

Contemporary ENTREPRENEURSHIP DEVELOPMENT



Editors

Dr. Umar Gunu - Editor-in-Chief

Dr. Kasum Abubakar Sadiq - Co-Editor

Dr. Mustapha Yusuf Ismaila - Co-Editor



UNIVERSITY OF ILORIN
Technical and Entrepreneurship Center

NOTES ON CONTRIBUTORS

1. Aremu M. A. Ph.D, is a Senior Lecturer and the current acting Head, Department of Marketing, Faculty of Management Sciences, University of Ilorin.
2. Adeoti J. O. Ph.D, is a Senior Lecturer and Acting Head, Department of Business Administration, Faculty of Management Sciences, University of Ilorin.
3. Kadiri I. Bolarinwa Ph.D, is a Senior Lecturer and Post-graduate programme Coordinator in the Department of Business Administration, Faculty of Management Sciences, University of Ilorin, Ilorin.
4. Kilishi AbdulAkeem Ph.D, is a Lecturer I in the Department of Economics, Faculty of Social Sciences, University of Ilorin.
5. Yakubu Ahmed Taruwere Ph.D, is a Lecturer I in the Department of Economics, Faculty of Social Sciences, University of Ilorin.
6. Bamiduro Joseph Adefemi Ph.D, is a Senior Lecturer and the Deputy Director (Training) in the Centre for Research, Development and in-house training, (CREDIT), University of Ilorin.
7. Aun, Isaac Iortimbir Ph.D, is a Lecturer II and PGDSM Coordinator in the Department of Business Administration, Faculty of Management Sciences, University of Ilorin.
8. Akanbi Sheu-Usman Oladipo Ph.D, is a Lecturer II in the Technical and Entrepreneurship Centre (TEC), University of Ilorin.
9. Gunu Umar Ph.D, is a Senior Lecturer in the Department of Business Administration and is currently the Acting Director, Technical and Entrepreneurship Centre (TEC), University of Ilorin.
10. Isiaka Sulu Babaita Ph.D, is a Senior Lecturer in the Department of Business Administration and currently the Acting Head, Department of Industrial Relations and Personnel Management, University of Ilorin.
11. Kasum Abubakar Sadiq Ph.D, ACA, is a Senior Lecturer in Department of Accounting, Faculty of Management Sciences, University of Ilorin.
12. Gbadeyan Rotimi Ayodele Ph.D, is a Senior Lecturer and Former Acting Head, Department of Marketing, Department of Business Administration, Faculty of Management Sciences, University of Ilorin.
13. Salman Abdulrasaq is a Lecturer II in the Department of Business Administration, Faculty of Management Sciences, University of Ilorin.
14. Abogunrin Abiodun Peter is an assistant Lecturer in the Department of Industrial Relations and Personnel Management, Faculty of Management Sciences, University of Ilorin.
15. Abdullahi Ibrahim Bello Ph.D, is a Senior Lecturer and Acting Head, Department of Finance, Faculty of Management Sciences, University of Ilorin.
16. Olaniyi Taiwo Ph.D, ACA, is a Senior Lecturer in Department of Accounting, Faculty of Management Sciences, University of Ilorin.
17. Olaoye Joshua Olanrewaju Ph.D, is a Senior Lecturer in Department of Agricultural and Bio-system Engineering2, Faculty of Engineering and Technology, University of Ilorin.
18. Abdul-Hamid Oba Yusuf Ph.D, is a Senior Lecturer and former Acting Head, Department of Business Law, Faculty of Law, University of Ilorin.
19. Adam Kayode Ibrahim Ph.D, is a Senior Lecturer and Currently the Acting Head, Department of Business Law, Faculty of Law, University of Ilorin.
20. Mustapha Yusuf Ismaila Ph.D, is a Senior Lecturer in the Department of Marketing and Currently Deputy-Director, Technical and Entrepreneurship Centre (TEC), University of Ilorin.
21. Salaudeen Taofeek Lekan is a Technologist II in the Technical and Entrepreneurship Centre, (TEC), University of Ilorin.
22. Yusuf Abdullateef Abidemi is a Technologist II in the Technical and Entrepreneurship Centre, (TEC), University of Ilorin.
23. Abidoye Abdulmujeeb Abiola is a Technologist II in the Technical and Entrepreneurship Centre, (TEC), University of Ilorin.

CONTENTS

Preface	iii
Foreword	iv
Notes on Contributors	v
Table of Contents	vi
Chapter 1	
Nature, Purpose and Scope Of Business	1
Chapter 2	
Concept of Entrepreneurship and Characteristics of Entrepreneurs	24
Chapter 3	
Small Business Management	32
Chapter 4	
Nigerian Business Environment	38
Chapter 5	
Entrepreneurship opportunities in Nigeria through SMEs	49
Chapter 6	
Creativity and innovation in entrepreneurship	66
Chapter 7	
Feasibility study and feasibility report writing	91
Chapter 8	
Validation of products and service ideas	110
Chapter 9	
Business planning and control	117
Chapter 10	
Entrepreneurship approach to marketing of products and services.	133
Chapter 11	
Human resources management practices for entrepreneurship	157
Chapter 12	
Sources of finance	170
Chapter 13	
Basic accounting records for entrepreneurs	185
Chapter 14	
Application of engineering invention and innovation to entrepreneurship	204
Chapter 15	
Entrepreneurship and the law	218
Chapter 16	
Workshop practice for entrepreneurs	238

Chapter

3

SMALL BUSINESS MANAGEMENT

KADIRI, Ismaila Bolarinwa (Ph.D.)

Department of Business Administration,
University of Ilorin, Ilorin, Nigeria
bolakadiri@unilorin.edu.ng
and

OLOTA, Oluwayomi Omotayo

Department of Business Administration
University of Ilorin, Ilorin, Nigeria
olotaoluwayomi@gmail.com

INTRODUCTION

There is no universal definition of what business means. What is believed to be business to a particular person or society may be something else to the other (Hammed & Olusola, 2005). However, cautious effort aimed at producing goods and services to the satisfaction of living and non-living things can be referred to as business. Businesses are entities created to make profit. Any organization that is not for profit making can be referred to as charitable organization.

In starting or managing a business whether small or large, factors such as the personality of the entrepreneur, financial capability, experience and skill, attitude, vision and perseverance are important factor to be considered. Small and medium scale enterprises are very important in any economy that truly wants to develop. The sector contributes 30 – 40% of all employment in USA and Europe. The Asian Tigers such as Malaysia, Indonesia and Thailand also progressed through the development of their SMEs. The sector is often referred to as engine of growth and development.

CHARACTERISTIC OF SMALL BUSINESSES IN NIGERIA

According to Olawale (2010) and Olagunju, (2004), the following are the main characteristics/features of Small Businesses in Nigeria.

- i. labour intensive purposely to generate employment
- ii. Capital formation to speed up national development
- iii. Affordability by most people
- iv. Open opportunities for greater participation by many people i.e free entry into the market
- v. There is free exit from the market
- vi. Effective use of local resources

- vii. Foreign exchange savings through import substitution
- viii. Owner plan, organize, co-ordinate and control all the human and material resources to meet the business objective
- ix. small business can be found in limited area
- x. It can only serve a small part of the market

THE PROCESS OF ESTABLISHING BUSINESS ORGANIZATION IN NIGERIA

The setting up of small or large business organizations in Nigeria entails certain processes. This does not necessarily follow any order of hierarchy. To Bamford and Bruton (2006), the most important of these processes includes:

1. Identification of the need of consumers
2. Acquisition of productive resources
3. Registration with appropriate authorities
4. Installation of plant and machineries for the production of goods and services.
5. Pricing, promotion, advertisement and distribution of goods and services to intending consumer.

CLASSIFICATION OF BUSINESS ORGANIZATIONS

There is no universal classification of business organization across the world. A small business organization in USA is a large industry in Nigeria. Specifically in Nigeria, Onuoha (2013) was of the opinion that the following bodies such as Central Bank of Nigeria (CBN), Centre for Management Development (CMD), Nigeria Bank for Commerce and Industry (NBCI) as well as Bank of Industry have different classifications of business organizations. The classification entails the cost of doing business excluding cost of land and the number of workers employed. However, the definition of the National Council of Industry (NCI) is among the most liberal of all the definitions of Business organizations. What most people refer to as small business in Nigeria are micro/ cottage industries. Towards this end, the table that follows categorizes businesses in Nigeria based on their total cost of doing business excluding cost of land and the number of workers employed.

Table 1: NCI CLASSIFICATION OF BUSINESS ORGANIZATIONS IN NIGERIA

S/N	TYPES OF CLASSIFICATION	TOTAL COST(excluding cost of land but including working capital)	NUMBERS OF EMPLOYEES
1.	Micro/cottage industry	# 1.5 million	1-10
2.	Small scale industry	#50 million	11-100
3.	Medium scale industry	Over #50 million but less than #200 million	101-300
4.	Large scale industry	Over #200 million	Over 300

Source: Onuoha, c. (2013). International business and management vol. 7 numbers 1

From the table 1, it will be observed that a micro/cottage industry in Nigeria will require N1.5million to establish excluding cost of land and employing between 1 – 10 workers. More so, Small scale industry in Nigeria requires between N1.5 to N50million and employing between 11 – 100 employees.

Businesses with a total operating cost of over N50million but less than N200million as well as employing between 101 – 300 employees are classified as medium scale industry. A large scale industry is expected to have over N200million total operating cost excluding cost of land and over 300 workforces.

EMERGENCE OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

Before the coming of the Colonial masters, trading and manufacturing activities have been in existence in every part of Nigeria. This was why many family compounds were named after the trading activities of its members. Towards this end and with a view of promoting the activities of businesses in Nigeria, the first three national development plans were targeted towards the development of large and heavy industries. A decline in the international price of oil made the Nigerian government under its fourth National Plan (1981 – 1985) to put greater emphasis on self-sufficiency and the development of small businesses in Nigeria. The coming of European missionaries and later traders also changed the nature and kind of business activities in Nigeria. The coming of United Trading Company (UTC) also expanded the frontiers of entrepreneurial activities in the country. Olagunju, (2008). The fall in crude oil prices resulted in acute shortage of foreign exchange to procure required industrial raw materials and spare parts for the large industries in the country (Charles, N.O. et al, 2010). More so, the failure of the First National Plan (1962 – 1968), second National Plan (1970 – 1974) and the third National Plan (1975 – 1980) which focused on large scale import substituting industries to achieve its desired goals calls for an alternative development strategy. The increasing awareness of the potential roles of Small and Medium Scale Enterprises in the sustained growth and development of Asian Countries prompted the Nigerian government to shift its priorities to the promotion of SMEs, under the Fourth National Development Plans (Kadiri, 2014) and Charles, N.O. et al., (2010).

SMEs AND NIGERIA'S ECONOMIC DEVELOPMENT

According to the World Bank, one of the strongest factors in the growth of any nation's Gross National Product (GNP) is the presence of small and medium enterprises (Bamford and Bruton, 2006). Countries all over the world have continued to encourage the establishment and development of SMEs. Stakeholders such as the government, entrepreneur as well as the world bank have continued to contribute significantly to the development of SMEs. The world bank for instance have assisted the Nigerian government

over the years with SME loans (Charles, 2010). The Nigerian government also assisted the SMEs with the establishment of Nigerian Bank for Commerce and Industry (NBIC), Small Scale Industries Credit Scheme (SSICS), Nigerian Industrial Development Bank Ltd (NIDB), The Nigerian Export –Import Bank (NEXIM) and so on to assist the SMEs because of the numerous advantages derivable from the sector. Past studies have shown that SMEs have propelled Asian Tigers into the world limelight. China, Malaysia and Japan have developed due to their un-relented interest in the development of SMEs.

SMEs over the years have contributed significantly to the economic development of the country. These areas among others include:

- i. Provision of employment
- ii. Reduction in poverty
- iii. Income generation to individual/govt.
- iv. Utilization of the abundant raw materials
- v. Provision of foreign exchange
- vi. Availability of various kinds of goods
- vii. Stimulation of indigenous entrepreneurship
- viii. Transformation of traditional/local industry
- ix. Linking up the various sectors and sub-sectors of the economy.
- x. Greater innovation and creativity
- xi. Mobilizing savings and investments
- xii. Dispersal of business enterprise
- xiii. Competing globally with similar enterprises across the globe.

PROBLEMS FACING SMEs IN NIGERIA

Past works have shown that SMEs are potent sources of growth and development in Nigeria, Kadiri (2008). However, the sector is still faced with mirage of factors such as;

- i. Finance: - It is one of the most essential resources in the growth of SMEs in Nigeria. Unlike the developed countries of the world with efficient and functioning credit system. Adequate SME financing has presented a major setback in the country. Financial institutions are often not ready to finance SME projects. Sometimes these SMEs are told to present collateral before loans are granted to them. These collaterals are always not easy to come by. Aside this, the interest rate is also on the high side thereby discouraging new as well as old SME operators to expand their businesses. Banks are often not interested in granting loans on a short term basis which is not satisfactory to the development of SMEs that require long term fund at low interest rate for their businesses Kadiri (2008).
- ii. Infrastructural facilities: - Despite the huge investment of the Nigeria government

in the power sector, there has not been appreciable progress in the nations' electricity. Almost all public infrastructural facilities such as motorable roads and water supply are performing below expectations. The telecommunication sector alone have shown an appreciable impact, although, more still need to be done in terms of their connectivity and call rates if compared to other African countries. The SMEs often have to rely on alternative power source and water. According to Onuoha, (2013), A huge amount is spent on the maintenance of vehicles due to the bad situation of Nigerian roads, thereby increasing the cost of production. The profitability levels of these SMEs are eroded on the long run.

- iii. Corruption: - Hardly is there any sector that has not been affected by the cancerous nature of corruption in the country. According to Osagbae (2005), there is a positive among corruption and bad governance, problematic democratization as well as retarded growth and development. Corruption may include bribery, extortion, fraud, embezzlement, over- invoicing ghost worker syndrome etc.
- iv. Conducive business environment: This is another factor impeding the growth and development of SMEs in the country (Amana, 2004) and atmosphere where the entrepreneur is not appreciated and supported will lead to a high level of business risk. No wonder most SMEs die as soon as there were created. An unfavorable government policy is also capable of destabilizing the business environment for the smooth running of SMEs.
- v. Dumping of foreign goods: - According to Olagunju Y. A (2005), the unguided and unrestricted importation of foreign goods into the country is a major challenge facing the SMEs. This foreign goods often arrive the country at lesser cost. This has killed the potential innovativeness of Nigerian entrepreneurs. Many local and foreign investors have been discouraged from investing in manufacturing businesses in the country.
- vi. Inefficient administrative skills/ management:- According to Hammed & Olusola (2005), lack of efficient administrative skills / management capabilities resulting from large scale illiteracy improper record keeping of financial transactions and poor control system as well as weak understanding of the economic environment of the country have affected the SMEs in no small measure.

REFERENCE

- Amama, M. (2004). Addressing entrepreneurship development problems in SMEs in small and medium enterprises development and SMEs: Effective implementation strategies. Lagos. Maryland Finance Company and Consultancy Services Limited.

- Bamford, C. and Bruton, G. (2006). *Small business management: A framework for success*. USA: Thomson South – Western.
- Charles, N.O.M; Abwaku, E. And Banji, S.A. (2010). The changing structure of the Nigerian economy. Research Department, Central Bank of Nigeria.
- Hammed, A. And Olusola, A. (2005). *Small scale business organization and entrepreneurship*. Ibadan. GAB Educational Printers.
- Hill M, (2009). *Principles of management*. Graf Britain. Mc Graw Hill Education.
- Ihyembe, R. (2000). Financing SMEs: International perspective. *Journal of the chartered Institute of Bankers of Nigeria*, July-December (20-27)
- Kadiri I.B (2008). Developing small and medium enterprises in Nigeria: problems and prospects in Olujide J.O. (ed) *Advances in management* Vol 7 (1): 107 – 113.
- Kadiri, I.B. (2014). Role of information technology in the management of small and medium scale enterprises in Ilorin metropolis. *Ilorin journal of management science* volume 1, no 2. Faculty of Management Sciences, university of Ilorin
- Nnanna, O.J. (2001). Financing small business under the new CBN directive and its likely impact on industrial growth of the Nigerian economy. *CBN Bulletin*, July/ September Vol 25 No. 3
- Olagunju, Y.A. (2008). *Entrepreneurship and small scale business enterprises development in Nigeria*. Ibadan, University Press
- Olaide, F. (1999). Financing strategies for small scale enterprise in the development of the Nigerian economy. *Journal of the chartered institute of bankers of Nigeria* July-December
- Olawale, W. (2010). *Entrepreneurship development*. 5th edition. Lagos, YBT Printserve Ventures.
- Olorunshola J.A. (2003) Problems and prospects of small and medium scale industries in Nigeria. Central Bank of Nigeria Training centre Lagos No 4
- Onuoha, C. (2013). The challenges of research and development (R&D) efforts: A Study of small and medium industries (SMIs) in Abia State, Nigeria, in *International Business and Management*. Vol. 7, No. 1.
- Onwumere, J.U.J (2000). The nature and relevance of SMEs in economic development. *Journal of the chartered Institute of Bankers of Nigeria*
- Ukpong, G.E. and Inang E.E. (1992) A Review of small-scales Enterprises Credit Delivery strategies in Nigeria. Central Bank of Nigeria Economic and Financial Review Vol 30 No 4.
- Usman A. And Kadiri, I.B. (2009). Achieving the MDGs in Nigeria. factors militating against SMEs. *Lapai International Journal of Management and Social Sciences*. Vol. 2, No. 2.
- Usman, S. (2001) small aid medium industries Equity Scheme (SMIESIS) Workshop on SMIES, by Bankers Committee. Ibadan.