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CONSTRUCTING AN INTELLECTUAL PROSPECT OF VENTURE MANAGEMENT PRACTICES: A DIVIDE BETWEEN INFORMAL AND FORMAL ELECTRONICS ENTREPRENEURSHIP

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ABSTRACT

The practice of venture management has recorded success in the United States of America and India. This brought about the turn-around of businesses, both prospect and existing formal business operators in these nations. In the case of Nigeria, banks and other financial institutions have ended up providing advice to successful firms to acquire business organisation in distress and at times are the leaders in that particular industry, thus bringing about unemployment. It is of a note that entrepreneurs are the drivers of a nation's economy irrespective of government practices. It is based on this premises that the relevance of transition from informal to formal entrepreneurship practices must occur for the existence of economic growth. To bridge this gap in literature, a comparative study on venture management practices and expected performance for practicing entrepreneurs in the informal and formal sector is required.

Key words: Management, University, Structure, Promotion, Development.

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1. INTRODUCTION

1.1. Background of Study

A venture is associated with risk-taking and management, transiting to adequate use of resources (materials and humans).

The introduction of risk with basic elements of management leads to an effective and efficient small profit-making business. Venture management are establishments that exist to ensure small businesses grow and failing businesses rise again (Shook, Priem, & McGee, 2003). They consist of professional managers in different fields of life whose judgments avert failure in the business undertaken. The practice of venture management has recorded success in the United States of America and India. This brought about the turn-around of businesses, both prospect and existing formal business operators in these nations. In the case of Nigeria, such is not none existence formally, rather, a form of service and reward in the Igbo community has enshrined the wealth sustainability (Ayeni, Ogunnaike, Iyiola, Ezenwoke, & Ibidunni, 2018).

Banks and other financial institutions have ended up providing advice to efficacious firms, possibly leaders in the industry, to acquire business organisation in distress, thus bringing about unemployment as an effect of punitive measures taken. This agreement made via the banks when financial supports are sorted, such as taxation, corporation's laws, procedural and contractual requirements are inflexible and tends to worsen with the economic tides for business owners and operators. Possibly, the acquisition of business organisation in distress is most often than one tied down to the financials with noticeable examples in Nigeria existing in the banking industry.

Tactlessly, the use of these instruments (taxation, corporation's laws, procedural and contractual requirements) have ended up undermining the entrance and development of potential and existing businesses in Nigeria and unequivocally led to informal business shutting down before they could transit into formal businesses (NISER, 2015). In lite of this, it will not be surprising that such will lead to a high level of unemployment in the nation with the norm that entrepreneurs are jobs creators while government are job facilitators (Titus, Tochukwu, & Chidi, 2013). The existence of venture management combined with the guidance of building a prosperous firm comes with the request of funds provision; otherwise known as venture capital. On this note, it is required that the study intends to create a framework that aligns the availability of this funds into the propensity of the informal entrepreneurship cocooned in a stable business aiding nation's growth.

2. STATEMENT OF PROBLEM

Acknowledged, the movers of the 21st century are entrepreneurs and positively driven governmental policies (Ibidunni, Ibidunni, Olokundun, Oke, Ayeni, Falola, Salau, 2018). They both serve as facilitators in the respective environment.

The statement comes as a buttressed from researches carried out in differentiating the formal sector and informal sector with the interconnectedness of both sectors, leading to a nations prosperity.(Adeoye, 2015; Collewaert & Fassin, 2013; Trivedi, 2013). It is well

pronounced in the economies of developed nations based on the contribution made by the venture capitalist and managers (Bhattacharyya, 1989; Gartner, 1985; Jun, 2014; Proimos & Murray, 2006) Despite the contributions, curled from the impact gotten from the venture capitalists and managers in an economy, there seems to be an absence of such practices in the electronics businesses in developing nations such as Nigeria.

In the last two decades, with reference to the 4th republic in Nigeria, emphasis has been made on the need to diversify the economy from a mono to multi-economy (Samers, 2005; Wu, Chen, & Jiao, 2016). The emphasis is not far-fetched with the belief that entrepreneurs need funding to develop the formal/informal business organisation and break the frontiers of established business empires. Such huge funds are provided by venture capitalist whose presence are felt in the developed nations (Hairston, 2016; Jun, 2014; Mamun, 2016; Navis & Ozbek, 2016). The assumption of such funding gave Jun (2014) the needful conclusion that the introduction of venture capital and managers will produce a turnaround economic performance for the business. Imperatively, a combination of the venture capitalist funds and venture managers produces the needful performance.

Therefore, the existence of the informal and formal entrepreneurs in Nigeria cannot be denied but at what level does the attributable contribution of both entrepreneurial types make a significant impact for the nation's development? The provided answer will enable the venture managers amongst many the needful information to enter the market and succeed.

3. OBJECTIVES OF THE STUDY

The major excuses gotten from failed and failing businesses are insufficient funds and poor management skills. The introduction and implementation of venture management as a practice with the inclusion of venture capital is needed for better business performance. To this end, this study seeks to provide a potential conceptualization of a bird-view analysis on informal and formal entrepreneurship performance and practices in a developing economy with beneficial attainment for venture management.

4. LITERATURE REVIEW

4.1. Concept of Venture Capital

The term venture capital can be defined as the provision of funds by venture capitalist/venture managers to a highly risky business with the intention of building a firm or help in nurturing the business organisation at the expense of the equity or shareholdings and profit distribution and ownership (Crane, 2015; Hairston, 2016; Huang & Pearce, 2015; Jun, 2014; Lutz & George, 2012; Samila & Sorenson, 2011; Shepherd & Haynie, 2011; Wang, Wuebker, Han, & Ensley, 2012).

The concept of venture management is not widely known but it does have an origin and traceable to private equity investment which began by two venture capital firms known as J.H. Whitney & Company and American Research and Development Corporation (ARDC) in 1946 with the idea of encouraging private investment, owned and managed by soldiers returning from world war II (Scott, 2008). This was done to encourage private businesses run by the combatants. Economist (2008), stated that the ARDC was credited with the first major venture capital success story when its 1957 investment of \$70,000 in Digital Equipment Corporation (DEC) was valued at over \$35.5 million after the company's initial public offering in 1968. It brought a return of over 500 times on its investment with an annualized rate of return of 101% (Barlett, 2012).

From this success, the employee of ARDC did the obvious by propagating the ministry of venture management via establishing their own prominent venture capital firms. Such firms

include and not limited to Greylock Partners and Morgan, Holland Ventures (Scott, 2008). This investment opportunity mantra brought forth new businesses, strengthen the old ones and tackle unemployment in the society which unequivocally reduces social vices among many other societal problems.

5. SUPPRESSING UNEMPLOYMENT VIA ENTREPRENEURSHIP

The issue of unemployment is a reoccurring problem which can be likened to a hydra and greatly involving to all. This problem, constantly dealt with has never yielded and comes as a function of poor implementation and unscrupulous succession plan in the affairs of management (Thaddeus, 2012; Popoola, 2014; Afolabi, 2015; Nwachukwu, 2012). Nwachukwu (2012) stated the existence of agencies such as NERFUND (National Economic Construction Reconstruction Fund), NACDB (Nigerian Agricultural and Cooperative Development Bank), People bank, Community banks amongst many others, were to aid the growth and practices of existing and intending entrepreneurs in ensuring the robust growth of the economy while countering unemployment. The intending intention has been marred by various ill accomplice and is topped by corruption, bad or no planning on the part of the existing or will be entrepreneurs (Zenas & Ian, 1985).

It has been established that various ills exist in our society preventing the attainment of transition into formal business operation or disproving the realism of an enabling environment being established. In lieu of this, the way forward is for the entrepreneur/business owners to find his or her niche (Jugdev, 2008; Samila & Sorenson, 2011; Timmons, 2011). Therefore, regardless of Knight (1927, 2012) position on the line of economic prosperity in a nation related to the transcending agent, the entrepreneur, he propounds on the levels of risk encountered resulting to profit (Knight, 2012; Aven, 2012). It is the interplay between risk and uncertainty on one hand and competition on the other, that calls for the incumbent and new entrepreneurs, accounting for the enormous variation in profitability across firms. Every nation has an element of entrepreneurship in her existence in respective of the type of culture aboard or the type of government practised (Afolabi, 2015; Popoola, 2014). This is due to the presence of business transaction occurring in every spectrum of the involved nation extending to the global community.

The element mentioned above is described effectively via the transition of products from the imaginary and existing factory to the utilization by the end users.

Thaddeus (2012) opines on the accuracy of the largest employer of labour being the government of the involved nation is true but this does not solve the reoccurrence of unemployment regardless of a good economy. This shows that the government of any nation cannot singlehandedly attain a high level of employment but rather engage in a structural balance via policy intervention to ensure continuity amidst any form of disparity due to economic distress (Huang & Pearce, 2015).

The level of dynamic nature being experienced in the current global environment stresses the need for uncertainty to be managed. This means that the bedrock for success in this current business age is the management of uncertainty. Uncertainty cannot be managed if not properly monitored via its performances. The performances cannot also be gotten if the content of uncertainty is not known

It is of a note that entrepreneurs are the drivers of a nation's economy and in this regards, there exist various forms of entrepreneurs in every society. They classified into formal and informal entrepreneurs, segmented by the by various activities in which they engage themselves in to promote their businesses with the apex being, planning (Dollinger, 2008; Kahler, 2000; Proimos & Murray, 2006). The importance of planning is never overemphasized as it goes a long way to determine issues such as pricing, marketing and

testing strategies, enterprise viability in response to the intending environment where it will be suited and first financing amongst others (Zenas & Ian, 1985).

6. CAPITAL VENTURING IN A DEVELOPING ECONOMY

This is more demanding in the current dynamic environment characterized by inflation and economic regression. Conclusively, the importance of considering every action in any nation by a sensitive government on the direct and indirect actions taken will definitely affect employment either negatively or positively. Salvaging such problems as stagnation and regression of socio-economic growth is where entrepreneurs are called. They are the present and futuristic aids for the growth of any nation via intellectual and financial contributions. Kelli et al., (2016) posited that there is a need for the transition to occur with the provision of certain requirements adequately provided by respective agencies of the nation. Notwithstanding, the contribution from the formal and informal entrepreneurs can be weighted from the variables stated to measure the performance both economically and financially amongst others (Anbarci, Gomis-Porqueras, & Marcus, 2012; Duxbury, 2014; Ligthelm, 2013; Magalhães, 2015).

It cannot be denied that the major problem that would be an existing entrepreneurs battle against is capital provision and it has been noted to be a common feat in Nigeria with an empirical evidence (Titus et al., 2013; Ogunnaike, 2014). It is based on this, that it is premised that the provision of funds with good management techniques will spin a new business into a resourceful organisation and avert early death of startup business.

Thus bringing to light on the transcendence that occurs when a new business is sort to be profitable and needs to grow. Having passed the era where an unclear definition of what informal entrepreneurial business entails and all clear streams are clearly understood, the need to know why people go through this medium (remaining in the informal business) to conduct their businesses and not the formal business means designed by the government tends to be worrisome as the benefits of transcending forward is not being realized.

7. THE CONCEPT OF A VENTURE AND VENTURE CAPITAL

According to predominantly, the tools required by the entrepreneur when entering the venturing world include:

1. Capital
2. Attitude
3. Skill
4. Management Techniques

The realization of undergoing a business entity is circled with uncertainty and an element of risk which are buttressed by the operating environment, nature of the business, customer's loyalty amongst others that basically identifies the survival rate of the business existence (Hairston, 2016). The term venture refers to an undertaking that is dangerous, daring or of uncertain outcome. Also, reference to a business enterprise comprises of risk in expectation of gain, such as money or cargo (American Heritage dictionary, 2011). Invariably, the existence of any business is a risk because there is no assurance to them encountering success or failure all through the business activities engaged in neither is it possible in concluding to ascertain the exact level of risk that will be realized immediately the business acumen starts. The venture is a term coined from "adventure" reflecting the occurrence between 1100 and 1400 AD during the Middle English era.

8. NONE COMPLIANCE WITH GOVERNMENT LAWS: FORMAL VS INFORMAL BUSINESS

Researchers have documented a significant contribution of informal activities to both output and employment. The size of informal activities varies widely across countries, depending in large part on the level of economic development (Bygrave & Hofer, 1991). The informal sector is also the main employment generator in many developing countries. OECD (2009) reports that informal workers average 57% of the workforce across Latin American countries and about 70% in South and Southeast Asia. Researchers have emphasized noncompliance with government regulations as the main identifier of the informal sector (Castells and Portes 1989; Portes 1994). In this regard, informal firms generally include all employers and self-employed workers who fail to comply with state regulations, including firm registrations, tax rules, and labour laws (Pratap and Quintin 2006). Therefore, the informal sector usually includes all economic activities that contribute to the Gross National Product but are not officially reported (Feige 1997; Schneider 1994). Nonetheless, the definition of the informal economy is not necessarily limited to noncompliance by business operators.

The highest employer of labour is the government of any nation but cannot have the totally absorber to take in all unemployed individuals in any nation. solving this calls for entrepreneurs to be raised as saviours but the existence of regulation is expected to pave way for improvement (Williams, 2014). Difficulites arise for businesses due to the initial expectation for entrepreneurs and to tis end, it is demise the readication of unemployment. Schneider, (2004) posited the irrelative difficulty in transition from informal ro formal business pratices as a major limitation for success followed by the demise of the principal founder.

The need to understand the necessity of such transition for informal entrepreneur with the leeway of a backward transition in formal business operation calls to bear.

9. POSSIBLE IMPLICATION OF THE STUDY

The use of venture managers in developed nation is prominent as against the developing nations in ensuring the birth and upgrade of existing businesses. Developed nations such as France, China, India, Japan, Netherland, New Zealand, Norway, Sweden, United Kingdom and the United States of America where the practice of venture capital and management is predominantly used, have enhanced business performance as the outcome of harnessing. However, this cannot be said of developing countries due to the dynamic unfavourable economic policies with vested interest (Demenet, Razafindrakoto, & Roubaud, 2016). Thus, leading to the minimal existence of such practice in the formal and informal sector (Meagher, 2013).

Nevertheless, given the interest by the Nigerian government to diversify the economy via entrepreneurship, this study intends to aid entrepreneurs about funding with good management skills via venture capital and venture management while bypassing banks and other financial institutions.

The study provided the needed instruments and classified business organisations by the venture managers in aiding their growth. This invariably allows the management to identify businesses opportunities with a higher margin of returns and provide the best possible way for a win-win situation for both teams.

More so, the provision of certain requirement for intending entrepreneurs by venture management will fully be realized in their various businesses, leading into sustainability of the venture management practice in the society.

Furthermore, policy makers are envisaged to be educated on the practice of venture management, bringing them into existence and sustained using the ILO guidelines. Finally, this study will serve as a reference point for subsequent research on venture management practices amongst practising and would-be entrepreneurs and venture managers in Nigeria and other developing and developed nations.

10. JUSTIFICATION OF THE STUDY

Research is continuously being done in the line of entrepreneurship especially in the viewpoint of SMEs growth, sustainability, informality, comparison on the basis of performance and practices with the formality, thus, making research in venture management in developing countries rare though quite a number on venture capital. Focus on the use and importance of venture capital has been focused on the role the entrepreneurs can make better use of it but the focus of an external contribution via venture management in ensuring the business performance of entrepreneurs is a gap that needs to be filled. The study will rectify the gap in the literature on comparisons between formal and informal entrepreneurs which will be determined by the business practices. Prior studies and literature into venture capital have significantly failed to define the role venture management plays in entrepreneurial growth, determining factors that are contained in the venture and the basis that should be applied for entrepreneurial success. In addition, a study on venture management in developing countries using Africa most populous country, Nigeria, with a focus on her business hub, Lagos, is important. This will invariably aid in building the business acumen of entrepreneurs as well as aiding the transition from informal to formal business practices by putting the helping policies in place to ensure favourable business environment especially in the electronics sectors in the Nigerian society.

11. THE SCOPE OF THE STUDY

The main focus of this study will be to carry a comparative analysis on informal and formal entrepreneurial performance via the adoption of venture management practices as a measurement in Lagos state, Nigeria. The choice of Lagos state arose from the multi-cultural presence of entrepreneurs from all areas in the nation, which comes as a result of the enabling environment; thus making her the microcosm of the Nigeria society (Akinbode, 2014). Lagos state is generally known for her economic viability with many areas in the state significantly holding a market niche for themselves. This makes it appropriate in selecting Lagos and in particular Computer Village, Ikeja and Alaba International, Ojo as the electronic business hub for the referred study in Nigeria. The study will adopt entrepreneurs who deal in electronics sales and services. Due to the involvement of both informal and formal entrepreneurs, the study will also youth and adults (young and old) who trade in electronic parts and services in Computer village and Alaba International, Lagos state. The preference for the electronic market is as a result of the nature of its determinants in the industrialization of a developed nation. There are three markets in Lagos which could be termed as electronics market which are Computer Village, Alaba International and Ladipo market. Ladipo market is more equipped with mechanical parts and thus has been dropped. Thus, making Alaba International and Computer Village the adopted place to conduct the study. In times past, computer village has been compared to the silicon valley in the United States of America (Zider, 1998).

12. OPERATIONALIZATION OF RESEARCH VARIABLES

This study comprised of the following constructs:

Venture Management Practices, Informal Entrepreneurship Performance and Formal Entrepreneurship Performance. The relationship between these constructs can be expressed mathematically as:

$$Y = f(X) \quad Z = f(X)$$

Where, Y = Dependent Variables

Z = Dependent Variables

X = Independent Variables

Therefore, Y = Informal Entrepreneurship performance (IEP)

Z = Formal Entrepreneurship Performance (FEP) X = Venture Management practices (VMP)

The mathematical equation above simply states that Informal Entrepreneurship Performance and Formal

Entrepreneurship Performance are a function (f) of Venture Management Practices.

Y, the dependent variables of Informal Entrepreneurship Performance are vector of several variables, which are represented by the expression below:

$$Y = (y_1, y_2, y_3 \dots y_n)$$

Where,

y_1 = Customer Acquisition Cost (CAC)

y_2 = Customer Retention (CP) y_3 = Life Time Value (LTV) y_4 = Operating Income (OC)

y_5 = Culture (C)

That is, IEP = (CAC, CP, LTV, OC and C). This means that Informal Entrepreneurship Performance (IEP) will be measured by Customer Acquisition Cost (CAC), Customer Retention (CP), Life Time Value (LTV), Operating Income (OC) and Culture (C).

Also, the Z, the dependent variables of Formal Entrepreneurship Performance are vectors of several variables, which are

represented by the expression below:

$$Z = (z_1, z_2, z_3 \dots z_n)$$

Where, z_1 = Product Metabolism (PM) z_2 = Revenue (R)

z_3 = Referral Rate (RR)

z_4 = Regulatory Framework (RF) z_5 = Culture (C)

That is, FEP = (PM, R, RR, RF and C). This means that Formal Entrepreneurship Performance (FEP) will be measured by Product Metabolism (PM), Revenue (R), Conversion Rate (CR), Referral Rate (RR), Regulatory Framework (RF) and Culture.

Finally, the independent variable, Venture Management Practices (VMP), will be represented by several sub-variables, which were expressed as: $X = (x_1, x_2, x_3, \dots, x_n)$

Where, x_1 = Entrepreneurial Orientation (ON)

x_2 = Business Ownership (BO)

x_3 = Financial Measure (FM)

x_4 = Business Process Perspective (BPP)

x_5 = Culture (C)

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That is, VMP = (ON, BO, FM, BPP, and C) This means that Venture Management Practices (VMP) will be measured by Entrepreneurial Orientation (ON), Business Ownership (BO), Financial Measure (FM), Business Process Perspective (BPP) and Culture (C).

Therefore, we could express the above several variables as: (CAC, CP, LTV, OC and C) = $f(\text{ON, BO, FM, BPP, and C})$ (PM, R, RR, RF and C) = $f(\text{ON, BO, FM, BPP, and C})$

The above describes Formal and Informal Entrepreneurial Performance as a function (f) of Venture Management Practices.

Put concisely, Formal and Informal Entrepreneurial Performance depends on the Venture Management Practices for the proper harnessing of their respective business performances in Lagos State.

13. CONCLUSIONS

The reduction and possibly the aversion of failed businesses on the rise will lead to an increase in employment and good government policies with a reduction on sentiments at the expense of boosting productivity and innovation, with the input of venture capital. During the past few decades, researchers have documented significant contributions of informal and formal business activities to both output and employment (Schneider and Williams 2013). Hence, to bridge this gap in literature, a comparative study on venture management practices and expected performance for practicing entrepreneurs in the informal and formal sector is required. This will further direct the pillage towards use of venture managers, adherent to business laws, principles on working conditions and finance access by developing economies in relations for entrepreneurial success as against developed counterparts.

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