

# Business Leadership Digest

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Entrepreneurship, Management, Leadership and Career Advice for Business Executives & Students.

## INSIDE THIS ISSUE:

## The Private Sector: Key to Economic Development

All modern schools of political thought, from Marx and Lenin to Hayek and Friedman, agree on at least one thing: the private sector is the driver of modern economic development. In their quest for greater security and comfort, private individuals seek ever more material wealth. That process compels them to produce more and exchange what they produce with other individuals who also seek greater security and comfort. Put together, those acts of production, exchange, and consumption constitute the modern capitalist economy. In order to produce more, private individuals must generate savings and plow those savings back into the production process in the form of new and improved techniques, processes, and products.

That is the logic of capital accumulation. If you wish to accumulate more value, you have to produce more value. To be able to consume more, you must be able to do the following:

- Raise your labor productivity by using more capital. That, in turn, requires you to accumulate more capital or save.
- Use capital and labor more efficiently. That may come from technological improvements or entrepreneurial

alertness to opportunities to reduce waste. Those who cannot use their capital most efficiently tend to have less of it than others. Alternatively, less efficient producers are “bought out” by more efficient producers. Like people everywhere, Africans want security and comfort. Unfortunately, the great majority of Africans are today experiencing the opposite. In many instances, Africans face daily hunger, homelessness, threats of violence, actual violence, and starvation. If we consider the peasant household as a firm, Africa may have one of the largest private sectors in the world. Most Africans live and work on small farms that populate the African countryside (see Table 1 for examples of selected African countries). Theoretically, therefore, Africa should be a hive of economic activity.

What has gone wrong?

Africa’s private sector is predominantly made up of peasants and, to a lesser extent, subsidiaries of foreign-owned multinational corporations. But those groups are dominated by the unproductive political elites who control the state. Africa’s private sector is powerless. It does not have the freedom to maximize its objectives. Above all, it is not free to decide what hap-

pens to its savings.

### The Vulnerability of Multinational Corporations

European joint stock companies have operated in Africa since the dawn of the capitalist era. One of the most famous among them, the Dutch East India Company, started the colonization of South Africa in the mid-17th century. During the “Scramble for Africa,” those companies followed close on the heels of the conquering armies of the colonial powers and established agricultural plantations, mines, railways, harbors, and new cities. Later they diversified into making consumer goods for the burgeoning African market, from soap and beer to blankets, fishing nets, and processing raw materials. When African states became independent, foreign corporations lost their colonial protectors. Before long they, like the peasants, fell prey to the appetites and whims of the new African political elite that controlled the newly independent African states. The lucky corporations were nationalized and their owners compensated. The unlucky ones were confiscated by individual politicians without compensation. Many corporations survived as best they could. They bribed the new elite or found

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### SPECIAL POINTS OF INTEREST:

*The Business of Science & Technology: Science Education: Supporting Science (Fall 2007 Issue)*

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## The Private Sector: Key to Economic Development *Continue from page 1*

ways of ingratiating themselves with their new masters. Even the mighty Western oil companies have not escaped the destructive power of Africa's political elites. They are periodically compelled to make huge payments to foreign private bank accounts of the local heads of state and their friends and families. For example, the U.S. Senate has uncovered vast sums paid by oil companies to the private American bank accounts of Equatorial Guinea's head of state, Obiang Nguema.<sup>14</sup>

The political elites in sub-Saharan Africa largely refrained from seizing the heavy manufacturing and mining companies. Foreign owned companies therefore still dominate those sectors, with state-owned enterprises or parastatals increasingly playing a minor role. A recent study by the World Bank showed that the most productive companies in, for example, Nigeria, are those owned by multinational corporations or by non-African industrialists, including Indians, Chinese, and Lebanese.<sup>15</sup> All of those owners are easy targets, however, as they are not represented within the political elites. Like the peasants, they are subjected to all sorts of official and unofficial taxes, ranging from bribes for factory inspectors and customs officials to artificially high electricity tariffs, arbitrary municipal rates, and so on. That is another way that the African political elite contributes to fostering Africa's underdevelopment. Because political elites obstruct the operations of industry and divert profits to elite consumption and capital flight, Africa's manufacturing industries are unable to grow and, therefore, create employment for all types of workers. According to one study, for example,

Like the peasants, foreign entrepreneurs are subjected to all sorts of official and unofficial taxes, ranging from bribes for factory inspectors and customs officials to artificially high electricity tariffs, arbitrary municipal rates, and so on.

Oil revenues make it possible for the political elite to become detached from the local population and economy.

**Sub-Saharan Africa, as a whole, has deindustrialized since 1970.**

**Table 1**  
Percentage of Labor Force Working in Agricultural, Industrial, and Service Sectors

	Agriculture			Industry			Services		
	1970	1980	1990	1970	1980	1990	1970	1980	1990
Agricultural countries									
Ethiopia	91	89	86	2	2	2	7	9	12
Kenya	84	82	80	5	6	7	9	11	13
Oil producing countries									
Nigeria	71	54	43	11	8	7	19	38	50
Gabon	79	65	52	9	12	16	12	22	33
Newly industrializing countries									
Mauritius	34	27	17	25	28	43	41	45	40
South Africa	31	17	14	30	35	32	39	48	54

Source: World Bank, *African Development Indicators 2002* (Washington: World Bank, 2002).

A great deal of what is consumed by Africa's political elites and the states they control is imported. Such elite consumption of imports acts as a major drain of national savings that would otherwise have gone into productive investment in Africa. That is the secret to Africa's growing impoverishment despite its large private sector. The more the African political elites consolidate their power, and the more they strengthen their hold over the state, the more the peasants are likely to become poorer, and the more the African economies are likely to regress or, at best, stagnate. One of the most striking cases of that phenomenon is Nigeria. According to a study of

Nigeria prepared by the Centre for the Study of African Economies at Oxford University, between 1980 and 2000 per capita gross domestic product (GDP) in 1996 dollars adjusted for purchasing power parity fell from US \$1,215 to US \$706. The authors pointed out that the 40 percent drop in income understated the size of Nigeria's problem. "First the fall in real per capita consumption was very much greater [than the fall in per capita income] while the available evidence suggests that inequality rose. This combination of a very large fall in per capita consumption combined with increasing inequality implies a large rise

in poverty."<sup>8</sup> According to another source, the number of Nigerians living below the poverty line increased from 19 million in 1970 to 90 million in 2000. That was accompanied by a massive rise in inequality. In 1970 the top 2 percent of the population earned the same income as the bottom 17 percent. By 2000, the income of the top 2 percent was equal to that of the bottom 55 percent.<sup>9</sup> To understand the potential of what could be achieved in Africa with correct policies, let us compare what is happening in Nigeria to what is happening in China. While per capita GDP nearly halved in Nigeria and the number of people living below the poverty line skyrocketed between 1970 and 2000, per capita income in China increased sevenfold during the same period, lifting more than 400 million people out of poverty. *Continue on page 8*

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## Impact Business Solutions: Franchising as a Growth Strategy.

### Franchising for Growth

Franchising is a distribution strategy. It is a way of doing business and involves replicating a successful business model, while keeping brand's integrity.

Licensing a business concept seems like an easy way to grow a business, but as many entrepreneurs discover, maintaining a brand's integrity through the process will determine the growth strategy's success or failure. Planning toward franchising success requires that the entrepreneur register a business trademark, be active in controlling the use of the brand, be prepared to be "hands on", and find licensees who can embrace the values and beliefs about the company. Essentially, it requires planning, proc-

ess, support, procedures, and strong business model.

While franchising is seen as a growth strategy, it is not for every business or industry. Companies should carefully weight into the pros and cons of franchising in order to determine if franchising is a right growth strategy.

In their study, co-authors—Venkatesh Shankar, Scott Shane, and Ashwin Aravindaskhan outlined in their book, "Franchise System Growth Strategies: Conceptual & Empirical Analyses", examined what growth strategies contributed to the expansion of a franchise system, and why some Franchisors grow larger than others.—NEL

*See below & continue on page 4*

Why do some franchisors (corporate entities) such as Pearle Vision and Jazzercise grow larger than others? Is it due to the right decisions on pricing policy, such as the royalty rates franchisors charge the independent business owners, or franchisees, for use of the franchise name and product and the up-front fixed fees? Or is it due to appropriate decisions on the strategic control of the franchise system — from the number and proportion of outlets owned and operated by the franchisor to the initial franchisee investment and how much financing the franchisor can offer? In my recent research with co-authors Scott Shane and Ashwin Aravindaskhan, "Franchise System Growth Strategies: Conceptual and Empirical Analy-

## Business Laws and Ethics: Mission Statement.

### Some companies are better than others at instilling an ethical culture.

Before Enron there are some companies out there with longstanding traditions of investing and doing the right thing - those are the ones that are strongest in the face of challenges. Today it's become more practical, ironically, to be principled, but some companies have always practiced that. These are often mission-based companies, those that are founded on a mission or a set of values, for example what they've invested in is something to help people, a product that seeks to cure disease around the world.

Their products change over time but their mission hasn't.

The biggest challenge is in keeping up with changing regulations. So companies should focus on doing that which is right to do, not doing that which you have a right to do. In a rule of law society, if something is legally permissible, companies should get to do it. Capitalist systems and enterprises have always relied on trust, and you can't have trust without ethics. It's more and more apparent that ethics is at the foundation of capitalist enterprises. A recent survey showed that MBAs would take a 14%

pay cut to work at companies they thought were more ethical. That's part of where capital is going to flow, to companies that are perceived as being more ethical. And it's going to be easier to perceive this because the world is more transparent. Companies need to not only honor the law, but holds themselves to a higher standard than the law.

There are companies out there that are aggressive that may say, as long as it's legal we get to do it. But what happens is that people don't emotionally commit to ethical behavior and then some day the wind blows sand over the line. -NEL

## Global Markets & Business Environment: The Indian Advantage

**Pharmaceutical Research Contract Services:** Big Pharmaceutical Firms that need to quickly get a few dozen chemists to work on a specific, well-defined research project have long known that they can turn to any of India's numerous contract research companies. In the past two years, the country's research service providers have been undertaking far more significant drug discovery work for foreign clients - works that involves sharing sensitive data.

India's top research service providers protect their clients' -intellectual property in myriad ways. Staff members are

required to sign confidentiality agreements. Computer systems are set so that no one is able to upload a document, mail an attachment, or save a file to a portable device. Work for different clients is done in separate labs, and employees have electronic key cards that open only certain doors.

It's common knowledge that India has a lot to offer in terms of research capabilities. It has a huge pool of English-speaking scientists, particularly synthetic organic chemists. Many of these scientists are highly motivated and will work for a fraction of the salary of simi-

larly trained scientists in the U.S., Europe, or Japan.

At the end of the day, third-party research firms live and die on their reputations. A solid reputation and track record help to quell the angst that a foreign client might feel when sharing information about a drug candidate and its biological target with people working thousands of miles away. All these may well be a result of legislation on intellectual property right passed by India in early 2005. — NEL

## Growth Through Franchising. *Continue from page 3*

ses,” we examine what growth strategies contribute to the expansion of a franchise system.

We sifted through data on 1,292 business format franchise systems from 152 industries that were established in the United States between 1979 and 1996, analyzing their evolution from inception.

The results show that franchisors that grow larger are most cost effective to their franchisees and exercise appropriate control over their franchisees. Those franchisors that open more outlets typically: Lower royalty rates as the systems age; have low up-front franchise fees and raise them over time; own a small proportion of outlets and lower

that percentage over time; keep franchisees’ initial investment low; and, finally, finance their franchisees. These strategic decisions of franchisors increase the value of their brands, reduce franchisee risk, and increase the attraction of new franchisees, thus explaining the growth to a larger franchise system. These findings are novel and counter to previous research that suggested franchisors do not vary their pricing policies much over time.

Our results have useful implications for practitioners. Managers can use the findings to better understand the pricing policy structure — the appropriate mix of franchise fees and royalty rates over time — that drives the growth of a franchise system. We find that franchise

system growth is negatively related to the proportion of company-owned outlets, which suggests to managers the merits of minimizing ownership to achieve widespread growth. Finally, franchisors who want to grow larger may be able to use their financial resources to keep their franchisees’ initial investment in the outlets low and to finance franchisees, both of which can drive the expansion of a franchise system.

*Venkatesh Shankar  
Coleman Chair in  
Marketing.*



## Industry Outlook: Fertilizers

### A Great Time to Make Fertilizers

Energy does not usually come to mind in discussions of agriculture, but times have changed. Today, farm energy means corn, and corn-based ethanol has redrawn the landscape for fertilizers manufacturers.

Demand for corn-derived ethanol is spurring growth for fertilizer industry. Fertilizer producers in the U.S. and Canada are glowing as demand for their products soars. The increase in demand, however, is not coming from growers of

crops destined for traditional food and animal feed markets but rather for the fermentation of corn into fuel-grade ethanol.

A survey of 86,000 farmers by the U.S. Department of Agriculture determined that growers will plant about 90.5 million acres of corn this year, 14% more than in 2006. The American Farm Bureau Federation is a little more cautious in its projection, predicting only an approximately 10% increase in planted corn acreage.

Whatever the increase, it’s significant for a crop for which planted acreage actually declined at an average annual rate of 0.1% between 1996 and 2006. Last year, planted acreage was at its lowest point since 2001—78.3 million acres—as higher costs cut into planting. Harvested corn acreage also declined in 2006, falling about 6.0% from 2005 to 70.7 million acres.

According to the USDA’s Economic Research Service, ethanol is the reason for the growing corn demand. *Page 11*

## Think Global, Act Local: Slow in the Internet Data Highway *Continue from page 5*

These will not only encourage manufacturing businesses to locate facilities in rural areas, it will increase the number of children knowledgeable in the use of computers in research, helping them to know the world they live and compete in. Our children access to the rest of the world should not only be through the televisions, music, and movies. These media access only bring what the various industries want to showcase, but with Internet access, a child can log on and determine on what interests him or her. Internet access is more of a necessity than a luxury in the global economy.

As industrialized world is moving ahead in broadband technological access, our children should know about Internet, even the slow technology. Business communication has past the age of licking postage stamps to pressing a send button. The debate needs to be whether, Nigeria as a nation is being left behind as other developing countries pull further ahead technologically. The potential of a fiber optic network will transform Nigeria into a fast growing technology country and help shed its image as a third world economy. Cell-phone, cable and Internet companies interested in servicing large Nigerian cities should be compelled to service remote and

rural places through incentives. Although, the phone business is a very challenging one, but the rural areas cannot be left behind; the cities can only take certain amount of people before they become environmental hazard. The rural citizens need also to have access to the vast majority of the growing number of government records kept online (e-government). Rural citizens should not be driving 10 to 25 miles to find an Internet service. Industry regulators should make telephone companies agree to expand its coverage to 80 percent of rural area 100 miles from major cities by 2015. —*Cletus E. Olebunne*

## Government & Policy: U.S. Congress Set Panel To Review Nuclear Weapons

### A. Panel To Review Nuclear Weapons

A U.S. House Armed Services subcommittee approved legislation on May 2 to create a congressional appointed, bipartisan commission to begin a public discussion of U.S. nuclear weapons strategy and policies. The subcommittee voted to slow down and reevaluate a U.S. defense program to develop the nation's first new nuclear weapon in decades, the reliable replacement warhead (RRW). Rep. Ellen Tauscher (D-Calif.), chair of the Strategic Forces Subcommittee, also successfully pressed for wording in the legislation to zero out funding for the Department of Energy's proposed plutonium center to build the new pits, or fissile cores, for the RRW. Instead, Tauscher directed DOE to assess the feasibility of reusing existing

plutonium pits in new warheads. The bill would allow DOE to proceed with engineering of the first weapon, which is taking place this year. However, further action would be blocked until the commission's work is completed over the next year or so, according to House staff, who stress the measure has bipartisan support to replace its nuclear warheads and build a new weapons complex

### B. Nigeria Targets First Nuclear Power Plant by 2017

Nigeria's bid to join the league of nations with nuclear-powered electricity generating plant will be actualized by 2017 when the first nuclear reactor is

expected to come on stream. Speaking at the inauguration of two committees for the development of the nuclear technology capacity in Abuja, the Director-General of the Nigeria Atomic Energy Commission (NAEC), Dr. Erepamo Osaisai said the nuclear power plant when put in place will generate between 1,000MW to 4,000MW of electricity.

He said the setting up of committees on manpower training and nuclear power plant site selection is a major step being taken by government to fast-track the implementation of nuclear energy development roadmap. According to the Director-General approximately 800 to 900 staff would be required to efficiently operate a 1,000MW nuclear power reactor

## Think Global, Act Local: Slow in the Internet Data Highway

### Slow in the Internet Data Highway and Fast in the GSM Highway:

For most growing economies, business technologies bring globalization home. In the fast changing global business innovation in manufacturing, coupled with knowledge of the global business competitiveness, the importance of Internet access to the rural communities is as essential as life-blood of any business. Internet access does not only lower cost of marketing and communication, it helps in easy access to the global research community on how the rest of the world does things in the

global economy. In the global economy, GSM phone communication can be very expensive in cost and its inability as a research tool.

Frequent argument is that poor countries do not have enough customers to support investment in landlines and high-speed Internet network. No doubt, GSM has made communication easier to the rural area, but continued neglect of rural areas in Internet access project development will cause movement of entrepreneurial minded youths to the cities, leaving the rural areas underdeveloped and lacking in employment

opportunities.

The psychological marketing research and strategy is that poor people like to talk, hence the growth in the GSM service usage in developing countries as opposed to near parallel-growth in Internet usage as well. If Nigeria as a nation wants to become globally competitive, it must make Internet accessible to all schools (from Kindergarten to the University levels) by 2015. To do that, it must invest in a complete Internet network development in rural areas.

*Continue on page 4*

## Leadership & Management: Conflict is Good

### Conflict Is Good.

Business is an inherent conflict, whether in the public or private sector. This is the basis of creative management. Fundamental conflicts exist in every being and striving to reconcile them is the cause of all suffering, and all life. Conflict abounds in private sector business between departments and in the competing demands of shareholders, employees, customers, and community, as well as among competitors. In the public sector, such as a democratic society, conflict abound at different levels of government separated powers and non governmental organizations. The con-

ventional approach to settling conflict with trade-offs rather than proper understanding of the situation and actually reaching fitting solutions actually kills the only source of growth – creative management.

If creative entrepreneurial management is suppressed by lack of change, fewer ideas will be generated and the organization (public or private) will tend more and more to conform with what it has done in the past. An organizations is not just a set of budgets and sales figures. It's a whole organism, a field of tension where conflict of ideas present the best concept to move an organization for-

ward in a positive competitive growth.

In creative management, there are no right or wrong answers but managers are always choosing between two or more equally desirable resolutions, all of which are in conflict. The real managerial charter, is to harness the energy of opposing forces. And that requires a really creative act. Responding is about trying to catch up. Acting takes you to the future. In responding, the supposedly solution is a response to the act, while in acting, managers must have the ability of creativity through conflict of ideas to set the development of the future. — *Cletus E. Olebunne*

## Management Practices: Management uses of Free Cash Flow

### Use of Free Cash Flows

Free cash flow is the cash available for distribution to investors after all planned capital investments and taxes (*Enrique R. Arzac, Valuation for Mergers, Buyouts, and Restructuring*). Similar definition is provided by George Christy in *Free Cash Flow: A Two-Hour Primer for Management and the Board*: “Free Cash Flow = Revenue MINUS cash expenses PLUS non-revenue cash receipts PLUS or MINUS cash changes in working capital MINUS capital expenditure.”

Christy further states that “‘free’ in free cash flow means that, after the company funds cash expenses and the changes in receivables, inventories, and fixed as-

sets required to generate the revenues, the remaining cash flow is ‘free’ to be used for whatever management decides is best for the company.”

In essence, free cash flow is a specialized concept that allows us to determine the true amount of cash available for immediate, discretionary, strategic use by a business. This definition of free cash flow here is not same as the concept of cash flow as determined or defined under generally accepted accounting principles (GAAP) accounting. Free cash flow has recently been shown to provide a more effective way to gauge financial performance (*Priest & Maclelland, New Priorities for the Global Investor: Free Cash Flow and Shareholder Yield*).

In addition to being the most useful metric for investors, free cash flow is also the metric that enables a company’s management team to review and select the best possible options for the generation of shareholder value in light of the firm’s cost of capital. Therefore, when engaged in the process of security selection, it is necessary for investors to look not only at the quantity and quality of a company’s free cash flow, but also the manner in which this free cash flow is deployed by management.

Management uses free cash flow in five possible ways: cash dividends, stock repurchases, debt reduction, acquisitions, and reinvestment in company capital projects. Every conceivable option for the allocation of a dollar of free cash flow use falls into one of these

## Manufacturing Practices: Intellectual Property

### Intellectual Property: Brazil Breaks Patent on Merck’s AIDS Drug

Merck & Company says it is “profoundly disappointed” by Brazil’s decision to break the patent on a key AIDS drug made by the U.S. pharmaceutical giant and buy a less expensive generic version of the medicine from India.

On May 4, 2007, Brazilian President Luiz Inacio Lula da Silva authorized his country’s Ministry of Health to issue a “compulsory license” for efavirenz, a move that allows a country to manufac-

ture or import generic copies of patented drugs while paying the patent holder only a small royalty. Lula acted shortly after the Brazilian government rejected Merck’s offer to reduce its price for efavirenz, sold as Stocrin, from \$1.59 per pill to \$1.10. Brazil wanted to purchase the drug at the same 65 cents per pill that Merck charges in Thailand.

Lula said World Trade Organization rules allow developing countries to issue compulsory licenses to combat public health emergencies. Brazil has been pushing for lower drug prices to

limit the cost of a government-run program that provides free medicines for people infected with the AIDS virus.

Merck is urging Brazil to reconsider its decision and wants further negotiations. But the company also defends its pricing practices, asserting that Brazil has a greater ability to pay for AIDS medicines than other countries that are poorer. Merck says, “we believe it is essential to price our medicines according to a country’s level of development and HIV burden.” —NEL

## Nigeria Local Business News:

### Nigeria begins glucose syrup production from cassava

For more than two decades of importation of glucose syrup, Nigeria has finally began local production of the raw materials from cassava, courtesy, Ekha Agro Farms Limited, Ibafo, Ogun State. Glucose syrup is used in large quantities in the manufacture of candies, biscuits, pharmaceutical products, and as adjuncts in breweries.

The factory is said to be the first of its kind in Nigeria and the second in Africa after that of South Africa. It was de-

signed and built by International Starch Institute, Denmark, at a cost of N2.5 billion and has an installed output capacity of 30,000 metric tons of glucose syrup per annum. Glucose syrup production from cassava is subdivided into three process areas of liquefaction, saccharification, and purification

With this development, Nigeria will be saving about US \$15 million (one billion Naira) from importation of substitute. According to the Managing Director, Mr. Osazenaye Osarenkhoe, the factory will require about 400 metric tons of cassava tubers to produce about

120 metric tons of syrup in order to meet demand. The company has employed 20,000 Nigerians through the network of out-growers and contract farmers charged with the responsibility of producing over 120,000 metric tons of cassava tubers needed by the factory. Over 50 Engineers, Biochemists, Microbiologists, and trained technicians have been charged with the management of the factory. The company also employed 68 Agronomists, Agricultural Engineers, and specialists in other areas of agricultural practice.

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## Management uses of Free Cash Flow. Continue from page 6

five applications. Often management will employ some of each, but we see a distinction between the first three uses and the latter two. Unless the return on incremental capital is superior to the firm's average cost of capital, there is little point in pursuing option 4 (making acquisitions) or option 5 (reinvesting in the business beyond maintenance capital expenditures).

When and if acquisitions and reinvestments fail to generate sufficient returns, free cash flow should be returned to shareholders via one of the first three options. These first three possible uses of free cash flow (cash dividends, stock repurchases, and debt reduction) are all effectively dividends payable to shareholders, and ways to increase shareholders' wealth and value. Since the value of a firm remains the same, shareholder

wealth is increased as debt is reduced. And this, can be considered a type of dividend. —*Cletus E. Olebunne*

*International Business News—cont. from page 11*

### Avantium and Sasol Collaborate on Fuels

Sasol technology, part of South African oil and gas producer Sasol, and Avantium Technologies have begun collaborating in the area of Fischer-Tropsch chemistry. The joint effort aims to develop new catalysts to optimize Sasol's production of liquid fuels from coal or natural gas using Avantium's high-throughput instrumentation capabilities. Avantium was created in February 2000 by a consortium that included Shell, Pfizer, GlaxoSmithKline, and Akzo Nobel.

### Glucose Syrup from Cassava: Page 6

While also stating that it has not been a bed of roses, the Managing Director stated that Power supply to the factory has been a major challenge. According to him, "unfortunately, the voltage of the power supply by PHCN to the factory is too low and cannot power-up our equipment. We are told that a battery of 2500KVA x 33 and 2000KVA x 11 are needed by PHCN to stabilize the power supply. We currently run the factory on diesel generators 24 hours daily.

Osazenaye stated that, "all efforts to get Nigerian Gas Company Ltd (NGC) supply gas to the factory have not been successful. Our boilers are designed to run on gas and we are in the process of taking delivery of 3 units of 600KVA gas generators.

## Vacancies, Seminar Promotions, Work Shops

### EVENTS:

**NEL 2007 Weekend of Golf:** The event has been scheduled for the weekend of July 21st, 2007. The golf course venue is Crystal Springs Golf Course in Sussex County, New Jersey.

**NEL Entrepreneurship Seminar:** November 2007, New York City, USA

**NEL Award Night 2008:** NEL Annual Dinner in Abuja, Nigeria. This event is for the month of January.

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### WORKSHOPS:

NEL Economic Empowerment Through Entrepreneurial Leadership is offered six times per year in various cities in Nigeria, and United States. Our first planned workshop will be held in New York City during the month of July 2007. Dallas Texas: September 2007, Abuja: January 2008, Lagos: January 2008, Owerri: February 2008, Port Harcourt: February 2008

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## The Private Sector: Key to Economic Development. *Continue from page 2*

The result of that massive onslaught against Africa's manufacturing and mining sectors was all too predictable. In a recent report, the UN Industrial Development Organization painted a grim picture: Sub-Saharan Africa, as a whole, has *deindustrialized* since 1970, though there are a number of exceptions to this trend. Moreover, average manufacturing labor productivity relative to aggregate labor productivity is lower now than it was in 1970. There is, therefore, both a widening productivity gap between agriculture and manufacturing and between manufacturing and economy-wide productivity, meaning that Sub-Saharan Africa has moved backwards in the past three decades.<sup>17</sup>

Not surprisingly, the UN International Organization for Migration estimates that each year

20,000 African professionals emigrate out of the continent.<sup>18</sup> The issues discussed here do not mean there is no new investment in sub-Saharan Africa. Investment in petroleum and other extractive industries proceeds apace. More recently there has been a spate of investment in mobile telephony and in some tourism and retail infrastructure. There are also a few new investors in sub-Saharan Africa, in particular South African and Mauritian corporations and companies from Asia and Latin America. Most of those investors, however, shy away from long-term investment in

manufacturing. If the driving force behind sub-Saharan Africa's underdevelopment is the structural powerlessness of producers and therefore their inability to retain and control their savings, there will be no development in sub-Saharan Africa. So how is that to be reversed, and by whom? Development in sub-Saharan Africa requires a new type of democracy—one that empowers not just the political elite but sub-Saharan Africa's private-sector producers as well. It is therefore necessary that peasants, who constitute the core of the private sector in sub-Saharan Africa, become the real owners of their primary asset: land. In addition to generating wealth, private ownership of land is the only way in which rampant deforestation and accelerating desertification can be addressed. That means that freehold must be introduced and the so-called communal land tenure system, which is really state ownership of land, ought to be abolished. Moreover, peasants must gain direct access to world markets. The producers must be able to auction their own cash crops, including coffee, tea, cotton, sugar, cocoa, and rubber, rather than be forced to sell them to state-controlled marketing boards.

Sub-Saharan Africa needs new financial institutions that are independent of the political elite and can address the financial needs not only of peasants, but of other small- to medium-scale producers

as well. Those could be cooperatives, credit unions, savings banks, and so on. In addition to providing financial services, those institutions could undertake all the other technical services that are not being provided at present by African governments, such as crop research, extension services, livestock improvement, storage, transportation, distribution, and many other services that would make agriculture in sub-Saharan Africa more productive.

Foreign donors could play a constructive role by helping such institutions with expertise and management and shielding them from predation by Africa's political elite. The above changes could for the first time bring into being a capitalist market economy that answers to the needs of African producers and consumers. —NEL

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## Business Social Concerns: Safety & The Environment

### Safety & The Environment in the Chemical & Oil Industries

Two major social concerns in recent years by manufacturing companies, particularly those in chemical and oil industries has been image improvement when it comes to safety and environmental issues. The theme in the chemical and oil industries has been improvement and internationalization. The catch is that as more firms build and operate plants in countries where safety and environmental standards are loosely enforced, the image of the industry will become harder to improve.

It is human nature to do no more than what is required. So one would hope that managers of chemical plants are exceptional people who voluntarily go beyond the regulatory standards. But history shows that, too often, people and their companies try to get away with poor operational standards.

The 1984 tragedy in Bhopal, India, where a gas leak from a Union Carbide plant killed thousands of people, agree that the accident could have been avoided if the plant had been operated in accordance with its own safety standards. It was not and government was

not checking.

The March 2005 explosion at BP's Texas City, Texas, refinery provides another and more recent illustration of a corporate attempt to get away with lax safety management. The U.S. Chemical Safety & Hazard Investigation Board (CSB) concluded that "organizational and safety deficiencies" at BP were the root cause of the accident that killed 15 people. The company was aware that the blowdown drum involved in the accident was unsafe. And yet, Amoco executives who ran the plant until 1998 had successfully argued with govern-

## Safety & The Environment *continue from page 8*

ment inspectors that there was no need to replace it.

In developed countries like the U.S., accidents that are the result of such managerial laxity are rare. In China, the official media reports industrial accidents involving chemicals almost every day. Chlorine containers leak and residents have to evacuate. Rivers are contaminated when drums of toxic materials fall from trucks. Workers die when they are overcome by toxic fumes. And facilities, of course, blow up.

In Nigeria, oil spill has been a long-time issues, causing the worst environmental problems for decades.

In India, the number of accidents reported by the media is not as large. But in Vapi, an industrial estate north of Mumbai, it's not difficult to find chemical plants that were abandoned after an explosion or a fire. The rivers of Vapi run red and green from untreated dye-bearing waste.

There are comprehensive regulations in both China and India, but they are enforced unevenly and often after the fact. When a Jilin Petrochemical plant in northeastern China exploded in November 2005, it leaked benzene into the Songhua River and contaminated the water supply of Harbin, a city of 4 million. It was also an international incident because the Songhua becomes the Amur after it crosses into Russia. This may be the only reason China's highest government body, State Council became involved in the accident. The

State Council ordered punishment of executives from PetroChina, owner of Jilin Petrochemical, and government officials it had found responsible for the accident.

**INTERNATIONAL INITIATIVE:** The international chemical industry is making a determined effort to improve operational standards worldwide with the advancement of the Responsible Care initiative. To comply with Responsible Care, companies now have to seek a third-party verification of their health, environmental, and safety practices.

Responsible Care could take the place of local authorities in enforcing high operational standards in the chemical industry, where the plants may be located. But things are unlikely to turn out so neatly. In countries where large reputable companies dominated the trade associations, Responsible Care has worked well to raise the operational standards of smaller and less reputable chemical firms. But, because Responsible Care is not a government; it cannot force companies to do anything. Earlier attempts at industrywide self-discipline are not encouraging. In 1997, Japan's Nuclear and Industrial Safety Agency decided to begin auditing safety reports it received from companies instead of directly conducting the inspections. In 2003, the agency found that several oil refiners and chemical producers were making up data they were supposed to be gathering during their plant self-

inspections.

The many global chemical companies that operate in developing countries under standards that are much higher than the local ones are worthy of admiration. But some companies that build plants in countries where inspectors don't actually inspect will no doubt become lazy. Until regulations regarding plant operations are better enforced in China and other developing nations where the industry is expanding, image improvement will continue to be a struggle.—*Jean-Francois Tremblay*

### ***Credit Agricole Bank: Cont. from below***

It was gathered that the partnership with Sterling is a very comprehensive one and will involve capacity building in the areas of asset management, investment strategy and risk management. Besides, Calyon, the private and investment-banking arm of Credit Agricole, will also partner with Sterling Capital in many other areas of investment banking services. Financial analysts believe this is another significant achievement for Nigeria as a country as this will be the first appearance of Credit Agricole in Sub-Sahara Africa, apart from few branches of Credit Lyonnais it inherited in Cameroon.

## Nigeria Local Business News: Credit Agricole Set to Storm Nigeria

### **Credit Agricole Set to Storm Nigerian**

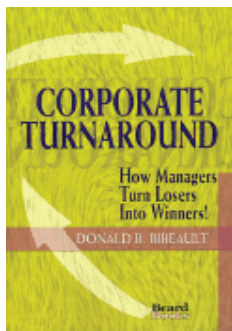
MarketCredit Agricole Asset Management (CAAM), the Paris based asset management arm of the Credit Agricole Group, has entered into management agreement with Sterling Bank in what may turn out to be one of the most exciting partnerships so far in the management of Nigeria's Foreign Reserves. Confirming the report, Mr. Biodun Dabiri, the Managing Director of Sterling Bank Capital, who oversaw the transaction, intimated that agreement to the comprehensive investment management package was a long and breathtak-

ing exercise, given the caliber of the bank involved. It would be recalled that in 2006, the CBN approved 14 international asset managers to partner with local banks in the management of Nigeria's Foreign Reserves. However, only a few of these bank are among the top ten in the World.Credit Agricole is the 6th largest bank in the world in terms of tier 1 capital and the largest in France, following the acquisition of equity interest in Credit Lyonnais. With about \$100bn in shareholders equity, it has 142,000 employees across 71 countries. CAAM manages more than \$750bn on behalf of

its clients as of December 31, 2006 and is presently conducting management operations for 31 central banks, government agencies and supranational institutions worldwide. It is working with three central banks and two state-owned Funds in Africa. CAAM boasts of 8 investment centers with total staff strength of about 2,230, including 549 investment professionals. It is the largest fixed Income Asset Manager in Continental Europe and the largest Asset Manager in Morocco.

*Continue above, column 3.*

## Book Review



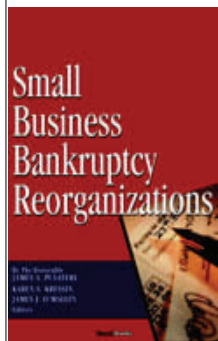
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## International Trade And Business News

### Abbot Drops AIDS Drug Price

Abbott Laboratories will drop its price for Kaletra, a protease inhibitor used to treat AIDS, to the equivalent of \$1,000 per patient per year in 40 developing countries. The move, facilitated by the World Health Organization, is apparently Abbott's response to a decision by Thailand earlier this year to resort to the compulsory licensing of Kaletra, a practice that reduces health care costs in a way that drug companies view as patent infringement. Following Thailand's decision, Abbott announced that it would stop selling Kaletra and other patented drugs in Thailand, a move that the nongovernmental organization Doctors Without Borders called "a major betrayal of patient." Abbot has already been under fire for not supplying Kaletra to several other low-income countries. The price of \$1,000 per year per

patient, Abbott says, is 55% less than the average price at which the drug is now sold in the 40 countries. The company says it wants to increase drug affordability while "preserving the system that enables the discovery of new medicines."

### ConocoPhillips (a U.S. based company) Funds Biofuels Research

ConocoPhillips will fund an eight-year, \$22.5 million research program at Iowa State University to develop new technologies for producing biofuels from nonedible biomass such as stalks and leaves of corn plants. The Houston-based oil company will make an initial \$1.5 million grant in 2007 to support Iowa State researchers and additional annual grants of \$3 million for seven years. State officials say ConocoPhillips

is especially interested in fast pyrolysis, a process that uses heat in the absence of oxygen to decompose biomass into a liquid fuel.

### Indian Petrochemical Project Moves Ahead

India marked the start of construction of a new petrochemical complex in Assam, a poor Indian state, northeast of Bangladesh. The \$1.3 billion complex, which has been under discussion since 1991, will feature a 220,000-metricton per year ethylene cracker, a 220,000-metricton polyethylene unit, and a 60,000-metricton polypropylene plant. It will be 70% owned by the state-run Gas Authority of India. The government says construction will be completed in 2011, tentatively. *Cont on page 7*

## Global Industry Outlook: Fertilizers *Continue from page 4*

### *Sharing Knowledge & Making Valuable Connections*

In 2006, 2.15 billion bushels of corn was used to produce fuel alcohol, more than triple the 706 million bushels of corn in 2001. The figure for 2006 was 34% greater than that for 2005 and represented 61% of corn going to food, seed, and industrial uses. The demand for corn to make alcohol fuels in 2006 also represented 20% of that year's 10.5 billion-bushels total corn produc-

tion, up from 14.4% in 2005 and just 7.4% in 2001.

The increases in demand are not likely to stop soon. The prospect of greater corn planting is bolstering North American fertilizer producers. Shipments are strong for both phosphates and potash. The outlook for nitrogen fertilizer is positive as well, and export demand remains strong.

## Finance & Investments: Venture Capital Investors

### **A. Biotech Garner Largest Share of Venture Capital**

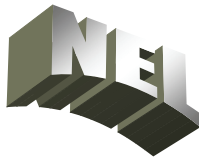
Venture capitalists invested \$1.5 billion in 102 deals to fund biotechnology companies during the first quarter of 2007, according to the Money Tree Report by PriceWaterhouseCoopers and the National Venture Capital Association (in the U.S.). Based on data from Thomson Financial, the report found that biotech attracted more investment capital than any other sector including medical devices, telecommunications, semiconductors, and entertainment. Software, traditionally the largest sector, attracted \$1.1 billion.

Overall, venture capitalists invested

\$7.1 billion—the highest dollar amount since the fourth quarter of 2001—in start-up and later-stage firms during the first three months of this year. Many venture capitalists are responding to the capital needs of later-stage biotech firms entering the regulatory process. For the first time, the published survey included a "clean tech" category composed of firms involved in alternative energy, pollution abatement, recycling, and conservation technologies. The new category attracted \$264 million in 23 deals, up 41% in value from the fourth quarter of 2006

**B. Franchising Opportunities.** Franchising has become one of the most important and effective business growth strategies in the past quarter century. A franchise strategy allows the franchisor to penetrate, develop and dominate markets on a simultaneous basis. A franchise system also allows for each individual franchisee to own their very own business, and yet participate in, and garner value from a proven franchise system.

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## The Business of Science & Technology: Tech. Transfer

### Technology Transfer: Helping to make a better world.

Many household name products are derived from technology transfer, many not so well-known also have affected society profoundly, saving lives and improving well-being. It is important that developing countries, such as Nigeria and other African countries understand about the critical role academic research and technology transfer play in making societies better place to live.

To enhance this understanding, the leadership needs to understand what exactly is technology transfer and how well to implement and coordinate the process, in essence having a directive.

It's all about taking public innovation to the private sector, where universities and government labs encourage invention.

A good start will be to appoint an entrepreneurial minded personality to head up a committee of university offshoot that licenses schools' research and nurtures new tech-based startups. This personality and its committee will act as a talent agent for "rock stars"—albeit unlikely ones—advising faculty and the university on the best ways to manage and commercialize their scientific discoveries.

The momentum building agenda will be to encourage the development of a "knowledge-based economy," setting a target to raise research and development spending across the nation by certain year. Just as important as boosting overall investment in the continuing economic reform, Nigeria should strive to push the innovations cooked up in academic and government research labs out to the private sector.

*GENERATING EXCITEMENT.* The excitement is currently very low as academicians lack funding and interest from the private sector. There needs to be more financial experiments going on, encouraging academic researchers into commercializing their work.

### *NEW HUNTING GROUNDS.*

Most universities would retain ownership and licensing rights to the IP developed on their premises, while the inventors are given a slice of royalty revenues. This has led to quicker development of technology transfer offices at universities across the country devoted to bringing inventions to market. Not only that universities will generate money this way to operate very successfully. It will also make universities into fertile hunting grounds for

private equity groups looking for the next big thing. This definitely will bridge the gap between academic innovation and commercialization.

### *BATTLEFIELD TO BOARDROOM.*

Laws to facilitate the commercialization of technology transfer should be enacted or change to help protect parties involved—and just as important, so is a change of attitudes. For academic and government technologies to reach their ultimate potential, inventors and early-stage private investors also need ready access to public markets. Alternative Investment Market, which allows smaller companies to gain access to capital markets without strict shareholder's equity requirements, will give universities a head start in cashing in on scientific research.

### *UP AND COMING.*

Investors in academic research looking for a quick buck may have to learn the fine art of patience. Private-equity groups typically expect to see investment returns in four to five years, whereas at universities it can take twice as long to bring an idea to market. Companies are easy to set up, easy to fund and grow, but not to succeed. Tech transfer should be catching on in Nigeria.—Cletus E. Olebunne