, engages the mind freely for thoughts and enables a person or the entrepreneur to absorb new frontiers of knowledge by solving problems with relevance, novelty and ease for human development.

### **Entrepreneurship and Innovation**

Innovation is a concept in entrepreneurship that cannot be ignored and has become a necessary evil because no entrepreneur can succeed without innovation. Any entrepreneur that decides not to innovate his entrepreneurial venture is bound to remain stagnant or fail. Innovation is a catalyst for entrepreneurial growth and success. Every entrepreneur is expected to possess some innovation skills or a driving force to entrepreneurial success and or a means of reducing entrepreneurial risk in business. All types of entrepreneurship are based on an innovative act. According to Nur (2012), innovation occupies a very important place in our society. On the one hand innovation is considered as a critical factor in enhancing economic growth and competitiveness, and on the other hand innovation is considered as a crucial element for social cohesion, equality and poverty alleviation. Innovation might also be seen as a way to solve important problems relating to pollution, energy and urbanism. Yet the main focus of innovation is to create economic wealth (Lundvall and Borrás 2005).

Innovation is simply a process of turning or changing new concept or idea into commercial use. Innovation is the process of implementation of ideas generated during creative process. It is concerned with introducing changes into a stable system for the idea(s) to be viable and workable. But there is no innovation without creativity as the two are the same sides of a coin. For an entrepreneur to be innovative, he needs to act on the ideas conceived to make it viable for human use on commercial usage.

Drucker (1994) suggested that innovation is an entrepreneurial instrument, one which is used to develop a differentiated undertaking or services. It is possible to regard innovation as a discipline in itself, where it is possible to be taught as well as to practice. He adds that entrepreneurs should purposefully search for sources of innovations, as well as changes and their symptoms. This could point to certain opportunities for successful innovation. It is furthermore, also important to identify the principles of innovation and to successfully implement them. In this regard Drucker (1994) says:

*“Entrepreneurs are a minority among new business. They create something new, something different, they change or transmute values... they always search for change, respond to it and exhibit it as an opportunity.”*

Innovation is about new ideas, creative thoughts, new imaginations or method of doing things or an improved method of production and distribution. It is also seen as the application of better improve solution to problems for enhance efficiency and effectiveness. While in business, business innovation means introducing new methods, new processes, services or products that brings positive change to the business for improved performance. An innovation in entrepreneurship is important due to the following reasons:

- It helps in achieving business growth
- It increases the productivity of the business
- It increases the profitability of the business

- It increases the market share
- It is opened to technological challenges
- It increases the chances of new opportunities
- It helps to foster competitive advantage
- It has a positive impact on business culture
- It increases return on investment
- It helps in environmental sustainability of the business

Types of innovation include:

- Product Innovation
- Process Innovation
- Marketing Innovation
- Organisational Innovation

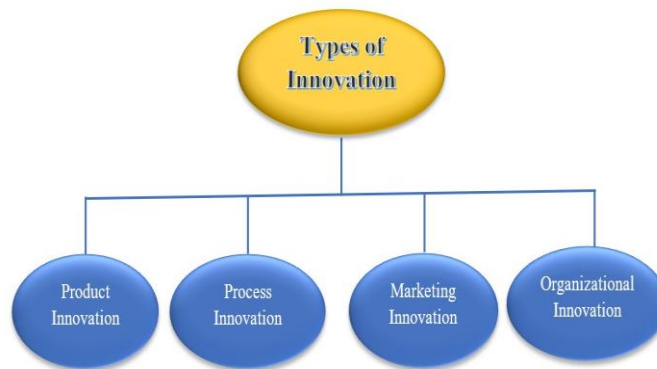


Figure 10.6: Types of Innovation

**Product Innovation:** Product innovation is an introduction of goods or services that is new or significantly improved regarding its characteristics or intended uses; it also includes significant improvement in technical specifications, components, materials or other functional characteristics. Product innovation is classified as either introduction of a product new to the organization or introduction of a product new to the market. This type of innovation is mostly used by technology-driven organizations or entrepreneurs and it also helps the organizations achieve competitive advantage while retaining market recognition, including incrementally changed products. Product innovations related to goods includes product with significantly reduced energy consumption, and significant changes to meet customers changing needs and environmental or medical standards. Entrepreneurs with novel product innovation protect their business from market threats and competitors.

**Process Innovation:** Process Innovation is the implementation of a new or significantly improved manufacturing and or delivery procedure for the creation and provision of goods and services. It includes significant changes in the equipment and or in the techniques that are employed to deliver services. It can substantially lead to a decreased unit cost of production or delivery, to increase quality, or to produce or deliver new or significantly improved product. The essence of process innovation will quite be understood especially in organizations or entrepreneurs under threat since it may help to improve the organization's product. Process innovation includes significant changes in production techniques, equipment, and software to produce goods and services including the installation of new or improved manufacturing technology, such as automation equipment, computerized equipment for quality control of production, and improved testing equipment for monitoring production.

*Marketing Innovation:* Marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion, pricing strategy and sales strategy. Entrepreneurs or manufacturers adopt marketing innovation as one of the major types of aims to bring about major changes in product design and packaging, placement and promotion.

*Organisational Innovation:* Organizational innovation is the implementation of a new method in the organization's way of doing business, workplace organization, or external relations. New methods of doing business refer to the ways work tasks are implemented in the organization. Workplace organization refers to how responsibilities and decision making among employees are allocated and how business activities are structured. New methods in the business external relations involve new ways of organizing relations with its external stakeholders. The concept of organizational innovation is that organizations work reasonably well but they can almost work better if new and innovative ways of working are introduced in the organization such as being open to ideas outside the boundaries of the organization, getting rid of their traditional budgeting and accounting processes because those processes are slow. Therefore, the organization needs to organize and restructure more effectively and efficiently. In addressing the issue of acceptability of innovation, there is need to collaborate with universities and industry research-based institutions as agreed by Bil, Moens, and Buerman (2015) that the University and faculty staff are becoming aware that there is a huge potential in the cross fertilization between academic research and the creative sector. In view of the increasing importance of the creative aspects of technology innovation, the development of a real and lasting competitive advantage lies in the integration of research, industry and creativity.

### **Entrepreneurship and Talents**

Talent and entrepreneurship are inseparable because talented individuals or entrepreneurs are mostly the most successful businessmen. For an entrepreneur to be successful, he must have all the necessary talents that are expected from an entrepreneur. Entrepreneurs that are talented surpass other entrepreneurs in all aspect of business. It is important to note; an entrepreneur need to be talented to be able to pilot creativity and innovation entrepreneurial venture management. Talent is a basic requirement which gives entrepreneurs the speed ability to be unique among other individuals which makes them to be entrepreneurs. Talent can be seen as the ability to be an exceptional person who creates something without being taught. Any person who creates something naturally without being taught is referred to as a talented person. Talent is a special natural ability or aptitude that gives an entrepreneur the ability for success. It could be natural endowments of a person who has the intelligence or mental power and ability to produce something of value without being taught. And this makes the person or the entrepreneurs to be creative. Entrepreneurial talent is the ability of a person having the capabilities to initiate, discuss, select, process, interpret and use his knowledge and skills to take decisions under the conditions of uncertainty to exploit untapped market opportunities. One could say that talent is the ability to do something well and acceptable to the society as unique for the progress of humanity or science and technology for development. For an entrepreneur to be talented he needs to possess some personal strengths and special skills. The personal strengths should be; accurate, action-oriented and adventurous. And these are to be followed by an entrepreneur being ambitious, analytical and appreciative in the pursuance of his enterprise goals in order to make him to be talented. He must also be compassionate, caring and clever and also be confident, considerate and courageous. He should at all-time be creative, curious and decisive in his entrepreneurial pursuit.

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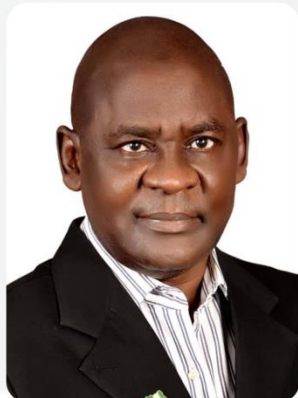
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## ABOUT THE AUTHOR



Aminu is a Professor at the University of Maiduguri and became the 1st indigenous Professor of Business Management in the North East Region of Nigeria in 2006. He is the first graduate of the Department of Business Management of the University of Maiduguri to become a Professor. He received his Ph.D in management studies from Usmanu Danfodiyo University, Sokoto, earned a masters degree in Business Administration at the prestigious Ahmadu Bello University, Zaria and a Bachelor's degree in Business Management at the University of Maiduguri. He was the Head, Department of Business Management, University of Maiduguri from 1999 to 2004, Acting Head, Department of Business Administration, Adamawa State University, Mubi and Member, Governing Council of Adamawa State University 2004-2005. Acting Sub Dean, Faculty of Management Sciences [2008-2010], Dean, Faculty of Management Sciences, University of Maiduguri [2010-2014], Ag. Dean, Faculty of Social and Management Sciences, Yobe State University, Damaturu [2016-2019]. He was President, The Academy of Management Nigeria [2017-2019]. Professor Aminu has served on both undergraduate and postgraduate National Universities Commission (NUC) Accreditation team to many Universities in Nigeria.

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## ABOUT THE BOOK

The book addresses entrepreneurship development which is only viable through creativity, innovation and talents exhibited by entrepreneurs. It dwelt on how to start and invest in new, inherited and existing businesses. Topics covered in the book include; Entrepreneurship and Entrepreneurs, Business Plan, Basic Capital Required for Financing SMEs, Entrepreneurial risks etc. The book is written to guide entrepreneurs' creativity and innovative thinking using their talents to establish micro, small and medium term businesses to promote industrial growth. The book is of immense importance to potential entrepreneurs, investors and industrialists who want to acquire specialised knowledge and expertise in entrepreneurial management to enhance their investments capabilities.

