Course Code: **AEM 204**

Course Title: **ENTREPRENEURIAL STUDIES IN AGRICULTURE**

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INTRODUCTION

This is the entrepreneurial age. It is estimated that as many as 460 million persons worldwide are either actively involved in trying to start a new venture or are owner-managers of a new businesses. Entrepreneurs are driving a revolution that is transforming and renewing economies worldwide. **Entrepreneurship is the essence of free enterprise** because the birth of new businesses gives a market economy its vitality.

The Free enterprise system is an economic system characterized by;

- private ownership of property and productive resources,
- the profit motive to stimulate production,
- competition among firms to ensure efficiency, and
- the forces of supply and demand to direct the production and distribution of goods and services.
- It provides individuals the opportunity to make their own economic decisions, free of government constraints, as private profit-potential businesses.

The key ingredient of the free enterprise system is the **right of individuals to make their own choices** in the purchase of goods, the selling of their products and their labor, and their participation in business structure.

The competition in a free enterprise economy stimulates quality at lower costs. Indeed without a competitive market economy, there would be no incentive for production. Before now, this competition had been assumed to be the back bone of growth in the economy. However, some authors say that the growth in the economy could also be as a result of the systematic innovation activity within firms, between firms in which no firm wants to fall behind others in new products and processes. This causes built in pressure in firms and among firms to generate new products and processes. This is essentially what entrepreneurship is about.

Definition of entrepreneurship

Entrepreneurship is the act of creating a new business. It is the term used broadly to describe the actions of an innovative business leader. It is the initiation of change, a creative act. Entrepreneurs have been described as people who have the ability to see and evaluate business opportunities, gather necessary resources and initiate appropriate action to ensure success.

It is important to distinguish entrepreneurship from business management which is the act of running a business.

Management involves the planning, organizing, leading and coordination of activities within an existing structure.

1. Planning is the identification of goals, objectives, methods, resources needed to carry out a task.
2. Organization is the act of achieving the goals in an optimum fashion

3. Leading has to do with setting directions for the organization, groups and individuals and can also influence people to follow that direction.
4. Coordination or controlling involves the management of the systems, processes and structures to effectively and efficiently reach goals and objectives. It involves the ongoing collection of feedback and monitoring and adjustment of systems, processes, and structures.

When you develop a new product, say soy gari; you are initiating an innovative change and acting as an entrepreneur. However, when you start producing the soy gari, you begin to act more like a manager- coordinating and controlling the business operation. You may decide to alter the production process of the gari, or establish a new market or develop an entirely new product, and then you have switched back into your entrepreneurial role.

An entrepreneur is:

1. An originator of profitable business ideas,
2. An innovator capable of adapting other production processes to suit such situations as he/she may be faced with.

An entrepreneur must be involved in one of five types of business innovation:

1. The introduction of a new or improved product or service to the market;
2. Introduction of a new production method;
3. Opening of a new market;
4. Use of a new source of supply of raw materials or components; or
5. Creation of a new organization

The innovations do not have to be revolutionary; a slight adjustment to an existing product or service can qualify as an innovation. Opportunities can be found in a new mix of old ideas or a creative way of doing what people are already doing.

While all types of entrepreneurs are important to the economic well-being of the community, the most dramatic progress comes from the ventures of a relatively few who **challenge the conventional vision** of what is possible and turn one generation's fantasies into the next generation's necessities- **those who think outside the box**!.

The entrepreneur has to acquire expertise by **assimilating, understanding** and **manipulating** a lot of information about existing markets, competitors, technology, legislation (regulations) and the economy and he has to **create** something new out of the information. Success can be purely due to the exceptional execution of an ordinary idea; due to experience; knowledge of the industry or the existence of a large (unknown before now) market demand. A would be entrepreneur must develop the valuable habit of observing the realities on ground because it will provide a window of entrepreneurial opportunities

DEVELOPING A BUSINESS IDEA

The process of entrepreneurship starts from the generation of business idea, through implementation to the realization of output and profit.

1. **GENERATION OF IDEAS: THE ENTREPRENEUR MUST GENERATE IDEAS NOT COPY IDEAS**;

Business ideas

Business ideas and opportunities come from a variety of ways

An entrepreneur sees opportunities when others see problems; they see a half full bottle when others see it as half empty

Consumers: Opinions, information and complaints of consumers can be useful source of information as to what the consumer wants. The entrepreneur can obtain this from market survey of preferences, discussion, age, socio-cultural background, biological and wealth status of the consumers etc. The entrepreneur can map out critical areas of consumer’s need, deficiency and inefficiency and exploit it.

Existing business: Entrepreneurs and intrapreneurs (entrepreneur within the company with a flair for innovation and risk taking who is usually given a unusual freedom to develop products or subsidiary businesses within a company) can get business clues by constantly monitoring and evaluating market performance of products and services of existing businesses.

Research and development: The entrepreneur as an agent of change, should constantly explores and gets involved in research to develop new products, improving on existing ones or establish new ways of production.

Distributive channels: Distributive trade both at local and international levels provide opportunities for ancillary industries to spring up.

Governmental activities: Governmental activities such as registration of business, patent right and government agencies provide opportunity for business. Also government programmes of economic, social and community development provides opportunities for business/entrepreneur.

Adverts: Advertisement in News print and radios/TV, bill boards are a source of new line of business to the entrepreneur.

Sundry activities: The entrepreneur can learn about things needed by the consumers but which are not supplied from activities such as marketing, seminars/symposia, marriages, burial ceremonies, picnic centers, traveling, sporting activities, catalogues etc.

The entrepreneur must learn to choose opportunities that he is passionate about; otherwise it will only lead to a lack of interest or failure in the future. He must also have a will and initiative to seize these opportunities.

2. EACH IDEA MUST BE FEASIBLE: (WITHIN CAPABILITIES TO TRANSFORM IT INTO A BUSINESS);

Feasibility

Feasibility is the degree to which a project can be achieved. The feasibility of a project is always carried out through a feasibility study which is a preliminary study undertaken to assess whether the *planned* project is likely to be successful and to estimate its cost.

Answers to the following questions will form the feasibility part of the project report:

- Can the required starting up capital be obtained? How much working capital will be needed? Can it be obtained?
- Is the market for the product understood? What type of marketing will be needed? Can it be done? Can it be afforded? Are distributors needed? Can they be found? Will retailers or wholesalers be willing to do business?
    - There are various demand states which the entrepreneur must be aware of without having to do a course in marketing management. An understanding of the states would be of enormous assistance in reaching potential customers (see Demand states below)
- Does the entrepreneur have enough skill to make the product or deliver the services?
- Does the business require a formal qualification?
- Can an appropriate site be got? Will there be enough space to operate the business?
- Are there legal problems to be dealt with in starting the business?
- Can suitable employees be found?
- Is there any special equipment needed? Can it be obtained?
- Can the product, the workers or the raw materials be transported?
- Can reliable suppliers for the raw materials or components be found?
- Is the business seasonal? If so, is it still feasible?

In recent times, it has become common place to carry out a SWOT after the feasibility of the project has been established.

Conducting a SWOT analysis

Once the entrepreneur has decided to go into business and has established his management team, the next task is to conduct a SWOT analysis for the business, himself and his family. SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. SWOT analysis should be conducted with as many people as possible and with the understanding that the process is meant to be constructive. The SWOT analysis can be an enlightening experience and it is crucial to the beginning of any new venture.

- Strengths are mostly internal factors. For example, what strengths does each member of the management team bring to the project?
- Weaknesses are also mostly internal. For example, what are the overall weaknesses of the team? What aspects of the operation cannot be covered by the team?
- Opportunities can be both internal and external. For example, what are the opportunities open to the business? It could be the location of the business.
- Threats are also internal and external. For example, is there a portion of the business that is high risk? Has an enterprise that is susceptible to production and marketing risks been chosen?

3. EACH IDEA MUST BE VIABLE (MUST BE PROFITABLE).

Viability:

Will the business make a profit? Three factors have to be estimated: the margin, the volume and the expenses. Simply put,

profit = margin x volume – expenses.

4. THE GOALS MUST BE SMART

It is essential that each entrepreneur must set goals which he hopes to achieve by the business. (SMART stands for **S**pecific, **M**easurable, **A**chievable, **R**ewarding and **T**ime bound). It is common in recent times to add another T for tangible and an S for sustainable.

5. **DEVELOP (WRITE) A BUSINESS PLAN**

Having decided whether to go into a business, the question to be answered is no longer what if but what now? A business plan may be thought of as a roadmap of the future of the business and requires that the entrepreneur thinks through the process of where the business is expected to go in the future (See components of a business plan in section 2 of the appendix).

A good business plan is a source of reference, a guide and a bargaining tool. It

- Helps to focus the business goals and determine the extent of funding needed.
- Helps to pin point areas of the business that have been neglected, and to assess strengths & weaknesses in an objective way
- Gives a framework for explaining the future direction of business to others
- Can be used to motivate a loan application
- Forces the entrepreneur to think about future strategy of the enterprise
- Makes it easier to detect deviations from course and to understand the reason for the deviations
- Provides a foundation upon which future plans can be built

Somebody said –when you fail to plan, you are planning to fail.

Components of a Business Plan

- Front page
  This should contain the name of the business and the owner; the type of business; the address and telephone number of the owner; the date of presentation. It may also include a logo.
- Contents page
  List all the headings on the contents page with their corresponding page numbers
- Introduction
  A brief overview of the proposed business must be provided, its objectives, the market it will serve and the industry within which it will operate. Mention the form of business – whether **sole proprietorship, partnerships, corporation or limited liability company. Mention the type of business – is it farming,** processing, trading or a service. Is it a new business or a takeover, or an expansion of an existing business? If it has already started, outline it history since inception. State the short, medium and long term objectives of the company.
- Comprehensive description of proposed business venture
  Indicate the type of business ownership selected; any legal requirements; a comprehensive outline of the product or service to be provided by the business; technical outline of the processes involved if it is relevant and the owners' educational qualifications and work experience.
- Location analysis
  Describe the location, rental cost and size of your premises. If possible, draw a location and layout plan. Describe the premises of competitors in the area.

- Industry analysis
  Describe the industry in which you will be competing. Discuss the following five aspects of the industry.
  - Competitors
    List your main competitors
    Estimate their relative market shares
    Discuss their strategies & profitability
    Rate the intensity of competition – price wars, takeover bids, heavy advertising..
  - Suppliers
    List your proposed suppliers
    List alternative suppliers
  - Buyers
    Describe the target market (your customers)
    Discuss your market segmentation criteria
    Estimate the market growth rate
  - Substitutes
    List possible substitute products
    Discuss their price and attractiveness
  - Entry threat
    Discuss entry barriers – factors which make it possible for new firms to enter the industry; e.g high capital requirements, economies of scale, regulatory barriers, high level of skills or technology.
- Production plan
  Describe the location, rental cost, size and layout of your proposed factory. Describe the machinery and equipment. Explain the production process using diagrams if necessary and specify production capacity. Describe stock control and quality control procedures, warehousing arrangements and distribution methods
- Management
  Compile a brief C.V. for everyone involved in the management of the firm, highlighting past experiences that may be of value to the firm. List the position of each manager and employee, and explain their roles and responsibilities within the firm. Draw up the organizational chart if possible.
- Marketing plan
  Define your market, estimate its size and growth rate and describe how you have segmented it. Specify your overall marketing strategy – what you will sell, to whom and why they will buy it; what are your market share objectives for the next couple of years. Explain how you intend implementing each element of the 'P's of the marketing mix.
  - Product
  - Price
  - Promotion
  - Place
  - People
- Resources required
  Calculate how much money (capital) you will need to start the business. Include equipment, premises, stock of raw materials, wages and salaries, vehicles, working

capital and advertising expenses. Explain why each resource is required and indicate in which a less expensive substitute may be considered.

- Financial plan
  Draw up forecast for the next couple of years of the firm's:
  Balance sheet, income statement, cash flow statement, capital expenditure estimates and provide a monthly budget for these projections in the first year of operation. Where possible support the figures with industry data or historical data. List all assumptions you make.
- Conclusion
  Summarize why the business will be viable.
- Appendix
  Include any relevant additional material –anything that substantiates your assessment of the opportunity

6. MARKETING CONSIDERATIONS AND DECISIONS

Now that there is a product to sell and an understanding of the manufacturing regulations, it is time to go into probably the most difficult, yet most important aspect of starting a food processing business. A majority of entrepreneurs go broke the first couple of years, and usually it is not because they have a bad product but because they did not fully understand the marketplace or the financial realities of the business.

The most important marketing consideration is to simply understand your product and its place in the marketplace. A market plan must be written. It is a framework for research on competition, and target markets. It structures the marketing goals and methods:

- What are the characteristics of the product which will make it appeal to its target market?
- Decide where to sell the products; who are the constituents of the target market? It is always better to start off small (perhaps at fairs, road side stands – places where the product can be test marketed.
- Consider the demographics of the target market. Is the market for the product likely to grow?
- Distribution and promotion of your product are critical concerns. Are the production, distribution and / or promotion of your product seasonal or restricted by geographic or other factors?
- What is the availability of the same or similar products? Are substitutes available?
- How many competitors exist, and what are their sizes?
- Are competitors willing to protect their market share by cutting prices?
- Determine a selling price for the product taking into account the competition and your financial needs. Why would a consumer buy your product rather than that of a competitor?

Marketing decisions generally fall into four controllable categories: product, price, place and promotion known as the 4 'P's of marketing. These are also known as the marketing mix because early authors described the marketing manager as a mixer of ingredients.

The marketing mix

Products or services

Must meet customer requirements whatever these might be. For example, an important aspect is function - products should do what they say they can do and what they are expected to do. Appearance is also important. Consumers are prepared to pay premium prices for good products.

Place

Roughly one fifth of the cost of a product is spent getting it to consumers. Of course, the actual figure varies widely from product to product but generally distribution is a very important element in the marketing mix. Different organizations use different approaches to reaching their customers. For example, Mr Biggs uses a franchising system enabling it to operate in a wide variety of geographical locations.
Promotion: is the process of communicating with customers. For marketing purposes, communication of products and services contributes to the persuasion process to encourage consumers to avail themselves of whatever is on offer. The key processes involved in promotion, include**:**

- branding - creating a distinctive image and character to an organisation/and or its products and services
- advertising - to inform and persuade the public
- packaging - presenting the product in a desirable and appropriate way
- public relations activities and other forms of publicity
- sponsorship
- special promotions - e.g. buy one get one free.

Price
The price of a product needs to be relevant to the product/service and the market. A firm's pricing decision is often aimed at attracting a particular market segment. For example, if it wants to sell at the top end of the market it will charge a high price, at the bottom a low price, and so on.
Pricing strategies
Pricing strategy is an important part of the marketing mix. The price of a product should reflect its image and the need to give a consumer what they want. For example, up market products are associated with premium prices. There are a number of popular pricing techniques to choose from:

1. **Cost-plus pricing**. Calculate how much it costs to do a particular job or activity, and then add on a given percentage as a return for the job or activity. This is sometimes known as mark-up.

2. **Hour-based pricing**. Many small businesses are able to work out what their typical costs are for every hour of work that is done; the business owner is then able to charge a standard rate per hour.

3. **Penetration pricing**. When a firm brings out a new product into a new or existing market, it may feel that it needs to make a lot of sales very quickly in order to establish itself and to make it possible to produce larger quantities. It may therefore start off by offering the product at a very low price. When market penetration has been achieved, prices can be raised.

4. **Skimming**. When some firms bring out a new product, they may be able to start off by charging quite a high price. Some customers may want to be the first to buy your product because of the prestige of being seen with it, or because they want to be associated with your product before anyone else. An exclusive commodity could be sold initially at an exclusive price to wealthier customers. The next season, the price could be lowered making it accessible to a less wealthy group of customers. Later on, the commodity could be mass produced and made available at low prices to the mass market.

Marketing approaches
There are five broad marketing approaches:
Production: this encompasses the idea that consumers will prefer products that are widely available and inexpensive. The focus is high production efficiency, low costs and mass distribution. It is useful when demand for product exceeds supply and /or product cost is too high.

Product: the idea that consumers will prefer products that offer the most quality, performance and innovative features. The focus is making superior products and improving them over time.
Selling: this is a traditional concept that places emphasis on selling the product. The marketers do not bother on what the consumer wants and should buy whatever is offered to them. There is no importance given to marketing research.
Marketing: this concept seeks to satisfy the needs of customers over the needs of the company. The desires and needs of the target market must be determined and satisfied in order to successfully achieve the goals of the producer. **The consumer is king!**
Holistic marketing: this concept focuses on everything matters in marketing. It is based on development, design and implementation of marketing programs, processes and activities that recognize their breadth and interdependencies.

SO FAR IN CLASS

Demand states and marketing tasks

1. Negative demand: the consumers dislike the product and may pay a price to avoid it. The manager's task is counter marketing.
2. Nonexistent demand: consumers may be unaware or uninterested in the product. The manager has to create a stimulus.
3. Latent demand: consumers share a strong need that cannot be expressed in an existing product. The manager must strive to develop new products.
4. Declining demand: consumers begin to buy the product less frequently or not at all. The manager must attempt to remarket.
5. Irregular demand; consumers purchases vary on a seasonal, monthly, weekly, daily or even hourly basis. The manager must synchronize his products to meet the market. It is known as syncro-marketing.
6. Full demand: consumers are adequately buying all products put in the market place. The marketing manager must maintain the market.
7. Overfull demand: more customers would like to buy the product than can be satisfied. The managers' task is to de-market.
8. Unwholesome demand: consumers may be attracted to products that have undesirable social consequences. The manager must get involved in social marketing.

TRAITS OF ENTREPRENEURS

Some of the key personal traits that entrepreneurs should have are:
Vision: They are Dreamers: Entrepreneurs have a vision of what the future could be like for them and their businesses. And, more important, they have the ability to implement their dreams.
Love/Passion /Devotion: Entrepreneurs love what they do. It is that love that sustains them when the going gets tough. And it is love of their product or service that makes them so effective at selling it.
Determination: They implement their ventures with total commitment. They seldom give up, even when confronted by obstacles that seem insurmountable.
Proactiveness
Attention to Details: It is said that the devil resides in the details. That is never more true than in starting and growing a business. The entrepreneur must be on top of the critical details.
Willingness to take risks and ability to manage risks/ Tolerance for ambiguity: thinking outside the box?

Think Long term
Endurance/Doggedness/Hardiness Factor
Decisiveness: They don't procrastinate. They make decisions swiftly. Their swiftness is a key factor in their success.
Doers: Once they decide on a course of action, they implement it as quickly as possible.
Dedication: They are totally dedicated to their business, sometimes at considerable cost to their relationships with their friends and families. They work tirelessly. Twelve-hour days, and seven-day work weeks are not uncommon when an entrepreneur is striving to get a business off the ground.
Destiny: They want to be in charge of their own destiny rather than dependent on an employer.
Dollars: Getting rich is not the prime motivator of entrepreneurs. Money is more a measure of their success. They assume that if they are successful they will be rewarded.
Distribute: Entrepreneurs distribute the ownership of their businesses with key employees who are critical to the success of the business.

DEVELOPING A FINANCIAL PLAN

A financial plan can be a budget, a plan for spending and saving future income. It will be used to track a business's income and expenses. Such analysis is used to answer questions about the fiscal status of a business. Irrespective of the size of an enterprise, it is necessary and effective management tool. In business it refers to three primary financial statements:

- Balance sheet
  A balance sheet or statement of financial position is a summary of a person's or organizational balances. Assets, liabilities and ownership equity are listed as of a specific date, such as the end of its financial year. It is often described as a snapshot of a company's financial condition.
- Income statement
  Also called a profit and loss statement, an income statement is a company's financial statement that indicates how the revenue (money received from the sale of goods and services before expenses are taken out) is transformed into net income (the result after all revenues and expenses have been accounted for). The income statement shows managers and investors whether the company made or lost money during the period being reported. The income statement represents a period of time as contrasted with the balance sheet which represents a single moment in time.
- Cash flow statement
  This is a financial statement that shows a company's flow of cash. The money coming into the business is called cash inflow and the money going out from the business is called cash outflow. As an analytical tool, the cash flow is useful in determining the short term viability of a company, particularly its ability to pay bills.

Financing the project

Financing can be from internal or external sources.

- Internal Financing: personal funds can be used to begin the enterprise and expect sufficient cash to be generated from operations to meet cash needs.

- External financing can be equity financing (the use of an owner's personal funds, or the sale of partnership interests or corporate stock) or debt financing (the sale of bonds, equipment financing or commercial loans).

Most starting entrepreneurs will seek to obtain external financing from a commercial bank. As stated above, a business plan is a requirement to obtain a loan from a commercial bank. At a minimum, projected financial statements of the enterprise will be required, as well as a personal financial statement of the owner(s).

The projected financial statements must present a clear, detailed picture of the expected operating results and cash needs of the enterprise. When asking to borrow money, banks or investors require a fairly substantial equity investment (on the order of 20-25 percent of total financing, increasing with increased perceived risk). The cash flow projection should indicate a comfortable cushion with respect to debt service; earnings should be projected as some multiple of the amount required to make principal and interest payments on the debt. The financial history of the owner(s) should be clean; in most start-up cases, the lender will require that the debt of the enterprise be a personal obligation of the owner(s) as well.

Types of finance

The various forms of finance and ways of obtaining credit include:

- Equity – Individual, Family, Friends, Capital Market and SMIEIS
    - Capital Market

      As the businesses grow their funding needs will be so much that meeting them through the money market with the attendant costs could cripple the business. The burden becomes heavy for the promoter(s) to bear. At this point a well-run enterprise could approach the Nigerian Stock Exchange for listing. Upon meeting the listing requirements (which are usually less stringent for small incorporated companies) they will be taken to the market where funds are raised on their behalf. Equity capital does not attract costs. The investors expect dividends and capital growth.

    - Small Medium Industry Equity Investment Scheme(SMIEIS)

      SMIEIS is an equity investment scheme NOT a Loan Scheme. Under the scheme banks are expected to set aside 10% of profit before tax for investment in small and medium enterprises.
- Overdraft

  This is particularly used to provide short-term working capital to tide over the production cycle, finance for seasonal requirements, bridging finance for the purchase of a property or plant with repayment coming from the realization of another asset. The advantages of overdraft include the following:
    - The system is simple and arrangement can be negotiated and set up very quickly.
    - The system is flexible, there is no minimum level, and sums can be drawn and repaid within the agreed limit at any time entirely at the option of the borrower without prior notice.
    - It is one of the cheapest forms of borrowing; interest is repayable only on the amount outstanding each day building up and being charged at the end of the month.
    - A facility once approved is renewable subject to the credit worthiness of the borrower and any special factors.

  The disadvantages are that overdraft is repayable on demand, though this is rarely required, and that rate of interest is increased if the bank's base rate is raised.
- Term Loans (Short, Medium and Long Term)

These are classified into short, medium and long term. For instance the overdraft discussed above is a short-term loan. A short-term loan has a life of between 3 months to a year in practice; although in theory, and in more developed financial markets, they have expiry of between 1 – 3 years.

Medium-term loans are principally provided by banks and repayment may occasionally be made in one sum at an agreed date, by installments over a period. The pattern of repayment can be tailored to fit the earning capacity of the asset being acquired. The lender will seek to satisfy himself in advance about the quality of a firm's management and about projected cash flow so as to establish that repayment can be met.

Advantages of a term-loans is that

- It contractually assures the borrower of the stability of finance as to both term and amount.
- If at a fixed rate of interest, it enables the borrower to estimate his future cash flow with greater confidence.
- It enables a hardcore overdraft to be funded (with the discipline of scheduled reduction and repayment).
- It can strengthen the firm's balance sheet by showing that borrowing is firmly available for a definite period ahead, and is not dependent on the vicissitudes, which affect the availability of short term finance.

- <u>Leasing</u>

  The leasing of equipment and vehicles, particularly cars, is another way by which firms may be able to obtain short term finance. This is a distinctive form of finance under which the leasing company or bank buys plant or required equipment as chosen by a business and leases it to the business at an agreed rental. There are two types of lease:

  Operating lease

  The goods are leased for only part of their estimated life, such that the rental covers only part of their capital costs.

  Finance lease

  Also called a full pay out lease, it entails payment of amounts, over an obligatory period which are sufficient to cover the capital cost of the leased goods and give the leasing organization some profit.

- <u>Hire Purchase</u>

  This source avails the businessman ownership of property after making initial down payment and paying regular fixed amounts over an agreed period.

- <u>Factoring</u>

  This is a continuing arrangement by which the factoring company purchases all the trade debts due to a business as they arise; providing a sales ledger accounting service and relieving the businessman from debt collection, thereby

  providing cash for his day-to-day needs. The factor may provide funds either by making cash payments of up to 80% of the value of each new sales invoice raised.

- <u>Invoice Discounting</u>

  This is another source of finance to the entrepreneur. It is a means of generating cash by selling to an invoice discount company either a selection of invoices on a firm's larger debtors or an entire sales ledger. By this arrangement the client receives an agreed proportion (up to 75%) of the gross amount due on the assigned invoices. Unlike factoring, the responsibility for collection of the debts sold remains with the client. In all, invoice discounting is a simple, flexible source of finance enabling a business temporarily to increase its working capital.

SECURING BANK LOAN

Definition of bank

The word bank enlivens an environment that is strategic to the operations of business, legal educational and even religious systems. Collins Concise English dictionary defines a bank as_" an institution offering services such as safe-keeping of money and documents and lending of money at an interest" This therefore shows that banking institution exist to facilitate or specifically finance growth of trade among people that are separated by any physical divide.

The Role of Banks

Banking has remained a system in which individual or corporate bodies trade in money-which is the medium of exchange. Simply put, Banks are financial intermediates between those who have surplus fund and those are in deficit of funds.

During the early days of banking in Nigeria, the role of local banks was to support indigenous business that hardly attracted the fancy of foreign banks.

There is no doubt that banking institution plays a very vital role not only in mobilizing and channeling financial resources but also as a veritable instrument of efficient payment system as well as a vehicle for implementing the monetary policy of any country.

Services Rendered by the Banks.

- ❖ Deposit Mobilization
- ❖ Safe custody
- ❖ Provision of credit facilities
- ❖ Business advisory services

Our topic of today is to be discussed under the credit facility otherwise known as Loan and Advances

Loan is perhaps one of the oldest and most important functions of a bank. A bank through its intermediation role is able to channel the surplus deposits of its customer as credit to the needy customers in order to earn a return. The success or failure of bank depends on, among other things, its ability to grant recoverable credit facilities and make reasonable margin from them.

Types of loan

- ✓ Short term loan
- ✓ Medium term loan
- ✓ Long term loan

Short term loan is the facility granted for between overnight to maximum of one and half or two in some cases years and examples of such are overnight lending, bridging finance, overdraft facility consumer loans to acquire household items or car loan etc

Medium is the type of loan granted between 2 to maximum of 5 years. This is to assist the customer to stabilize its business activities or finance the purchase of heavy equipments. Example of such are Leasing finance, letters of credit financing car loan depending on the type of car to be bought, share loan etc.

Long term loan is granted between 5years and above and examples are mortgage loan to either purchase a landed property or acquire a building etc.

Loans are not an activity involving the distribution of national cake as some people seem to believe. Some seekers of credit are only interested in securing the fund without bothering themselves about the means of repayment. Lending principles can become useless if the borrower right from the start has a primary intention of not repaying the lender whether he succeeds or fails in his business endeavor.
In assessing credit, the bankers use a mixture of experience, technical knowledge and common sense in reaching their conclusion on whether or not to lend. There are various mnemonics used by various banking organization as a general guide or checklist when assessing credit applications.
The mnemonics include **CCCPARTS** meaning Character, Capacity, Capital, Purpose, Amount, Repayment, Terms and Security.
Application for credit assistance from a customer can take any form but essentially it must include the name of the borrower, the purpose of the amount needed, the duration of the advance and a plan for the repayment of the loan.

Character: Character is considered to be germane in considering a customer for loan facility. This is achieved in the process of interviewing the prospective customer. i.e. his life style, family size, other financial obligation etc.

Capacity: The ability to manage the financial resources being sourced is also important to the lender. i.e. his past experience in handling such a project or business will useful to the lender to determine whether to grant or not.

Capital: In some cases, the banks want the customer to share the risk of the project or business to be financed with them by contributing his or her quota to the project. Usually, this is done in form of percentage i.e. 10 to 70 as the case may be.

Purpose: No bank will lend for an illegal purpose as such contract is void ab initio. The purpose for which a loan is required will be determined among other things risk involved. The bank has to assure itself that the purpose is achievable.

Amount: The amount required must be adequate for the purpose of the advance. The banker must not lend too much or too little. It is therefore important that the banker confirms that the amount applied for by the borrower is enough and all incidental expenses are adequately provided for. A cash budget analysis will be desirable in most circumstances if the adequacy of the amount asked for cannot be determined by the rule of the thumb.

Sources and Plans of Repayment: The source and plan of repayment must be clearly stated at the beginning and the lender must establish the degree of certainty that the repayment is clear and feasible. For personal loan, repayment normally comes from surplus income after taking into consideration all commitments. The repayment of credit facility to a business will come from profit.

Terms of the loan: The duration of the facility has important relationship with the banker's source of fund. If the term of a banker's source of finance is short, the credit facility to be granted must be of short duration and if the source of fund is medium/long credit granted will be along same line of medium/long term.

Security/Collateral: It is important to satisfy all other cannons of lending irrespective of the security the borrower has available.

BUSINESS ENVIRONMENT

The term 'business environment' refers to external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise.

Meaning of Business Environment

The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government polices, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we saw when introduction of computer replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear.
All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business.

These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. Some of these factors or forces have direct influence over the business firm, while others may operate indirectly.

Features of the Business Environment

(a) The business environment is dynamic in nature, that means, it keeps on changing.
(b) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .
(c) Business Environment differs from place to place, region to region and country to country. Political conditions in Nigeria differ from those in Ghana. Taste and values cherished by people in Nigeria and Benin vary considerably.

Importance of Business Environment

A specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

- **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

- **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have their own generating setsin their factories to meet their own requirement of power.

- **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Types of business environment

The business environment may be classified as
(a) Economic environment; and
(b) Non-economic environment.

The **economic environment** includes economic conditions, economic policies and economic system of the country.

Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations.

Economic environment

(a) **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

- Industrial policy: *Covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development*
- Fiscal policy: *It includes government policy in respect of public expenditure, taxation and public debt.*
- Monetary policy: *It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.*

- Foreign investment policy *This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.*

- Export –Import policy (Exim policy) *It aims at increasing exports and bridge the gap between expert and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.*

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

(c) **Economic System:** The world economy is primarily governed by three types of economic systems, viz.,

- Capitalist economy: Emphasis on private ownership.
- Socialist economy: Resources are owned and managed by the state.
- Mixed economy: Co-existence of public and private sectors.

Non-Economic environment

The various elements of non-economic environment are as follow:

(a) Social Environment

The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms.

During festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

(b) Political Environment

This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organization and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies.

Trade union activities can also influence the operation of business enterprises. Strikes, lockouts and labour disputes adversely affect the business operations.

(c) Legal Environment

This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law.

Besides, the above legislations, the following are also form part of the legal environment of business.

(i) Provisions of the Constitution:

(ii) (ii) **Judicial Decisions:**

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(d) Technological Environment

Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. R&D).

(e) Demographic Environment

This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population,

then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production.

Availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are going to India and China due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

(f) Natural Environment

The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input.

Social responsibility of business

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on.

This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

Meaning of social responsibility

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.

Social responsibilities towards different groups

The responsibilities of the business towards various groups include.

(a) **Responsibility towards the shareholders or owners:** They should be provided with a fair return on their investment. You know that in case of companies it takes the form of dividends.

(b) **Responsibility towards the Employees:** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market.

The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc. They should also be paid reasonable amount of bonus based on the business earnings. Preferably, there should also be a provision for their participation in management

(c) **Responsibility towards the Consumers:** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

(d) **Responsibility towards the Government:** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner, pay the taxes honestly and on time. It should not indulge in any corrupt practices or unlawful activities.

(e) **Responsibility towards the Community:** Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes.

BUSINESS ETHICS

The word ‘Ethics’ originates from the Greek word ‘ethos’ meaning character, conduct and activities of the people based on moral principles. It is concerned with what is right and what is wrong in human behaviour on the basis of standard behaviour or conduct accepted by the society. **Honesty, truthfulness, compassion, sympathy, feeling of brotherhood etc. are considered ethical**.

From the business point of view, business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner. Running the business without adopting unfair practices, being honest and truthful about quality of goods, charging fair prices, abiding to laws, paying taxes, duties and fees to the government honestly are some of the ethical behaviour of business.

PROBLEMS OF SMEs IN NIGERIA

A major gap in Nigeria’s industrial development process in the past years has been the absence of a strong and virile MSME sub sector. SMEs have been widely acclaimed as the engine eof growth in most developed economies: in Japan, SMEs employ 80% of the total workforce while it is 46% and 50% in USA and Germany respectively. In Nigeria it is less than 20%.

Small businesses in Nigeria have not been competitive and profitable for a number of reasons:

Labour intensive production processes

Centralized management

Limited access to financing (short to long terms)

Over dependence on imported technology, raw materials and spare parts

Poor inter and intra sectoral linkages

These small businesses in Nigeria also lack:
R&D capabilities and incentives
Appropriate management skills
Are ignorant of technological advancements
End up sometimes purchasing obsolete and inefficient equipment
Lack the spirit of partnership

The operating environment for SME businesses in Nigeria include:
Inadequate and inefficient infrastructural facilities which tend to escalate costs of production
Weak demand for their products arising from low and dwindling consumer purchasing power as well as the inability to compete with similar imported products
Proliferation of business regulations – too many regulatory agencies to contend with: Standards Organization of Nigeria (SON), National Agency for Food and Drug Administration (NAFDAC); ..
Multiplicity of taxes, levies, charges
Lack of access/ high cost of loanable funds
Inappropriate technical and technological manpower arising from faulty educational curriculum

FRAUD PREVENTION AND CONTROL

The Collins English Dictionary defines fraud as 'a fraud is criminal offence in which a person acts in a deceitful way. Fraud can therefore be categorized as either internal or external.' Everyone in an organization has a role to play in the prevention of fraud. It can be prevented in organizations by putting in place financial controls, non –financial systems and management oversight. Research has shown however, that reliance on internal controls and external audit are insufficient.

Fraud is recorded in the public and the private sectors but it is normally not publicized and organizations are known to deal with the problem internally.

Fraud can be classified as internal when employees in an organization identify an opportunity and commit acts of fraud. External fraud is committed when outsiders such as suppliers and service providers defraud the organization, in some instances they would be working with internal staff. Following are various types of internal and external fraud:

1. Factual misrepresentation: facts about a cheque transaction can easily be misrepresented by an employee by altering the print to read a higher value after authorization and signature. The organizations accounts may be misrepresented by entering non-existent figures in the ledger. The employee can also collude with suppliers to provide invoices with inflated prices.

2. Breach of trust**:** The head of an organization is put in that position in order to serve the needs of the shareholders, and is thus expected to act for someone else's benefit as a trustee. If the head decides to divert resources in order to buy him or herself an expensive personal car, the fiduciary role is breached, and the Director or Coordinator has committed fraud.

3. Suppression of truths: The organization benefitting from a donation can easily suppress information by reporting the progress of a project and taking pictures of non-existent structures and submitting these to a donor who is far away; whilst in truth nothing is happening on the ground. Critical receipts and vouchers may be destroyed deliberately to suppress the truth, or electronic information manipulated, in order to reflect what the Directors wants the donor to believe whilst the original accurate facts and figures have been destroyed.

4. Omission of critical facts: Critical facts in a transaction could be omitted by error or deliberately by an employee in order to benefit from the opportunity which could arise as a result. A staff member attending a fully-funded workshop can decide not to show the manager all the documentation relating to the expenses to be paid. The boss could go ahead and process the standard travel allowances, accommodation etc, which eventually could be of personal benefit to the employee.

What is internal fraud?

Internal fraud is when employees in an organization are involved in fraudulent activities such as:-

***Asset misappropriation*:** It is possible for staff and drivers to use the organization's cars for unauthorized activities or journeys. The telephone is one asset which can be easily abused by staff to conduct their personal business or social life.

Revenue and cash receipt collection: It is common for people who work in the finance department, especially if they are given too much autonomy by management, to mis-appropriate sums of money. If the initiator of a voucher eventually approves and signs the cheque, there is bound to be temptation to abuse that trust. There is generally need to separate the initiator of a voucher from the final authority in order to minimize abuse. If an organization receives cash at specific intervals, there is need to have a monitoring mechanism so that the collector of the revenue does not reconcile the cash against the receipts on his/her own.

. ***Payroll and employee:*** If the opportunity arises, the human resources or Administration and Finance officer can maintain ghost employees in the payroll, with all the comprehensive employee personal details on file, in order to prejudice the organization financially. This can be more easily done in organizations which are diversified with branch offices in different locations, and a full secretariat based at head office.

***Stealing time from Employer*:** This is prevalent in organizations where salary payments are based on timesheets and there is transport available for staff to conduct routine business, either in the field or attending meetings in town. The timesheet requirement restricts employees from playing truant from work, but they can steal time in the above situations..

What is external fraud?

External fraud is when people outside the organization are involved in the abuse of assets and resources of the organization.

***Non-delivery of services*:** Prevalent in organizations which have centralized procurement policies. The employee develops a relationship with vendors for personal gain. An organization can be charged for the servicing of computers, cars, telephones, cleaning of carpets when the service has not been delivered. If management does not check services before payment, they are bound to lose a lot of money until the scam is discovered.

***Fraudulent reporting on funds used*:** Field staff can overstate travel and subsistence allowances for their personal benefit, where the incumbent is required to account for the funds after expenditure has been incurred.

***Fraudulent application for grant funds*:** A organization can apply for an advance of funds from a donor on the pretext that the initial disbursement has been depleted on programme activities when there is very little progress done on the ground. There are examples of organizations that have submitted pictures of structures under construction showing all the stages until completion for projects which are non-existent. The fraud is only discovered when the donor agency pays a visit or contracts evaluators to assess the impact of the project.

***Inflationary Prices*:** An employee can collude with suppliers with whom a relationship has been established, to inflate the prices of goods delivered to the organization for his or her personal gain. The officer can deliberately approach these suppliers whenever there is an item to be purchased, and endorse on the voucher that the identified company is the sole supplier of the product, in order to pass it on for payment without any questions being asked. This is detailed in the next paragraph, under procurement fraud. This is one example of the most prevalent type of fraud in organizations.

Procurement Fraud: There are different types of fraud registered in the sector. However the most prevalent is procurement fraud. Procurement fraud is a serious risk to an organization. This is deceit perpetrated by an individual in order to gain unfair benefits or rewards whilst making purchases from external suppliers. The fraudsters exploit loopholes and weaknesses in management procedures. In many cases personal expenses are classified as business expenses. This type of fraud is prevalent where a staff member has expenditure authority. If the initiator of a purchase has the power to select the suppliers, recommend the most appropriate, and initiate a purchase voucher, then an opportunity for fraud is created. The finance and administration policy should specify that the same person should not select suppliers, order and receive goods or process and pay invoices. Procurement fraudsters often succeed in getting benefits from the purchase of office supplies, printing and marketing activities of the organization.

Fraud is also prevalent in the process of accepting, reviewing and evaluating proposals. An employee can assist a supplier to win a contract through the provision of confidential internal information about the bid.

Awareness

Fraud in organizations should not be treated as an internal secret never to be discussed lest the donor hears of it. Openness is the only way to get across the message that procurement fraud is not tolerated. An open and positive working environment will also help remove perceived workplace injustices that in most instances are the initial motivation for fraud. The manager should initiate awareness training and subsequently draw up a clear, written code of practice, covering such issues as acceptance of gifts and hospitality.

Control of procurement fraud

Trust is the cornerstone of employer-employee relations, and even effective employees can breach that trust. The manager should therefore strike a balance between trusting the employees too much and too little. Controls should be built into routine processes and be consistently applied. Supplier checks should be thorough, to eliminate suspect suppliers. Check the invoice, e-mail, address and the Directors names on the letterhead. Investigate any suspicious linkages between suppliers and employees, business partners and contractors. Invoices need to be checked by random sampling, with specific checks of large one-off payments.

USE OF FINANCIAL CONTROLS

Financial controls are used to minimize the real or perceived opportunities to commit fraud and abuse, and secondly for management to be able to identify in a timely manner fraud that has been perpetrated.
There are the policies, procedures and practices applied in specific accounting practices to ensure the integrity and related elements designed to achieve a variety of objectives.

Financial controls can be divided into preventive and detective controls:
Preventive controls are meant to thwart fraud before it occurs and detective measures are meant to detect fraud and genuine errors that make their way through the preventive controls.

Income and receipt processes: The member of staff who receives money or donated goods from members, donors and clients should not be the same person who prepares the vouchers for banking or warehousing of the goods. There should be an intermediary to check the income against receipts and pass these on to someone who does the banking or can check the accuracy of the documentation.

Purchasing: It is possible that an employee might not disclose a conflict of interest concerning A certain service provider. For example, the employee might award a contract to a relative's company. An employee might receive kickbacks from suppliers in exchange for approval to either order from or make a payment to them, when goods have not been fully supplied or are charged at a higher price. Staff from the donor organization can be bribed by a organization manager, so that during the monitoring process some instances of non compliance are ignored.

Payment: Staff and external suppliers can be involved in this fraud. There should be a clear division of duties in the office so that there is transparency and accountability. Most cheque tampering schemes involve forgery, altering payee amounts or creating duplicate or counterfeit cheques.

Payroll Processing: It is important that the payroll is initiated from the finance and administration department with the manager reviewing and authorizing the transfer of funds before pay slips are issued. This assists the detection of fraud relating to unauthorized overstatement of hours worked in overtime, and the overstatement of pay rates without authority.

USE OF NON FINANCIAL SYSTEMS

Prevention and detection of fraud encompasses both financial and non-financial systems. A selection of the nonfinancial controls listed below can be applied in order to minimize the prevalence of fraud and abuse in an organization.

Hiring staff: During the hiring process the organization should conduct criminal background checks, verify identification records, and have access to other records if possible and qualification verification.

Training: Staff development for the organization staff should include awareness training about fraud, and this can provide vital information for the development of whistleblowers within the institution. Training can also provide staff with a greater degree of job satisfaction through the acquisition of new technical skills and qualifications.

Performance Evaluations: A standard system for the appraisal and evaluation of employees should be used so that employees do not feel disillusioned by the method used and react by harbouring fraud motives.

Security: Security over physical premises and confidential information should be tightened through the use of locks, passwords and restricting access to certain areas of the office and yard. The individual offices of the employees should be restricted to staff only and offices should have door locks. Safes should be provided, for valuables and cheques.

Information Technology Systems: There should be a policy in place to provide security for data transmission controls, particularly the server, with data input controls, including putting passwords on individual personal computers and limiting access to server files and modification of settings.

Insurance and Risk Assessment: An all-encompassing insurance and risk control cover should be in place, covering IT equipment, communication systems, buildings, staff and vehicles.
Communication systems: A policy for the access, use, and servicing of the equipment should be documented and institutionalized.

DETECTIVE CONTROLS

These are controls designed to catch frauds and genuine errors that make their way through the preventive controls. It is important to include detective measures as part of the financial controls to combat fraud and abuse. Detective controls might include:

Performing monthly bank reconciliations, such as checking the ledger figures against the bank statements; Reconciling actual results with expected results; the manager insists on mandatory vacations, during which another employee performs the tasks

7. DETERMINE THE FORM THAT THE BUSINESS WILL TAKE. (TYPES OF LEGAL BUSINESSES)

Legal Businesses (Nigeria)

Every enterprise in Nigeria is required by law to be registered with the Corporate Affairs Commission, and to comply with the relevant provisions of the Companies and Allied Matters Act, Chapter 59, Laws of the Federation of Nigeria 1990.

<u>Forms of Enterprises in Nigeria</u>

An enterprise may take one of the following forms:

- A Private company limited by shares
- A Public limited company;
- An Unlimited liability company;
- A Partnership/Firm;
- A Sole Proprietorship;

<u>Types of Companies and Enterprises</u>

Under the CAMA, the following types of companies exist:

(a) Company limited by shares**:** This is a company having the liability of its members limited to the amount (if any), unpaid on the shares respectively held by them.

(b) Unlimited Company: This is a company where the members' liability is not limited to any particular amount.

Each of these primary types of companies may be a **private** or a **public** company. A private company is one, which places restriction on transfer of shares by members, and limits its membership to 50 persons. It is also prohibited from inviting the public for subscription to its shares or debentures. On the other hand, a public company has no such restrictions as its shares can be freely traded on. It can be listed or unlisted. It is usually listed when it is quoted on the Stock Exchange.

(c) Sole Proprietorships**:** This is a one-owner business, and should be registered with the CAC as a Business Name under Part B of CAMA.

(d) Partnership/Firms: This has the same format as a registered sole proprietor, except that there is more than one person involved. Please note that there are currently (as at June 2000) no provisions in CAMA for what is known as limited liability partnerships ("LLP") as is practice in some jurisdictions. However, the Partnership Laws of most states in the Federation provide for the registration of limited liability partnerships.

8. REGISTER THE BUSINESS WITH THE APPROPRIATE AUTHORITIES IN THE REGION AND IN THE COUNTRY.

9. **SUMMARILY,**

The translation of business idea into a business venture takes the following process:
When a business idea strikes an entrepreneur, the first thing is to *write it down* to avoid forgetting. The various ideas that have been so recorded are then screened and the feasible or plausible and more profit-oriented ones selected for implementation. A good feasibility or ***business plan*** must be systematic and integrates market, finance, production and human resources. It should have

1. A clear ***mission statement*** of the business line to be involved.
2. A design of ***production***, ***process***, ***detail logistic and operational activity plan*** of a complete business cycle
3. A detail ***marketing and sales plan.*** Forecasting sales and identifying Consumers problems with existing products.
4. An ***organizational plan of administrative relations***, legal relations, duty schedule, customer service etc
5. A detail ***financial record plan*** projected for a 3-year period, explaining income, expenses and profit
6. ***Evaluation*** of business operations and objectives
7. Provision for ***minimizing risk and uncertainty*** e.g. starting a business that the entrepreneur is familiar with or that has been tested in that environment of operation.