**LAGOS CITY POLYTECHNIC E-LEARNING**

**SCHOOL OF MANAGEMENT AND BUSINESS STUDIES**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**PROGRAMME:** Higher National Diploma in Business Administration and Management

**COURSE TITLE:** Practice of Entrepreneurship

**COURSE CODE:** BAM 216

**CREDIT HOURS:** 3 HOURS A WEEK

**LECTURER:** OBADIPE A.J.

**PROGRAMME GOAL:** This course is designed to equip the students with necessary entrepreneurial skills for self-employment of management.

**OBJECTIVES:**

At the end of this course, the students should be able to:

* Understand the Roles of the entrepreneurship in the development of the economy
* Know the levels of Aspiration, perseverance and personal efficacy of an entrepreneur
* Understand the various existing industry and support agencies in Nigeria
* Know the functions of management and the roles of a manager in an enterprise
* Understand the strategies for consolidation and expansion of business enterprise.
* Understand the practical aspects of running a business

**COURSE OUTLINES**

**Chapter 1: ROLES OF ENTREPRENEURSHIP IN THE DEVELOPMENT OF THE ECONOMY**

* 1. Need, Scope and Characteristics of Entrepreneurship
	2. The essential Functions of an Entrepreneur?
	3. Roles of Entrepreneurship in development of the economy
	4. Advantages of Self employment
	5. Disadvantages of Self employment
	6. Assignments
	7. Quizzes

**Chapter 2: LEVELS OF ASPIRATION, PERSEVERANCE AND PERSONAL EFFICACY OF AN ENTREPRENEUR**

2.1 The Characteristics of Entrepreneurs

2.2 The pros and cons to consider

2.3 Assignments

2.4 Quizzes

**Chapter 3: VARIOUS SUPPORT AGENCIES AND THEIR FUNCTIONS IN SMALL AND MEDIUM SCALE INDUSTRIAL DEVELOPMENT**

3.1 The function of support agencies in small and medium scale industrial development in Nigeria?

3.2 Industrial Association

3.3 Entrepreneurship Supportive Agencies in Nigeria

3.4 Assignments

3.5 Quizzes

**Chapter 4: FUNCTIONS OF MANAGEMENT AND THE ROLES OF A MANAGER IN AN ENTERPRISE**

4.1 Introduction

4.2 Functions of Management

4.3 Managerial Roles in Organizations

4.4 Assignments

4.5 Quizzes

**Chapter 5: STRATEGIES FOR CONSOLIDATION AND EXPANSION OF BUSINESS**

5.1 Effective strategies for consolidation and business expansion

5.2 Methods of growth

5.3 Expansion strategy

5.4 Various types of enterprise

5.5 General characteristics of a business franchise

5.6 Assignments

5.7 Quizzes

**Chapter 6: UNDERSTNADING THE PRACTICAL ASPECTS OF RUNNING A BUSINESS**

6.1 Introduction

6.2 Business Plan

6.3 Nature of the Business Plan

6.4 Purpose of the Business Plan

6.5 Components of Business Plan

6.6 Assignments

6.7 Quizzes

**Review Questions**

**CHAPTER ONE**

**ROLES OF ENTREPRENEURSHIP IN THE DEVELOPMENT OF THE ECONOMY**

* 1. **Need, Scope and Characteristics of Entrepreneurship**

The concept of Entrepreneurship has a wide range of meanings. On one hand, an entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found in only a very small fraction of the population. On the other hand, anyone who wants to work for himself is considered to be an entrepreneur. In the business sense, an entrepreneur is one who organizes, manages and assumes the risk of a business or enterprise.

According to intellectuals and business experts, the definition of entrepreneurship is simply the combining of ideas, hard work, and adjustment to the changing business market. It also entails meeting market demands, management.

* 1. **What are the essential Functions of an Entrepreneur?**

An entrepreneur performs a series of functions necessary right from the genesis of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. He recognizes the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organizational structure. He is thus a nucleus of high growth of the enterprise.

According to some economists, the functions of an entrepreneur is classified into five broad categories:

1. Risk-bearing function
2. Organizational function
3. Innovative function
4. Managerial functions, and
5. Decision making function.
6. **Risk-bearing function:**

The function of an entrepreneur as a risk bearer is specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks and not insurable and incalculable. In simple terms, such risks are known as uncertainty concerning a loss.

The entrepreneur, according to Knight, “is the economic functionary who undertakes the responsibility of uncertainty which by its very nature cannot be insured or capitalized or salaried too”.

Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price.

Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimize by his initiative, skill and good judgement. J.B. Say and others have stressed risk taking as the specific function of an entrepreneur.

1. **Organizational Function:**

Entrepreneur as an organizer and his organizing function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensure continuing management and render risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organization and supervision. According to him, an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus, produces a product. By selling the product in the market, he describes an entrepreneur as an organizer who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

Marchall also advocated the significance of organization among the services of special class of business undertakers.

1. **Innovative Function:**

The basic function an entrepreneur performs is to introduce new products, services, idea and information for the enterprise. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things. According to Peter Drucker, “Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth”. Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application.

J.A. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurs by instituting new combinations of production, *i.e.* innovation. According to him, innovation may occur in any one of the following five forms

* The introductions of a new product in the market with which the customers are not yet familiar with.
* Introduction of a new method of production technology which is not yet tested by experience in the branch of manufacture concerned.
* The opening of a new market into which the specific product has not previously entered.
* The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.
* The carrying out of the new form of organization of any industry by creating of a monopoly position or the breaking up of it.
1. **Managerial Function:**

Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organization of sales procuring machine and material, recruitment of men and undertaking of business operations. He also undertakes the basic managerial functions of planning, organizing, coordinating, staffing, directing, motivating and controlling in the enterprise, He provides a logical and scientific basis to the above functions for the smooth operation of the enterprise thereby avoids chaos in the field of production, marketing, purchasing, recruiting and selection, etc. In large establishments, these managerial functions of the entrepreneur are delegated to the paid managers for more effective and efficient execution.

1. **Decision Making Function:**

The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities of the enterprise. A.H. Cole described an entrepreneur as a decision maker and attributed the following functions to him.

* He determines the business objectives suitable for the enterprise.
* He develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization.
* He decides in securing adequate financial resources for the organization and maintains good relations with existing and potential investors and financiers.
* He decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process.
* He decides the development of a market for his product, develop new product or modify the existing product in accordance with the changing customer’s fashion, taste and performance.
* He also decides to maintain good relations with the public authorities as well as with the society at large for improving the firms’ image before others.
	1. **Roles of Entrepreneurship in development of the economy**

The role of entrepreneurship and an entrepreneurial culture in economic and social development has often been underestimated. Over the years, however, it has become increasingly apparent that entrepreneurship does indeed contribute to economic development.

Transforming ideas into economic opportunities is the crux of entrepreneurship. History shows that economic progress has been significantly advanced by pragmatic people who arc entrepreneurial and innovative, able to exploit opportunities and willing to take risks.

Entrepreneurs produce solutions that fly in the face of established knowledge, and always challenge the status quo. They are risk-takers who pursue opportunities that others may fail to recognize or may even view as problems or threats. Whatever the definition of entrepreneurship, it is closely associated with change, creativity, knowledge, innovation and flexibility-factors that are increasingly important sources of' competitiveness in an increasingly globalized world economy. Thus, fostering entrepreneurship means promoting the competitiveness of businesses. For many developing countries, private sector development has been engine of economic growth and wealth creation, and crucial (Or improving the quality, number and variety of employment opportunities for the poor.

Economically, entrepreneurship invigorates markets. The formation of new business leads to job creation and has a multiplying effect on the economy.

Socially, entrepreneurship empowers citizens, generates innovation and changes mindsets. These changes have the potential to integrate developing countries into the global economy.

Note: The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of n country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of' industrial sector of' a country but also in the development of farm and service sector. The major role played by an entrepreneur in the economic development of an economy is discussed in a systematic and orderly manner as follows.

1. **Promotes Capital Formation:**

Entrepreneurs promote capital formation by mobilizing the idle saving of the public. They employ their own as well as borrowed resources for setting up their enterprises. Such types of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

1. **Creates Large Scale Opportunities:**

Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale job are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment which in turn clears the path towards economic development of the nation.

1. **Promotes Balanced Regional Development:**

Entrepreneurs help to remove regional disparities through the setting up of industries in less developed and backwards areas. The growth of industries and businesses in these areas leads to a large number of public benefits like road transport, health education, entertainment, etc. Setting up more industries lead to more development of backwards regions and thereby promotes balanced regional development.

1. **Reduces Concentration of Economic Power:**

Economic power is the natural outcome of industrial and business activity. Industrial development usually leads to concentration of economic power in the hands of few individuals which results in the growth of monopolies. In order to redress this problem, a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

1. **Wealth Creation and Distribution:**

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographical areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

1. **Increasing Gross National Product and Per Capita Income:**

Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities, encourage effective resource mobilization of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

1. **Improvement in the Standard of Living:**

Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

1. **Promotes Country’s Export Trade:**

Entrepreneurs help in promoting a country’s export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose of earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

1. **Induces Backward and Forward Linkages:**

Entrepreneurs like to work in an environment of change and try to maximize profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

1. **Facilitates Overall Development:**

Entrepreneurs act as catalytic agents for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an are due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

In essence:

* Entrepreneurs are innovators
* They observe an opportunity.
* They create new goods and services. 
* They improve existing products.
* Entrepreneurs provide choice
* They add goods and services to the marketplace.
* They offer variety.
* They design different approaches to familiar problems.
* Entrepreneurs provide jobs
* They hire workers for their businesses.
* They consume resources, thus providing jobs in the industries that supply those resources.
* Entrepreneurs help the economy grow.
* It contributes to a more equitable distribution of income
* It creates social benefits.
* It utilizes and mobilizes resources for greater productivity.
* It helps in dispersing industrial activities to the countryside.
* It generates foreign exchange.
* It nurtures entrepreneurial talents.
* It establishes industrial linkages.
* It encourages healthy competition.
* It promotes the use of modern technology.
* It encourages more researches/studies and inventions of machines and equipment.

**1.4 Advantages of Self-Employment**

1. You are your own boss. You can have some flexibility in when you work. No one is going to fire you. You have job security. This will provide you an opportunity to put down roots and provide a sense of stability for your family. You can belong to a community.

2. You will have the chance to put your ideas into the business. Hopefully your business is in a field or area that you enjoy. Your business can be adaptable to what you see that needs to be done. This flexibility makes small businesses able to change virtually overnight to meet a perceived need.

3. You work hard and enjoy the rewards of your hard work. You'll never work harder for someone else as you will for yourself. I have always said, â??When you are your own boss, you know when you are loafing or when something more needs to be done! You will participate in every aspect of running the business. But if you want to schedule a day away from your work, you can do that.

4. You get to feel the enormous sense of pride and personal satisfaction when your business is successful, when your business has a good reputation, and when the business grows.

5. You will have the opportunity to lead others. When you need additional employees, you get to choose who you employ and then lead their growth and development.

6. You will get to work closely with your customers. You can develop strong meaningful relationships with your customers or clients.

7. You will develop a breadth of talents. In the course of running your business you will learn and acquire significant skills of marketing, accounting, negotiating and selling which are sought after skills in the workforce.

8. A successful business can provide financial reward. Hopefully, your business will prosper and reward you for your sacrifices. You may have a chance to make a lot more money that if you worked for someone. You will also have a chance to build real retirement value, if you can build your business and then sell it when you retire.

**1.5 Disadvantages of Self-Employment**

1. Risk of failure. Most new businesses fail in their first years. When you are self-employed, it is your own money or money that you have borrowed at risk. Having your own business, increases the problems associated with failure.

2. Your decisions can be wrong. There will be no one to bail you out from your mistakes. And as a general rule, you cannot move forward without some mistakes. The big question is, can you learn from your errors and be adaptable?

3. Owning your own business can require a sacrifice of your personal life, you may need to work long, long hours, you may need to work on weekends, and you may not have a vacation for several years.

4. Your income stream may fluctuate throughout the year. You may have very little to live on during the early times.

5. Your health insurance and pension costs are not included automatically. When comparing self-employment income to a job, you need to remember the employee benefits that are associated with employment such as health insurance or perhaps a pension contribution to a 401(k) are not automatically included. You will have to meet these needs from your income.

6. Strict record keeping and attention to detail are very important. You will have the ultimate responsibility for such things as the required licenses, sales tax returns, employment and unemployment taxes returns, payroll information, and income tax returns. The details that are recorded on these documents will need to come from your record keeping system.

7. Some tasks may be unpleasant. You may find yourself doing things that you do not enjoy, but no one else is there to do them. This may include firing employees, or saying â “no” to a family member looking for work.

8. You may have a hard time hiring qualified employees.

9. There is always a risk of being sued. Creditors and customers may possess the ability to seek your personal assets if you default on your business obligations. If a customer or vendor believes you acted in error, he may file a lawsuit against you. To protect your assets, you can seek liability insurance for your business, but some new business owners may find it difficult to afford insurance premiums.

**1.6 Assignments**

1. What are the essential functions of an Entrepreneur?
2. Explain the role of an Entrepreneur in the development of an Economy.
	1. **Quizzes**
3. List the advantages of self-employment
4. What are the disadvantages of self-employment?

**CHAPTER TWO**

**LEVELS OF ASPIRATION, PERSEVERANCE AND PERSONAL EFFICACY OF AN ENTREPRENEUR**

**2.1 The Characteristics of Entrepreneurs**

There are certain traits and attitudes that make some people more suited to running a successful small business than others.

In one study where entrepreneurs were given a list of attributes and asked to rate their importance for success, the seven most highly ranked qualities were perseverance, the desire and willingness to take the initiative, competitiveness, self-reliance, a strong need to achieve, self-confidence, and good physical health. The very great challenges of entrepreneurship typically demand certain characteristics from those who start a business. It is believed that these psychological traits make success as an entrepreneur much more likely. Understanding these traits helps to understand the business process.

He or she is the person who perceives the market opportunity and then has the motivation, drive and ability to mobilize resources to meet it. The major characteristics of entrepreneur that have been listed by many commentators include the following.

* **Self-confident and multi-skilled –** The person who can make the product, market it and count the money, but above all they have the confidence that lets them move comfortably through unchartered waters. The person must have confidence in the face of difficulties and discouraging circumstances. To withstand the stresses associated with starting a new business and overseeing its day – to - day management, and entrepreneur must have a great amount of confidence in her own abilities. People are more likely to invest both effort and money in an entrepreneur with confidence.
* **Innovative Skills –** Not an ‘inventor’ in the traditional sense but one who is able to carve out a new niche in the market place, often visible to others.
* **Result-orientated –** To make be successful requires the drive that only comes from setting goals and targets and getting pleasure from achieving them.
* **Total commitment –** Hard work, energy and single-mindedness are essential elements in the entrepreneurial profile.
* **Risk Takers –** To succeed means taking measured risks. Often the successful entrepreneur exhibits an incremental approach to risk taking, at each stage exposing him/her to only a limited, measured amount of personal risk and moving from one stage to another as each decision is proved. The ability to withstand the stresses of risk is very important.
* **Insight –** The most successful entrepreneurs have been those who gained a key insight into the area of the business world that they were entering. They were able to identify a key advantage that they have over their competitors if they start a new business.
* **Funding -** For any entrepreneur to get past even the first initial steps in starting a business there must be funding available. Successful entrepreneurs have both the personalities to attract funding and to operate in societies where such funding for new businesses is available. If a society wishes to encourage entrepreneurship it must supply a network of investment sources that will allow entrepreneurs with new ideas to even begin their efforts.
* **Attitudes and Behaviour Discipline –** The attitude and behaviour of discipline is fundamental to the success of one’s capital in entrepreneurship. According to Murphy and Peck, that in order to achieve success in career one must begin with hard work, good looks, confidence, make decisions, education, encouragement of ambition and clever communication.
* **High Commitment -** An entrepreneur must have a high commitment to the task. That is an entrepreneur that every time his mind is not separated from his company or business.
	+ **Honesty -** An entrepreneur is expected to have a high degree of honesty. Consumers, clients and customers are loyal to a business owner who is known to be honest not minding what is involved.

**2.2 Here are some pros and cons to consider**

**2.2.1 Pros**

* **Excitement:** Due to its high capacity for risk, there is a lot of adventure.
* **Rules and regulations:** Work in a current job is difficult do because of all the "red tape" and consistent administration approval needed.
* **Originality:** Some people feel that they can offer a new service/product that no one else has offered before.
* **Competition:** Employees feel they can offer their current company's product/service at a lesser expense to the public.
* **Independence:** Some people wish to be their own boss and make all the important decisions him/herself.
* **Salary potential:** Generally, people want to be paid for the amount of work they do in full; they do not want to be "short-changed."
* **Flexibility:** Entrepreneurs can schedule their work hours to spend quality time with family or any other reason.
* **Rational salary**: They are not being paid what they're worth and would rather work on their own and earn the money they should be earning, for their efforts.
* **Freedom:** Entrepreneurs can work whenever they want, wherever they want, however they want.

**2.2.2 Cons**

* **Salary:** Starting your own business means that you must be willing to give up the security of a regular paycheck.
* **Benefits:** There Will undoubtedly be fewer benefits, especially when that your business Will be just starting off.
* **Work schedule:** The work schedule of an entrepreneur is never predictable an
* emergency can come up in a matter of a second and late hours Will to be put in.
* **Administration:** All the decisions of the business must be made on your own; there is no one ranked higher than you on the chain of command in your business.
* **Incompetent staff:** Often times, you will find yourself working with an employee who doesn’t know the ropes" as well as you do due to lack of experience.
* **Procedures:** Many times during your entrepreneurial life, you will find that many policies do not make sense, nor will they ever make sense.

**2.3 Assignments**

1. Explain the characteristics of an Entrepreneur.

**2.4 Quizzes**

1. What are the pros and the cons that the Entrepreneur needs to consider?

**CHAPTER THREE**

**VARIOUS SUPPORT AGENCIES AND THEIR FUNCTIONS IN SMALL AND MEDIUM SCALE INDUSTRIAL DEVELOPMENT**

**3.1****What are the function of support agencies in small and medium scale industrial development in Nigeria?**

Some supportive agencies are established by the government at all levels to facilitate the promotion of *entrepreneurship in Nigeria***.** These agencies are established to cope with the dynamics of the economy at a particular time.

Their basic functions can be discussed under these roles.

* Participatory
* Regulatory
* Facilitating
	+ 1. **Participatory Agencies**

The agencies in this category aid in providing goods and services which are best produced by the government. They provide goods and services that are highly subsidized or goods produced below the average cost. The services provided by these agencies are essentially to *encourage entrepreneurship.* Examples are FERMA (Federal Road Maintenance Agency), public corporations such as PHCN, NEMA, FAAN etc.

* + 1. **Regulatory Agencies**

These are agencies established for regulating business. They are involved in inspection of facilities, laboratory test of products, approval of facilities and product etc. They include the following:

* *Standards Organization of Nigeria (SON)*
* *National Agency for Food and Drugs Administration and Control (NAFDAC).*
* *National Drug Law Enforcement Agency (NDLEA).*
* *Federal Environment Production Agency (FEPA)*
* *State Environmental Protection Agency (SEPA).*
	+ 1. **Facilitative Agencies**

These are agencies set up to facilitate the establishment and successful existence of small scale industries. They are saddled with the responsibility of ensuring conducive environment for SMEs. Their function may include specialized fund for SMEs or otherwise. In this category we have such institutions as:

* The Industrial Training Fund (ITF)
* Federal Institute of Industrial Research Oshodi (FIIRO)
* Bank of Industry (1301)
* The Industrial Development Centre (IDC)
* Universities and Polytechnics
* Nigerian Export Promotion Council (NEPC)
* The National Directorate of Employment (NIDE)
* National Poverty Eradication Programme. (NAPEP)
* Small and Medium Enterprise Development Agency of Nigeria (SMEDAN)
	1. **Industrial Association**

Government has also established some industrial association to industrial harmony. These associations were created by law or decree at different times. They include:

* The Manufacturers Association of Nigeria (MAN)
* The National Association of Small-Scale industrialists (NASSI)
* The Nigerian Employers Consultative Association (NECA).
* The Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA).

**Others**

Federal Government especially is in collaboration with some international bodies to promote small and medium scale industries. Just as they do in other sectors, their functions cover funding, research and development etc. these bodies include:

* The World bank
* United Nations Children’s Fund (UNICEF)
* United Nations Industrial Organization (UNIDO)
* African Development Bank (ADB)

**3.3 Entrepreneurship Supportive Agencies in Nigeria**

Manufacturer Association of Nigeria (MAN)

MAN was formed as a company limited by guarantee to perform important roles on behalf of its members. It was established as a national industrial association in 1971.

The activities of MAN are focused on sectoral group interactions. The list of sectoral groups includes:

* Food, Beverages and Tobacco.
* Chemicals and pharmaceutical
* Domestic and industrial plastic, rubber and, foam.
* Basic metal, iron and steel, and fabricated metal products. 
* Pulp, paper and paper products, printing and publishing.
* Electrical and electronics.
* Textile, weaving, apparel, carpet, leather and leather footwear.
* Wood and wood products including furniture. Non-metallic mineral products.
* Motor vehicle and miscellaneous Assembly
* MAN export group.

**3.3.1 Functions of Manufacturer Association of Nigeria (MAN)**

This industrial association performs the following functions among many:

* It encourages the patronage of Nigerian made products by Nigerians and foreigners. 
* It encourages high standard of quality for member’s products through the collation and the provision of advice.
* It provides ' for manufacturers venue for formulating and influencing general policy, in regard to industrial! matters.

**3.3.2 National Association of Small and Medium Enterprises (NASMIC)**

It is a private sector organization in Nigeria. Its membership is drawn small and medium scale enterprises. It is devoted to networking capacity building, policy advocacy and promotion of the performance of its members •firms and operators. NASME works to improve the welfare of its members and make input in industrial policy.

Analysis and publications from INA MSE business environment, competitive enlightenment and policy making, arc useful to entrepreneurs. Member firms of NASME face the daily challenge or unsupported macroeconomic environment.

**3.3.3 Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA)**

This body is a voluntary association of manufacturers, merchants, miners, farmers, financiers, industrialists, trade groups who network together the principal objectives of promoting, protecting and improving business environment. micro and macro benefits. The first Chamber of commerce in Nigeria, the Lagos Chamber of Commerce was founded in 1988 while NACCIMA, the umbrella organization for all chambers of Commerce in Nigeria was established in 1960.

**Roles of NACCIMA**

* It contributes to the socio-politico-economic development of Nigeria.
* It provides a network of national and international business contacts and opportunities.
* It promotes and develops all matters affecting commerce. mines and agriculture and other forms of private economic activities.
* It considers legislative and other measures affecting commerce. industry, mines and agriculture in Nigeria

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**3.3.4 Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)**

This body was established to promote the development of micro, small and medium Enterprises (MSME). Its mission is to facilitate the access or micro, small and medium entrepreneurs/investors to all resources required for their development. Its vision is to establish a structured and efficient micro, small and medium enterprises sector that will enhance sustainable development of Nigeria.

If SMEDAN functions optimally it will be one of the most veritable channels to combat poverty.

Like any other agency of its kind, harsh economic condition couple with week government institutions docs not help its performance.

**3.3.5 National Poverty Eradication Programme (NAPEP)**

This programme aimed at poverty eradication and empowerment. There are four major intervention schemes in Nigeria's current poverty eradication programme.

One is Youth Empowerment Scheme (YES), it is targeted at youth. YES is more than employment scheme as it is aimed at the provision of' training opportunities, skills acquisition, employment opportunities, wealth creation through enhanced income generation, improved social status and rural development.

It is primarily aimed at é economic empowerment of Nigerian youths. Its impact is still below expectation.

**3.3.6 Micro Finance Institutions (MFIS)**

These financial institutions arc set up to meet the credit needs of the rural and urban poor, artisans, farmers, petty traders, vulcanizer, etc. CBN gave a directive to all erstwhile community Banks to convert to MFls by recapitalizing to meet. the new guidelines for the setting up of MFls. One of the challenges microfinance face in Nigeria is that they do not reach to great number of poor Nigerians. The effect of not appropriately addressing this situation would Further accentuate poverty and slow down economic growth and development.

**3.3.7 Small and Medium Industries Equity Investment Scheme (SMIEIS)**

The Scheme requires all banks in Nigeria to set aside ten (10) percent their Profit After Tax ' (PAT) for equity investment and promotion of small and medium enterprises] The 10% of the profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the federal governments' efforts towards stimulating economic growth, developing local technology: and generating employment. Activities covered by the scheme include all legal business activity with the exception or trading/merchandising. and financial services. Beneficiaries arc expected to comply with guidelines ofthe scheme and ensure prudent utilization of fund. Like its other counterparts its performance is still below expectation.

**3.3.8 Nigerian Association of Chambers of Commerce, Industry Mines and Agriculture (NACCIMA)**

NACCIMA was founded in 1960 as a voluntary association or manufacturers, merchants, mines, farmers, financers, industrialists, trade groups who network together for the principal objectives of promoting, protecting and improving business environment for micro and macro benefits. The body performs many functions.

* It provides a network of national and international business contacts and opportunities.
* It promotes, protects and develops all matters affecting commerce industry, mines and agriculture and other form of private economic activities all lawful means.
* It promotes, support and oppose legislative and other measures affecting commerce, industry, mines and agriculture in Nigeria.
* It contributes to the overall economic stability of the community.
* It encourages an orderly expansion and development of all segments of community.
* It contributes to the social, political and economic development of' Nigeria.

**3.3.9 Nigerian Association of Small-Scale Industrialists (NASSI)**

This association was established in 1978 to enter for the needs the Small Scale business industrialist through the provision of' Socio-politico economic support for the members.

It has numerous functions as follows: 

* The body organizes workshops, conferences, exhibitions, trade-fairs, study tours and also provides advisory services to the members.
* It was to provide information on sources of raw materials, market situations, plants and equipments arid the required manufacturing standard.
* The body grants micro credit facilities to members and sometimes stands as sureties for bonafide small and medium enterprise (SME) in their relationship with development finance institutions. 
* The association links up its members with various opportunities and development assistance both at home. and abroad.
* The body serves as the mouthpiece of members in advocacy capacity against unfavorable public policies.

**3.3.10 National Association or Small and Medium Enterprises (NASME)**

NASME is a private sector organization in Nigeria which brings together Small and Medium Scale enterprises (NASME) across the country. was registered in 1996 as Business Membership Organization (BMO) to coordinate and foster the promotion 01 Micro Small and Medium Enterprises (NASME) in Nigeria. devoted to networking, capacity building; policy advocacy and promotion or the performance of its member firms and operators. It works consistently to improve the welfare of its members

* 1. **Assignments**
1. What are the functions of support agencies in small and medium scale industrial development in Nigeria?
2. List out the various entrepreneurial supportive agencies in Nigeria and explain their various functions.
	1. **Quizzes**
3. List out the sectoral groups under Manufacturers Association of Nigeria and what are the functions of MAN?
4. Explain the role of National association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA).

**CHAPTER FOUR**

**FUNCTIONS OF MANAGEMENT AND THE ROLES OF A MANAGER IN AN ENTERPRISE**

**4.1 Introduction**

Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively. Management comprises planning, organizing, staffing, leading or directing, and controlling, an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the deployment and manipulation of human resources, financial resources, technological resources and natural resources

Since organizations can be viewed as systems, management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system. This view opens the opportunity to ‘manage’ oneself, a pre-requisite to attempting to manage others.

**4.2 Functions of Management**

Different experts have classified functions of management. According to *George & Jerry,* “There are four fundamental functions of management i.e. planning, organizing, actuating and controlling”. According to Henry Fayol, “To manage is to forecast and plan, to organize, to command & to control”. Whereas Luther Gullick has given a keyword ‘POSDCORB’ where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Coordination, R for Reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O’DONNEL i.e. Planning, Organizing, Staffing, Directing and Controlling.

For theoretical purposes, it may be convenient to separate the function of management but practically these function blends into the other & each affects the performance of others.

Planning

Controlling

Organizing

Staffing

Directing

**4.2.1 Planning**

It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, “Planning is deciding in advance – what to do, when to do & how to do. It bridges the gap from where we are & where we want to be”. A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

**4.2.2 Organizing**

It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, “To organize a business is to provide it with everything useful for its functioning i.e. raw material, tools, capital and personnel’s”. To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

* Identification of activities.
* Classification of grouping activities.
* Assignment of duties.
* Delegation of authority and creation of responsibility.
* Coordinating authority and responsibility relationships.

**4.2.3 Staffing**

It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, Complexity of human behaviour, etc. The main purpose of staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to KOOTZ & O’DONELL, “Managerial functions of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed in the structure”. Staffing involves:

Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).

* Recruitment, selection & placement.
* Training & development.
* Remuneration.
* Performance Appraisal.
* Promotions & transfer.

**4.2.4 Directing**

It is the part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has the following elements:

* Supervision
* Motivation
* Leadership
* Communication

**Supervision** - implies overseeing the work of' subordinates by their superiors. It is the act of watching & directing work & workers.

**Motivation** - means inspiring. stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose

**Leadership** - may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

**Communications** – is the process of passing information, experience, opinion etc. from one person to another. It is a bridge of understanding.

**4.2.5 Controlling**

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to *Theo Haimann*, “Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation”. According to Koontz & O’Donell “Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished”. Therefore, controlling has the following steps:

1. Establishment of standard performance.
2. Measurement of actual performance.
3. Comparison of actual performance with the standards and finding out deviation if any.
4. Corrective action should be taken if there is any deviation from set standard

**4.3 MANAGERIAL ROLES IN ORGANIZATIONS**

**4.3.1 Managerial Roles:**

Managers fulfil a variety of roles. A role is an organized set of behaviour that is associated with a particular office or position. Dr. henry Mintzberg, a prominent manger researcher, say that what managers do can best be described by looking at the roles they play at work. The term management role refers to specific categories of managerial behaviour. There are three types of roles which a manager usually does in any organization:

* **Interpersonal roles** - are roles that involve people (subordinates and persons outside the organization) and other duties that are ceremonial and symbolic in nature. The three interpersonal roles include being a figurehead, leader, and liaison.
* **Informational roles** - involve receiving, collecting, and disseminating information. The three informational roles include a monitor, disseminator, and spokesperson
* **Decisional roles** - revolved around making, choices. The decisional roles include entrepreneur, disturbance handler, resource allocator, and negotiator. In the late 1960s, Henry Mintzberg concluded that managers perform 10 different, but highly interrelated roles. Follow-up studies of Mintzberg's role categories in different types of organizations and at different managerial levels within organizations have generally supported the notion that managers perform similar roles. however, the more traditional functions have not been invalidated. In Fact, the functional approach still represents the most useful way of classifying the manager's job. As depicted in following table, Mintzberg delineated ten managerial roles in three categories.
1. **Interpersonal roles** - grow directly out of the authority or a manager's position and involve developing and maintaining positive relationships with significant others.
2. The figurehead performs symbolic legal or social duties.
3. The Leader builds relationships with employees and communicates with, motivates, and coaches them.
4. The liaison maintains a network or contacts outside the work unit to obtain information.
5. **Informational roles** - pertain to receiving and transmitting in managers can serve as the nerve centers of their organizational units.
6. The monitor seeks internal and external information about issues that can affect the organization.
7. The disseminator transmits information internally that is obtained from either internal or external sources.
8. The spokesperson transmits information about the organization to outsiders.
9. **Decisional roles** - involve making significant decisions that affect the organization.
10. The entrepreneur acts as an initiator, designer, and encourager of change and innovation.
11. The disturbance handler takes corrective action when the organization faces important, unexpected difficulties.
12. The resource allocator distributes resources of all types, including lime, funding, equipment, and human resources.
13. The negotiator represents the organization in major negotiations affecting the manager's areas of responsibility

|  |  |  |  |
| --- | --- | --- | --- |
| Mintzberg’s Managerial Roles | Role | Description | Examples of Identifiable Activities |
| Interpersonal | Figurehead | Symbolic head: obliged to perform a number of routine duties of a legal or social nature | Greeting visitors: signing legal documents |
| Leader | Responsible for the motivation of subordinates: responsible for staffing, training, and associated duties. | Performing virtually all activities that involves subordinates  |
| Liaison | Maintains self-developed network of outside contacts and informers who provide favors and information | Acknowledge mail: doing external board work: performing other activities that involve outsiders. |
| Informational | Monitor | Seeks and receives wide variety of internal and external information to develop thorough understanding of organization and environment | Reading periodicals and reports: maintaining personal contacts. |
| Disseminator | Transmits information received from outsiders or from subordinates to members of the organization | Holding informational meetings: making phone calls to relay information. |
| Spokesperson | Transmits information to outsiders on organization’s plans, policies, actions, results | Holding board meetings: giving information to the media |
| Decision role | Entrepreneur | Searches organization and its environment for opportunities and initiates “improvement projects” to bring about changes | Organizing strategy and review sessions to develop new programs. |
|  | Disturbance handler | Responsible for corrective action when organization faces important, unexpected disturbances | Organizing strategy and review sessions that involve disturbance and crises |
| Resource allocator | Responsible for the allocation or organizational resources of all kinds – making or approving all significant organizational decisions | Scheduling : requesting authorization: performing any activity that involves budgeting and the programming of subordinates’ work |
| Negotiator | Responsible for representing the organization at major negotiations | Participating in union contract negotiations |

**4.4 Assignments**

1. What are the main functions of Management of an Enterprise?
2. Explain in detail, Managerial Roles in an Organization.

**4.5 Quizzes**

1. List out the element of the following managerial functions in an organization:
* Organizing
* Staffing
1. List out the elements of the following managerial functions in an organization:
* Directing
* Controlling

**CHAPTER FIVE**

**STRATEGIES FOR CONSOLIDATION AND EXPANSION OF BUSINESS**

* 1. **EFFECTIVE STRATEGIES FOR CONSOLIDATION AND BUSINESS EXPANSION**

A strategic plan comprises the action that the enterprise needs to take to achieve its vision. It is a long term planning that may involve additional fund tor human resource development, technological changes and new market penetration. Developing a strategic plan is easy when changes in the business environment arc revolutionary and predictable. It will be possible to extrapolate what the future is likely to he and set strategic vision for the expected best or worst scenario. A well-developed strategic plan is set to extrapolate the present business condition into some time in the future with some factor(s) added to take cat-c of growth and development.

**5.2 METHODS OF GROWTH**

Small businesses can expand their operations by pursuing any number of avenues. The most commonplace methods by which small companies increase their business arc incremental in character, i.e., increasing product inventory or services rendered without making wholesale changes to facilities or other operational components. But usually, after some period of time, businesses that have the capacity and desire to grow will find that other options should be studied. Common routes of' small business expansion include:

* Growth through acquisition of another existing business (almost always smaller in size) 
* Offering franchise ownership to other entrepreneurs
* Licensing of intellectual property to third parties
* Establishment of' business agreements with distributorships and/or dealerships
* Pursuing new marketing routes (such as catalogs)
* Joining industry cooperatives to achieve savings in certain common areas or operation, including advertising, and purchasing
* public stock offerings
* Employee stock ownership plans

Of course, none or the above options should be pursued until the business’s ownership has laid the necessary groundwork. "The growth process begins an honest assessment of strengths and weaknesses”.

* + 1. **MARKET STRATEGY**

Market strategy deals with the customers. It also deals with the company’s knowledge of recognizing available needs and opportunities in the market, mode of identifying and reaching its quality and speed of service. renders, marketing, advertising and management expertise the company possesses.

Market strategy also deals with the. following to make the business grow

* Evaluate management about the market in order determine the extent they are valid and achievable
* Determine the company’s unique strength and incorporate the strength into the marketing efforts.
* Find out new opportunities available in the market and take advantage of them. Opportunities could be in terms of acquisition, putting new products/service into the market or collaboration with other company in related business.
* Find a way of expanding business within the market segment it serves. The expansion can extend to other market segment or geographical locations.
	+ 1. **PRODUCT STRATEGY**

This refers to the ability of the company to deliver product. It includes the different type and quality of product the company markets. Product strategy matches product with the needs of the market and makes all effort it takes to totally satisfy existing and potential customers.

Product strategy also includes the following to make business grow:

* Ensure that product meets psychological need of the customers in order for them to derive the expected satisfaction.
* Identify and take up new and emerging technology that will bring out the product in more acceptable form to meet the need of customers. It is important to have full knowledge of the technology for direct and indirect application to business of the company. To achieve cost reduction, it is important to do proper financial evaluation of the technology which the company intends to embrace.
* Improves the technical knowledge and skill of sales and service staff about the product for them to be able to render appropriate services to clients/customers.
* Establishes very good and strong relationship with the customers.
	+ 1. **ORGANIZATIONAL STRATEGY**

This strategy binds everything that makes up the company together to form a formal business body. The components of organization are structure, systems, policies, procedures and activities of the company. It also includes the way the company exercises its authority, takes decisions, communicates, coordinates and marries activities together for effective performance.

Below are list of other activities that should be included in organizational strategy:

* Establishment of clear job description for all existing positions and creation of system for evaluating the responsibilities and authority of the position to ensure that people perform their duties accordingly
* Assessing the effectiveness of structures and system adopted by the company to evaluate the value they are adding to the corporate existence of the company.
* Analyzing the major activities of the company to determine areas of deficiency where improvement is required.
	+ 1. **PEOPLE STRATEGY**

This strategy covers the technical skills, professional capabilities and attitudes of employees that can be harnessed for consolidation and expansion of the business. The growth of the company and that of the people working there go together. A company that provides maximum opportunity for its staff to grow will have maximum opportunity to develop.

Below are list of other areas by people strategy:

* Reviewing of staff salaries to make sure that the compensation for each position is commensurate with the duties and responsibilities attached to the position.
* Recruitment of highly qualified people and readiness to improve their technical skill through formal training program. It is also important to develop the interpersonal and organizational skill of staff through formal training.
* Creation of standard career development path for staff with effective performance appraisal system put in place to evaluate their performance and encourage them to acquire higher level of responsibility.
* Involvement of staff in generating ideas that can lead to improvement in interaction and communication, promotion of harmony and increase in efficiency generally.
* Establishment of formal program to give social recognition to high performance.
	+ 1. **FINANCE STRATEGY**

This strategy defines the manner in which the company manages and utilizes capital resources for its growth. It also includes the quality of system and skill for accounting, cash and credit management, financial management and access to capital. Financial strategy also includes the following to make the business grow:

* Exploring and taking advantage of all available and accessible sources of funds.
* Keeping the expenditure within or below budgeted level through proper control system
* Having fund utilization process in place to avoid fund wastage and diversion
	1. **EXPANSION STRATEGY**

Seven ways to expand from Local to Global:

1. **Increase your sales and products in existing markets:** This is obviously the easiest and most risk-free way to expand. This tactic may require a bigger location, different pricing strategies, new/improved marketing techniques – but it will be in a customer group with whom you already have a relationship. If you get off track, your present customers will let you know.
2. **Introduce a new Product:** You have a successful product/service that you have been offering for some time and have been collecting date, customer feedback and doing the tinkering on your newest product. This is in normal evolution in business, not just an expansion tactic when positioned as adding value and being responsive to customer needs, this can be a relatively risk-free way to expand.
3. **Develop a new market segment or move into new geography:** Both of these areas require cost outlays and uncertainty. Moving your products into new categories or demographic segments require market research, beta testing and new marketing strategies, i.e. the message for a 16-year-old will differ than one for a 60-year old. Management of new remote locations may absorb significant time and attention. While the risks are more, the payoffs are large-and for most businesses looking to expand, these two methods of expansion are inevitable.
4. **Start a Chain:** A restaurant, retail or service business that is easily reproduced and can be run from a distance is all you need to run a chain. But you must be cognizant of what made the first location a success-was it location, your staff or you? If it’s just you, then duplication is only possible through detailed operations, plans and sharing staffs between locations. You will need to duplicate the plan of your first location while meeting increased customer demands. Starting a chain gives your current staffs a crack at “management” duties, training opportunities and an opportunity to expand their horizons.
5. **Franchise or License:** While it’s a quick way to grow, a franchise agreement can cost (minimally) $100,000 to prepare. You will need to be a good teacher, be able to prepare the training manuals (preferably in more than one language) be very organized and willing to travel. Licensing can carry less risk but demands giving up a certain amount of control. Licensing a patent, trademark or industrial design means that you will sell manufacturing, distribution or production rights.
6. **Join forces/strategic alliance:** A merger or acquisition combines the best of two companies, expands your customer base, increase the intellectual capital and delivers operational efficiencies. The trick is finding the right partner. These partners may be distributors, but be forewarned large retailers exert heavy performance expectations. Can you perform the letter of your promise? can you meet high standards of quality (ISO, or the like) and adapt your procedures to meet just-in-time delivery? Due diligence and strong contractual arrangements are essential here.
7. **Go global:** You can decide to go global in a number of ways. Goring markets, rising consumer spending, improve business climates-sometimes. The only place to find these things is overseas. Doing business internationally can take the form of exporting, licensing, a joint venture or manufacturing, whatever form you choose, the basic business rules apply: assess customer demand, gain legal and accounting assistance, project intellectual property and obeying regulations. More difficult to understand than the regular business affairs may be the cultural nuances – ignore them at your peril. In some countries particularly those in Asia, a local partner is virtually a requirement. You first stop should be your target country’s economic development agency, which can help marshal local resources to get you on your way, possibly with a small financial boost. Be patient. Growing your business globally can take more than one “sightseeing trip” to the region. Here are some steps in groups in growing global from easiest to hardest.

**Four ways to go global**

1. You can fill orders from Canadian buyers who then export your products. This is the lowest risk of all, but does not put you in the driver’s seat. You will have to rely on others to spot the opportunities and take the passive role in the research and negotiations.
2. You can find foreign buyers operating in Canada. Multinational cooperation, foreign government and international retailers can buy goods from you in Canada to export to their particular markets There are many online markets on which you can list your products or service, and increase the chances of your selection as a company of choice.
3. You can work through agents and distributors. By working through export managements, sales agents or trading houses, you can access foreign markets while still being in control of the sales and terms. These intermediaries will build your export expertise and be able to provide information about new trends or market shifts.
4. Marketing a delivering your products directly. This option call for a large commitment in resources, resolve and business savvy. The best way to begin is to join forces with non-competitor businesses and “package” your offerings. Together, you can share advice from government, trade representatives, financial institutions, freight forwarders, distribution networks, agents and even shipping space. Perhaps also look for the cultural bridge in your partnership – do they speak the language or have they lived in the country? Whether you go it alone, or partner, going global has risks and the ultimate reward. *Bonne chance!*

**5.4 Various Types of Enterprise**

The various forms of organizations are established by state law. There are a wide variety of business organizations recognized by the state. For example, a popular form of organization is the limited liability company (LLC). The LLC is a state designation. At the federal level, an LLC is taxed as a partnership. If the LLC so chooses, it can be taxed as a corporation at the federal level. While there are a variety of designations at the state level, for federal tax purposes there are only 6 forms of business organizations:

* Sole Proprietor (1040 Schedule C),
* Corporations (1120),
* Partnership (1065)
* S-Corporation (1120S),
* Trust (1041), and
* Non – profit organization (990)

**5.4.1 Sole Proprietorship**

Sole proprietors are unincorporated businesses. They are also called independent contractors, consultants, or freelancers. There are no forms you need to fill out to start this type of business. The only thing you need to do is report your business income and expense on your form 1040 Schedule C. This is the easiest form of business to set to and the easiest to dissolve. (An LLC with only a single shareholder, a so-called single member LLC, is taxed as a sole proprietor on a Schedule C.)

The vast majority of small businesses start out as sole proprietorships…. very dangerous. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume “complete personal” responsibility for all of its liabilities or debts. In the eyes of the law, you are one in the same with the business.

**Advantages of Sole Proprietorship**

* Easiest and least expensive form of ownership to organize.
* Sole proprietors are in complete control, within the law, to make all decisions.
* Sole proprietors receive all income generated by the business to keep or reinvest.
* Profits from the business flow-through directly to the owner’s personal tax return.
* The business is easy to dissolve, if desired.

**Disadvantages of Sole Proprietorship**

* Unlimited liability and are legally responsible for all debts against the business
* Their business and personal assets are 100% at risk.
* Have almost the inability to raise investment funds.
* Are limited to using funds from high-caliber employees, or those that are motivated by the opportunity to own a part of the business.
* Employee benefits such as owner’s medical insurance premiums are not directly deductible from business income (partially deductible as an adjustment to income).

**5.4.2 Corporations**

 A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique “entity”, separate and apart from those who own it. A corporation can be taxed; it can be sued; it can enter into contractual agreements.

The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Note: Corporations are incorporated businesses. Every form of business besides the sole proprietor is considered a separate entity, and this often provides a measure of legal and financial protection for the shareholders. The shareholders of corporations have limited liability protection, and cooperations have full discretion over the amount of profits they can distribute or retain. Cooperations are presumed to be for-profit entities, and as such they can have an unlimited number of years with losses. Cooperations must have at least one shareholder.

**Advantages of a Corporation**

* Shareholders have limited liability for the corporation’s debts or judgements against the corporations
* Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes).
* Corporations can raise additional funds through the sale of stock.
* A corporation may deduct the cost of benefits it provides to officers and employees.
* Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to partnership

**Disadvantages of Corporation**

* The process of incorporation **requires** more time and money than other forms of organization.
* Corporations are monitored by federal, state and some local agencies, and as a result have more paperwork to comply with regulations.
* Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible form business income, thus this income can be taxed twice.

**5.4.3 S Corporations** - A tax election only; this election enables the shareholder to treat the earnings and profits as distributions, and have pass thru directly to their personal tax return. The catch here is that the shareholder, if working, for the company, and if there is a profit, must pay herself wages, and it must meet standards or “reasonable compensation”. This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do this, the IRS can reclassify all the earnings and profit as wages, and you will be liable all of the payroll taxes on the total amount



**5.4.4 Partnerships** - These are unincorporated businesses. Like corporations’ partnerships are separate entities from the shareholders. Unlike corporations, partnerships must have at least one General who assumes unlimited liability for the business. Partnerships must have at least two shareholders. Partnership distributes all profits and losses to their shareholders without regard any profits retained by the business for cash flow purposes. (LLCs are taxed as partnerships, unless they choose to be taxed as corporations.)

**5.4.5 Limited Liability Company (LLC)** - The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued if desired by a vote of the members at the time of expiration. LLC’s must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets; continuity of life; centralization of management; and free transferability of ownership interests.

**Trusts** - Trusts are usually formed upon the death of an individual and are designed to provide continuity of the investments and the business activities of the deceased individual.

**Nonprofits** - are corporations formed for a charitable, civic, or artistic purpose. Nonprofits are generally exempt from federal and state taxation on their income, and so they are often called "exempt organizations." Nonprofits have substantial responsibilities for reporting their activities, income, and assets to ensure that they are in compliance with federal and state governing charities

As mentioned above, proprietors, S-corporations. and partnerships are taxed at the shareholder level. Corporations, however are taxed at the corporate level.

**5.5 General Characteristics of a Business Franchise**

A business franchise is an organization that operates on a business model in which a parent company sells licenses to individuals or business groups, allowing the license to sell products and services associated with the parent company. Business franchises are considered a wise investment because they utilize an established business model, for example, Curves and McDonald’s.

Franchising is the practice of using another firm’s successful business model. The word ‘franchise’ is of Anglo-French derivative – from *franc* – meaning free, and is used both as a noun and as a (transitive) verb. For the franchisor, the franchise is an alternative to building 'chain stores,' to distribute goods and avoid the need for investments and liability for a chain. The franchisor's success depends on the success of the franchisees. The franchise is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

A franchise usually lasts for a fixed time period (broken down into shorter periods, which each require renewal), and serve a specific territory or geographical area surrounding its location. One franchise may manage several such locations. Agreements typically last from 5 to 30 years, with premature cancellations or terminations of most contracts bearing serious consequences for franchisees. A franchise is merely a temporary business investment involving renting or leasing an opportunity, not the purchase of a business for the purpose of ownership. It is classified as a wasting asset due to the finite term of license.

A franchise can be exclusive, non-exclusive or ‘sole and exclusive’.

Businesses for which franchising work best have one or several of the following characteristics

* A good track record of profitability
* Ease of duplication
* Detailed systems, processes and procedures
* A unique or unusual concept
* Broad geographical appeal
* Relative ease of operation
* Relatively inexpensive operation.

Other characteristics of a franchise include

**Strong Leadership**

Leadership is a defining characteristic of business franchises. Parent franchisors often provide an array of business support services to help the new franchisee succeed. These support services include the franchise location, the design and aesthetic of the franchise site, the hiring and training of the staff, the marketing of the services and products offered, and any initial financing assistance. The parent company often provides experts to help the franchisee make decisions closely related to the original business model. The parent company provides extensive assistance, which means opening a franchise requires lees education than if starting a new business

**Proven Business Model**

Business franchises are a wise investment because they follow a proven business model. The new franchisee cando business on top of a strong business foundation with established business principles. This business model includes marketing the brand. In the franchise business, the parent company usually coordinates a unified marketing campaign, which markets the brand in a way that benefits all franchisees.

The business model also involves strong financing options. In most cases, the parent company requires an initial down payment or a portion of the initial capital, and then allows the franchisee to pay the remaining amount in a set period of time.

A franchise business model is built upon products and services that are market tested and designed to meet demand. To maintain competitive advantage the model includes specifications on how the parent company and the franchiseecan function together to expand or alter operations, if necessary.

Shared investment is another major characteristic of a business franchise. The new franchisee must invest in land, inventory and constructing a facility: the parent company invests in various administrative functions, and training new management and staff. A business franchise also involves shared risk. The financial investment is a significant risk for a franchisee, but far less risky than investing in a totally new idea.

The franchisee and the franchisor share risk in the success of the brand. And the franchisor is at risk when sharing the cultivated brand with new people. Both parties share any benefits from the business growth, and share a certain level of risk. To be a franchise owner, for example, of a yoghurt owner, the following characteristics are needed. What arc the essential characteristics needed to become a frozen yogurt franchise business owner? If you want to become an owner or the franchise, it is an excellent plan to ensure you meet the necessities. You should have an enthusiasm for what you do. You should to be an active person and step forward to devote yourself to your business.

**5.6 Assignments**

1. What are the strategies for consolidation and expansion of the business?
2. Explain the 7 ways to expand a business from local to global
3. Write in details about the various types of enterprises, highlighting the advantages and disadvantages of each type

**5.7 Quizzes**

1. Highlight the various elements of market strategy to make a business grow
2. What are the various components of product strategies that can be employed to grow a business?

**CHAPTER SIX**

**UNDERSTNADING THE PRACTICAL ASPECTS OF RUNNING A BUSINESS**

**6.1 Introduction**

This is the practical aspect of the course that is expected to take the students out of the academic environment for a period of two weeks. Each student is expected to identify a suitable industrial firm and undertake a practical attachment for two weeks.

Preparation for this program started right from the beginning of the course and all that the students have been learning represent the theoretical knowledge that will help them towards these two weeks attachment, which is expected to be undertaken during the first semester holidays.

Each student is expected to prepare a modest report regarding the experience and gains of the industrial attachment.

Each student is also expected to prepare a detailed business plan indicating clearly the background of the project, the marketing analysis, and the financial assessment of the proposed enterprise.

**6.2 Business Plan**

Lambing and Kuehl (2007), a business plan is a comprehensive document that helps an entrepreneur analyze the market and plan a business strategy. According to them, a business plan is often prepared by an existing company to ensure that future growth is properly managed. Ndebbio (2007) stated that a business plan is a document showing where a business is going, how to get there, through what means and what you will get when you get there.

Bature (2009) described a business plan as the road map on the journey to an entrepreneur’s success. According to him, it is the key to the successful take-off and execution of the business.

However, if the plan is prepared for a start-up, it helps the entrepreneurs to avoid pitfalls or costly mistakes which could affect the business prospect. In addition to being useful as a planning document, the business plan often is necessary for obtaining financing. Banks, venture capitalists and investors usually require a business plan in order to help them make their investment decisions. To that extent, a well-written business plan provides evidence of the entrepreneur’s ability to plan and manage the enterprise.

**6.3 Nature of the Business Plan**

The nature of a business plan is that, as a mental process, it decides the direction that a business organization intend to follow, in order to achieve its stated objectives. It starts with questions about who carries which task, when, where and how is the task carried. In doing this, it requires minimizing incremental costs and maximizing output ratios.

A business plan as a document shows work-in progress. In this case, you are reminded that even successful investors are expected to maintain current business plans. In order to persuade a potential or prospective buyer to buy your product or service, it is necessary for an entrepreneur to have a good knowledge of it.

As a matter of fact, the entrepreneur acts as one of the salespersons and as such the product should be his business. Because the potential inventors, suppliers, and buyers are regarded as your customers, there is need for an entrepreneur to convince them about his knowledge of the business.

**6.4 Purpose of the Business Plan**

**6.4.1 Clarify Direction**

The primary purpose of a business plan is to define what the business is or what it intends to be over time. Clarifying the purpose and direction of your business allows you to understand what needs to be done for forward movement. Clarifying can consist of a simple description of your business and its products or services, or it can specify the exact product lines and services you'll offer, as well as a detailed description of your ideal customer.

**6.4.2 Future Vision**

Although clarifying direction in the business plan lets you know where you're starting, future vision allows you to have goals to reach for. Businesses evolve and adapt over time, and factoring future growth and direction into the business plan can be an effective way to plan for changes in the market, growing or slowing trends, and new innovations or directions to take as the company grows.

**6.4.3 Attract Financing**

The development of a comprehensive business plan shows whether or not a business has the potential to make a profit." By putting statistics, facts, figures and detailed plans in writing, a new business has a better chance of attracting investors to provide the capital needed for getting started.

**6.4.4 Attract Team Members**

Business plans can be designed as a sale tool to attract partners, secure supplier accounts and attract executive level employees into the new venture. Business plans can be shared with the executive candidates or desired partners to help convince them of the potential for the business, and persuade them to join the team.

**6.4.5 Manage Company**

A business plan conveys the organizational structure of your business, including titles of directors or officers and their individual duties. It also acts as a management tool that can be referred to regularly to ensure the business is on course with meeting goals, sales targets or operational milestones.

**6.5 Components of Business Plan**

A business plan includes the following major topic headings:

Executive Summary

Mission Statement

Business Environment

Marketing Plan

Management Team

Financial Data

Legal Considerations

Insurance Requirements

Suppliers

Risks

Assumptions/Conclusions

**6.5.1 Executive Summary**

The executive summary provides the reader with an overview of all of the most important facts contained in the plan. Although the executive summary is placed in the front of the business plan, it is actually easier to write it after an entrepreneur must have written the entire business plan. Then portions of each section can be used to write a paragraph or two about each of the major topics. Table below shows an Executive Summary Checklist which will help an entrepreneur to write his business executive summary.

**CHECKLIST: EXECUTIVE SUMMARY**

****Briefly describe the proposed business and product or service it will provide.

****Describe the most important trends in the industry.

****Describe the type of advertising and promotion that will be implemented.

****Give the sales and profits for the past three years (if it is an existing company).

****Give projected sales and profits for the next three years (for both existing businesses and start-ups).

****Describe the education and relevant work experience of the owners and key management personnel.

****Include any important legal considerations such as exclusive agreements, consumer contracts, and patents.

****Include any other information that you believe the reader should know in order to understand the business operation.

**6.5.2 Mission Statement**

The mission statement is a concise, well-defined explanation of the purpose of the business and the management’s philosophy. Although mission statements vary, common elements include a description of the products or services offered and the management philosophy of the company’s owner. The mission statement provides direction for the company and prevents the company owners from diversifying into areas that do not serve the original company purpose. For this reason, the mission statement should be written as the first step in developing the business plan. The Mission Statement Checklist will help you write your mission statement.

**CHECKLIST: MISSION STATEMENT**

What is the purpose of your business?

What products and services will be offered?

What is your management philosophy?

**6.5.3 Business Environment**

Successful entrepreneurs constantly analyze the business environment and its impact on the company. This analysis is an important first step in determining whether a business can survive and grow. The business environment is composed of three factors – national trends, industry

trends and local trends.

****What national trends will affect your business?

****What industry trends will affect your business?

 What local trends will affect your business?

**CHECKLIST: BUSINESS ENVIRONMENT**

**National Trends**

Demographic changes

Legislative actions

Technological changes

Healthcare reform

The economy and interest rates

**Industry Information**

Is this industry dominated by large or small firms?

What is the failure rate in this industry?

Is this a new industry or one that is well established?

What is the typical profitability in this industry?

What are the trends in this industry?

**Community Information**

Is the population in the community increasing or decreasing?

What is the attitude of the community toward your business? Is it positive, negative, or neutral?

Will the community help provide any financing for your business or help in getting it started?

Is the local economy strong or in a recession?

**6.5.4 Marketing Plan**

The business plan covering marketing activities show detailed description of how a company will compete in the marketplace, its products and services and competitor analysis as well as a developed competitive advantage for the enterprise.

**Components of Marketing Plan**

The marketing section of the business plan provides a detailed description of how the company will compete in the marketplace as it sells those products and services. The marketing section includes the following:

**Description of Product or Service**

If you plan to sell a product the description should include the size, weight, shape, packaging, and quality. If you plan to sell a service, describe all of the services you will offer and explain the typical procedures you will follow.

**An analysis of the competition**

An analysis of the competition can be completed by determining their strengths and

weaknesses and examining specific aspects of their operation. Do they have a large product line? Do they have poor service? Are they strong or weak financially? Do they have a stable workforce or is there a high turnover? It is important to consider both direct and indirect competition, since many entrepreneurs underestimate their competition.

**Pricing**

****What is your Pricing Objective?

****What are your Pricing Policies?

****How will you determine your Prices?

Many factors must be considered before prices are established. Some of the considerations are as follows:

Costs

Competitors’ prices

Effect on demand

Image

Channels of distribution

Industry Markups

Wholesale

**Credit Terms to Customers**

In many industries, it is common to extend credit to customers, allowing them a specified time to pay for the goods and services they have received. The main purpose in extending credit is to increase sales; therefore, it is often an important part of a company’s marketing strategy. There are two general categories of credit – consumer credit and trade credit. Consumer credit is extended from retail stores to the final consumer. Trade credit is extended from one business to another. Typical terms of trade credit are Net 30, 2/10 net 30, 2/10 net 30 EOM etc.

**Competitive Advantage**

Every business must have a competitive advantage, something that differentiates it from similar businesses. The competitive advantage must be carefully developed because it is the reason why customers will buy from you instead of buying from your competitors. Typical competitive advantage may include the following:

**Quality** – if you can provide a better product or service than that which is currently offered, customers will often buy it even if it costs more. Many small businesses have become successful by following this strategy.

**Price** – if you can offer a product or service at a lower price, your business will appeal to bargain hunters who want to keep their costs low.

**Location** – many small businesses are successful because they are more conveniently located than their competitors.

**Selection** – a wide selection is often successful in attracting customers. A wide product selection may allow you to serve several groups of customers.

**Service** – Small businesses can often provide more personalized service than large businesses. Particularly when a business is small, the owner can work directly with the customers and ensure customer satisfaction.

You should also consider combining several competitive advantages. Many entrepreneurs build their businesses on only one competitive advantage and are successful. However, if you can combine them (for example, excellent quality and large selection), you will have an even better chance of beaten the competition.

**Market Segmentation**

No business can serve everyone, and small businesses with limited resources usually concentrate on a specific customer base. You can identify your target markets by separating the customers into groups with similar needs. This is known as market segmentation or niche marketing. Your target market(s) can be segmented in several ways: some of the more common ways are listed below:

Geographic: Often customers can be described in terms of their residence or place of work.

Demographic: Often customers are described by demographic characteristics such as age, income or gender.

Benefit: Entrepreneurs will often find that different groups of customers buy their product or service for different reasons. Grouping customers according to their reasons for purchasing the product or service is known as benefit segmentation.

Usage rate: In many industries, a small group of customers buys the largest amount of a product or service. Grouping customers by how often they use a product or service known as usage-rate segmentation.

Psychographic: Psychographic segmentation is a method of grouping customers based on values and/or lifestyle.

Entrepreneurs should carefully define their target market because this will ensure that marketing efforts are targeted to potential customers and will not be wasted. It also helps the business owner focus all of his or her efforts in the proper direction.

**Promotion and Sales**

A business with the best products and services will still fail if the customers are not informed and persuaded. For this reason, a promotional plan is crucial to the success of the business.

Promotion may take many forms, including the following:

**Direct marketing** which includes direct mail; mail-order catalogues; direct selling; telemarketing; direct-response advertisements through mail, broadcast and print media, and the Internet.

**Sales promotion** consists of marketing activities that provide extra value or incentives to the salesforce, distributors, or the ultimate consumer. Sales promotions are developed to increase sales.

**Publicity** is company information released as news on radio, on television, or in newspapers. Publicity is designed to create awareness of the company and its products.

**Public relations**

Consist of community activities of a company designed to create a favorable impression with the public.

**Advertising** consists of non-personal messages directed at a large number of people. Advertising is carried out through media such radio, television and newspapers.

The combination of direct marketing, advertising, sales promotion, publicity and public relations is called the promotional mix.

**6.5.5 Management and Personnel**

Even the best business idea is useless if the entrepreneur and employees do not have the skills necessary to implement a plan of action.

The management and personnel section of the business plan details the human resources that will be needed to operate the business.

**Need for an Organizational Chart**

An organizational chart is a graphic representation of the lines of authority in the company. If the company consists only of the entrepreneur, there is certainly no need for an organizational chart.

However, if there are employees, an organizational chart is advisable. When there are only a few employees, the organizational chart is a simple structure – for example, when all of the employees report directly to the owner. As the company grows, the owner cannot supervise all the staff, and an additional manager or supervisor is necessary. This results in an organizational chart with at least three levels – the entrepreneur, the managers, and all other employees. When a company becomes even larger and has several managers, the company may be organized along departmental lines (Lambing and Kuehi, 2007).

 **6.5.6 Start-up Costs and Financing**

If the business plan is going to be used to obtain financing, the financial section is one of the most important. Mistakes in this section may prevent an entrepreneur from obtaining funds even if all other parts of the business plan are excellent. The financial section includes the following topics (Lambing and Kuehi, 2007):

Start-up costs.

Business financing.

The projected income statements

 - Opening-day balance sheet

 - Projected income statements

 - Projected cash flow statements

The breakeven point

**The start-up costs** which are necessary to open the business are inventory, furniture and fixtures, machinery and equipment, prepaid expenses, training costs for employees, deposits, etc. Most of these costs will be incurred before the company opens for business. Start-up costs for businesses vary by industry, but those common are the ones already listed earlier on.

**How will the Business Be Financed?**

The financing section of the business plan should identify the type of financing that will be used because this may have a financial impact on you and the company (Lambing and Kuehi, 2007).

For example, if a large amount of money is borrowed, the company will have substantial loan payments every month, which could be a burden for a new company. If you use personal assets as collateral for a loan, you could lose them if the business does not succeed. Money that is borrowed, known as debt financing must be repaid with interest. The interest rate for business loans is generally determined by prime rate, a benchmark rate that fluctuates depending on the economic conditions in the country. A brief explanation of financing alternatives follows

(Lambing and Kuehi, 2007):

**1. Debt financing** – they include bank loans, federal government financing programs and

state and local government financing programs. Access to credit is vital for small business survival, and a key supplier to small firms is the commercial banking system. However, not all banks actively seek small business customers and entrepreneurs may find their business plan rejected at one bank while being enthusiastically accepted at another.

**2. Equity financing –** This include personal funds, private investors, partners, venture

capital firms, and stock sales.

**Personal funds** include any money invested from savings accounts and checking accounts. Many financial institutions and investors expect the entrepreneur to invest some

personal funds if he or she is also seeking financing from others.

**Private investors** may include friends and family members, wealthy individuals, and

partners. Friends and family members are often willing to provide funds, but family

relations may be strained or ruined if the business does not succeed or if there are

disagreement about how it should be operated. Some wealthy individuals invest in small

businesses, hoping to earn a high rate of return when the company becomes successful.

These individuals’ area often referred to as angels because of the financial assistance they

provide. Because entrepreneurs often do not know how to find investors, and the

investors do not know how to find entrepreneurs; many matching services have been

started. Many states or municipalities have established databases for that purpose.

**Venture capital** firms are companies that invest money in small businesses that have a potential to achieve extremely rapid growth and generate large profits. These firms generally prefer to invest in companies that can generate a rate of return of 25 to 40 percent compounded annually and go public within five to seven years after the investment by the venture capital firm. They also look for companies that have an excellent management team. Venture capital firms often specialize in a specific industry such as biotechnology, data communications, and healthcare; therefore, entrepreneurs seeking venture capital should research the firms to determine which invest in their industry.

3. **Cost of financing –** The business plan must also state how debt financing will be repaid and what will be given in exchange for equity funds. For loans, the plan should state the number of years over which the loan will be repaid and the interest rate. For equity, the percentage ownership must be stated along with other payments. It is common to reward investors with dividends, which are periodic payments based on the company’s net profit. The business plan should therefore state both percentage of ownership for investors and dividends that will be paid.

**Projected Financial Statements**

The projected financial statements that are included in the business plan are the opening-day balance sheet, the projected income statements, and the projected cash flow statements. Before describing these, a discussion of accounting methods is necessary because several different methods are used to develop financial statements (Lambing and Kuehi, 2007).

**Accounting Methods**

Accounting methods take the form of cash basis, accrual basis and completed-contract method basis. These are explained below.

**Cash Basis –** the cash basis is the simplest method and easiest to use. The cash basis records a sale when payment is received from the customer and records an expense when the bill is paid. For some businesses, especially service businesses they do not extend credit, this method works well and can be used for management purposes and for tax purposes. However, the cash basis does not always provide an accurate picture of the financial status of the company.

Also, for companies that extent credit to their customers, the cash basis does not work well because the cash received from customers is not necessarily an accurate reflection of sales. Collections from customers may lag behind sales, making sales appear lower than they actually are.

**Accrual Basis** – the accrual basis records sales when they are made and records expenses

when they are incurred. This method is not as simple as the cash method but gives an

accurate picture of the financial health of the company. For companies that carry inventory and/or those that extend credit, the accrual basis is the best method to use.

**Completed-Contract Method** – some firms, such as construction companies, work on

projects that extend over many months. In these instances, it would give an inaccurate

portrayal of the company if no expenses or income were recorded until the project was

completed. For this reason, a method known as the completed-contract method is used. The customer is often billed as the project progresses (for example at increments of 25, 50, and 75 percent completion), and corresponding amounts of expenses for materials and labour are recorded at the same time. This presents a more accurate picture of the income and expenses than if the cash or accrual method were used.

**Balance Sheet**

The balance sheet compares the possessions of a company and the debts it owes on a specific day. Therefore, while the income statement records profit or loss over a period of time, the balance sheet shows the financial situation on a certain day. The components of a balance sheet are assets and liabilities (Lambing and Kuehi, 2007).

**Assets** – a company’s possessions, called assets, may be tangible items such as machinery

and equipment, or they may be intangible assets such as a patent or goodwill. On the balance sheet, assets are divided into several categories – current, fixed, and other.

o ***Current assets*** are those that are easily converted into cash and include the following:

**Cash** – all cash on hand in the business and in the business checking and savings

accounts are recorded.

**Accounts receivable** – if a company extends credit and customers owe for purchases,

this is a company asset because it is money that will be received in the future.

**Inventory** – all items available for resale are current assets. In a manufacturing firm,

the inventory may be separated into two categories – raw materials and finished

goods.

**Supplies** – all supplies such as shop supplies, office supplies, and bags and boxes for

customers’ packages would be included.

o ***Fixed assets*** are items that are more permanent in nature and are used in the running of business. These include the following: Machinery, equipment, furniture, fixtures – all items listed in your start-up costs in these categories would be fixed assets.

**Land and buildings** – if you purchase land ad a building or if you construct a building,

this would be shown in the amount of the price paid or the construction costs.

**Vehicles** – this includes all company cars, trucks and so on.

A company may have assets that do not fall into these categories. For example, if you are

required to pay deposits for leases or utilities, the money is often held for several years

before it is returned. For this reason, it is not considered a current asset and is therefore

placed in a category called other assets. Similarly, a company may have intangible assets

such as goodwill or patents; these are included as other assets.

**Liabilities** – the liabilities section of the balance sheet includes all debts the company owes. As with the assets, the liabilities are categorized. Liabilities are classified as current (those that must be paid within 12 months) and long-term (those that are due more than one year after the date of the balance sheet).

o ***Current liabilities*** – are as follows:

**Accounts payable** – all bills due for inventory and supplies are included in accounts

payable.

**Accrued expenses** - - bills due for utilities and other miscellaneous expenses are

considered accrued expenses. Also, if employees are paid every two weeks and wages

are owed to them when the balance sheet is prepared, these would be included.

**Notes payable** – any short-term loans that are due within 12 months from the date of

the balance sheet is considered a current liability. Loan payments include both

principal (loan repayment) and interest. Only the principal is recorded on the balance

sheet.

o ***Long-term liabilities*** – are debts or portions of debts that are due more than 12

months from the date of the balance. The current portion of the debt is subtracted from the total.

**Equity –** Another category on the balance sheet is called the equity, net worth, or capital

account. The equity includes all the money the entrepreneur has invested from personal funds as well as retained earnings. Retained earnings is an accumulation of all profits and losses of the company from the day it began until the day the balance sheet is prepared. This account represents the difference between the assets and liabilities. Total assets minus total liabilities must equal net worth or equity.

**Projected Income Statements**

The income statement is completed on a periodic basis and records sales, cost of goods sold, expenses, and profit or loss. These are explained below.

**Sales** – on the income statement, the sales of a company may be listed as “sales”, “income”, or “revenue”, depending on the type of company. If the statements are completed on an accrual basis, this represents the sales that have been generated, not necessarily those for which payment has been received.

**Cost of goods sold** – includes any costs for products, materials, or labour that are directly

related to the sale. In a retail firm, cost of goods sold is the cost paid to suppliers for

inventory. In service firms such as housecleaning or maid service businesses, the product

cost is small, but labour is a major part of the cost of goods sold. In construction firms, both labour and materials costs are often included for different firms.

**6.5.7 Legal Section**

All entrepreneurs will encounter legal issues throughout the time they operate the

business. When planning a business, the entrepreneur must select a form of organization;

determine whether copyrights, patents, or trademarks will be needed; have contracts

written and/or reviewed by a lawyer; and identify the type of taxes that will be due

(Lambing and Kuehi, 2007).

The legal section of the business plan should also contain any information about contracts

or legal arrangements with suppliers, customers, or employees. If the company has an

agreement to service a specific geographic territory, or if there are contracts for jobs to be

completed, this information should be included.

**6.5.8 Insurance**

Starting and operating a business involve risks of many kinds. Some risks are insurable

while others are not. For example, a restaurant may be damaged by a fire; another one

may be burglarized; still another may have a van damaged in an auto accident. These

risks can be insured and are therefore considered controllable by purchasing

insurance. This section lists the most common types of insurance a small business may

need. The insurance checklist shown below summarizes important insurance

considerations.

**CHECKLIST: INSURANCE**

Research the laws covering workers’ compensation in your state to determine if the insurance will be required by law.

Identify the greatest insurable risks that your business will face.

Identify other risks that you would like to insure.

Determine how much you can afford to spend on insurance.

Have you checked with an agent to determine the cost?

Is the local economy strong or in a recession?

Although a business may purchase many types of insurance, workers’ compensation is

required by law and entrepreneurs must make sure that the company is adequately

covered.

**6.5.9 Suppliers**

It is important to identify the suppliers of the business to obtain information concerning

the products and services you will need. Suppliers generally can be categorized as follows

(Baumback, 1988):

***Producers*** – they include manufacturers, miners, farmers, and processors of natural

products. Many producers sell only large quantities to wholesalers and do

not transact business with small firms.

***Wholesalers or merchants’ intermediaries*** – Wholesalers buy from producers and

take title to the goods. Wholesalers are a major source of supplies for small

businesses. An excellent working relationship with the wholesaler is often essential

for the small business to operate properly.

***Functional (agent) intermediaries*** – Some intermediaries operate as wholesalers but

do not take title to the goods. They represent the manufacturer, take orders, and

provide service to the customers. This group of suppliers includes manufacturers’

representatives, who sell products for many manufacturers within a geographic area.

They usually have an ongoing relationship with the producers.

***Merchandise brokers*** – They are another type of agent intermediary and represent

manufacturers by bringing buyer and seller together. They are usually located in large

manufacturing areas.

***Resident buying officers*** – They are the third type of agent intermediary. They

represent a group of retailers and offer a variety of services, including buying

merchandise for those stores and furnishing market information and forecasts.

Resident buying offices are paid by the retailers.

**CHECKLIST: SUPPLIERS**

**Identify your most important suppliers.**

**What are their credit terms?**

**How often do they deliver?**

**What are the minimum order quantities?**

**Are inventory shortages a problem in this industry?**

**Are there many suppliers for your business, or do you have to?**

**choose from only a few?**

**Risks, Assumptions, and Conclusion**

This section will be discussed under the following sub-sections.

**6.5.10 Risks**

Every business faces two types of risks – controllable and uncontrollable. Controllable

risks cannot necessarily be prevented, but the financial loss can be minimized by

purchasing insurance. Therefore, the risks of fire, vandalism, damage from storms, and so

forth are considered controllable because insurance is available to pay for the financial

loss.

Uncontrollable risks, however, are those that would have a detrimental financial impact

but cannot be covered by insurance. Uncontrollable risks that are common to many

businesses include the following:

1. A new competitor locating nearby.
2. A recessionary economy.
3. New technology.
4. Changes in consumer tastes.
5. A price war by competitors.

Each business faces risks that are unique to that business. You should consider these

carefully and briefly describe what steps would be taken if the uncontrollable risk

actually develops. For example, if an entrepreneur believes that competitors would

engage in a price war, the new entrepreneur may plan to differentiate the new business by

offering products and services that the competition does not offer. If the risk of a

recession would severely affect the company; the entrepreneur may consider what

products or services could be offered that would not be as sensitive to a recessionary

economy.

**6.5.11 Assumptions and Conclusion**

The final section of the business plan will vary depending on whether the plan is for a

new business or for an existing business.

If the plan was prepared to determine the viability of a proposed business, the conclusion

answers the questions, “Is this business feasible?” Bear in mind that the conclusion was

reached only by making assumptions throughout the report. The following assumptions

are common:

(1) A specific site

(2) A certain amount of money for start-up costs

(3) The ability to obtain financing

(4) No new competitors opening.

Just as each business has unique risks, however, each depends on assumptions that are

unique to that particular business. Therefore, you should identify the most important

Uncontrollable Risks

What uncontrollable risks will affect your business?

The economy

The weather

New technology

Price wars

Changes in consumer tastes

New competitors

For each risk you have identified, explain what you will do to minimize the financial impact if the risk materializes.

**6.6 Assignments**

1. Submit a modest report regarding your experience and gains of your practical attachment
2. Prepare a detailed business plan indicating clearly the background of the project, the marketing analysis and the financial assessment of a proposed enterprise.

**6.7 Quizzes**

1. What are the functions of a business plan?
2. List out the components of a business plan

**REVIEW QUESTIONS**

1. An Entrepreneur performs series of functions necessary right from the genesis of an idea to the establishment and effective operation of an enterprise. Discuss.
2. There are certain traits and attitudes that some people more suited to running a successful small business than others. Discuss this in details.
3. The role of Entrepreneurship and an entrepreneurial culture in economic and social development has often been underestimated. Discuss.
4. Entrepreneurial supportive agencies are established to cope with the dynamics of the economy at a particular time and to facilitate the promotion of entrepreneurship in Nigeria. Discuss this in detail.
5. Manufacturer Association of Nigeria (MAN) was formed as a company limited by guarantee to perform important roles on behalf of its members. Explain these roles and highlight the various sectorial groups under MAN.
6. NACCIMA was founded in 1960 as a voluntary association of manufacturers, merchants, mines, farmers, financiers, industrialists, trade group, who network together for the principal objectives of promoting and improving business environment for micro and macro benefits. Explain in detail the main function performed by this body.
7. Luther Gullick, has given a keyword ‘POSDCORB’ to explain the function of management. Discuss this in details.
8. Dr. Henry Mintzberg, a prominent management researcher says that what mangers do, can best be described by looking at the roles they perform at work. Explain this in details.
9. A well-developed strategic plan is set to extrapolate the present business condition into some time in the future with some factors added to take care of growth and development. Discuss these factors in details.
10. Explain how a business can expand from local to global.
11. Business franchise are considered a wise investment because they utilize an established business model. What are the general characteristics of business franchise?
12. In order to persuade a potential or prospective buyer to buy your product or service, it is necessary for an entrepreneur to have a good knowledge of it. How important is a business plan?
13. The executive summary provides the reader with an overview of all of the most important facts contained in the plan. Explain this in details.