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ENTREPRENEURSHIP AND WEALTH CREATION

Being a paper

Presented by

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The Chairman,
Council Members here present,
Distinguished Members of the High Table,
Professional Colleagues,
Ladies and Gentlemen.

1.0 INTRODUCTION

It is indeed a great honour and pleasure to be invited to address this august gathering.

You must be very proud to be admitted into this most noble profession at a very significant time, significant in the sense that a new millennium has just begun, which is expected to usher in with it new hopes and new challenges. As new Chartered Accountants, many are full of hopes and expectations of big job opportunities in the many established institutions in the banking, oil, manufacturing subsectors etc.. Truly, many opportunities abound for the Chartered Accountants, but should the Chartered Accountant be completely shielded from the nagging issues in our economy, uppermost of which is the issues of unemployment?

Unemployment and poverty are issues that have generated a lot of attention especially in Government circles both nationally and globally. The present Nigerian government not being left out has established as a major long term goal, the eradication of poverty and full employment of resources. It is in pursuit of this goal that the Federal Government under President Olusegun Obasanjo put in place a number of programmes including poverty alleviation and employment generation programmes. However, poverty cannot be eliminated by temporarily alleviating the discomfort and pain caused by it, it can only be eradicated by devising methods to create real wealth as a sustainable process of growth.

Many believe that the recipe to creation of wealth in an age of change includes innovation and Entrepreneurship. Some studies have revealed that some communities with low unemployment usually have a high take of new technologies, and a high proportion of new industries, which are a result of entrepreneurial activities. The study of entrepreneurship has relevance today because of the economic contribution of the new ventures. More than increasing national income by creating new jobs, entrepreneurship acts as a positive force in economic growth by serving as the bridge between innovation and application. The strengthen this link, the study of entrepreneurship and education of potential entrepreneurs are very essential. In spite of this importance enough emphasis has not been laid on its study.

This paper is therefore intended to bring into focus the role of entrepreneurship in economic development and possibly stimulate the interest of our new inductees in the process. In the paper, attempt is made to examine the process of entrepreneurship, the extent of entrepreneurial activities in the Nigerian economy, the incentives that are available, the problems encountered and to proffer solutions to some of the problems identified.

2.0 ENTREPRENEURSHIP AND THE ENTREPRENEUR

According to Cunningham and Lischeron (1991), there is no consensus whatsoever on a precise definition of what entrepreneurship is, or, on the distinction between entrepreneurship and the founding and management of a small or medium sized enterprise. Definitions often centre on new organisations and their founders on the premise that new firms drive economic change and therefore productivity increases, and new wealth.

The word "Entrepreneur" is French and literally translated means 'between-taker' or 'go-between' i.e. one who bears the physical and emotional risks in managing the resources of another.

Entrepreneur and Entrepreneurship today mean many things to different people;

Schumpeter (1952) opines that the function of entrepreneurs is to reform, revolutionise the pattern of production by exploiting an invention, or more generally an untried technological possibility for producing a new commodity or producing an old one in a new way, opening a new source of supply of materials or a new outlet for products.

An entrepreneur has been defined as a risk taking innovative individual who establishes and manages a business for purposes of profit and growth (Olson 1937); as anyone who starts a business (Brockhaus) 1937).

Entrepreneurship has been defined as the dynamic process of creating incremental wealth (Ronstadt 1984); as the creation of an innovative economic organisation for the purpose of gain or growth under conditions of risk and uncertainty (Dollinger, 1994); as the process of creating something different with value by devoting the necessary time and effort assuming the accompanying financial, psychic and social risks and receiving the resulting reward of money and personal satisfaction and independence (Hisrich and Peters 1995); as the non-continuous process of matrixing resources of time, men, money and materials to create new goods, services, ideas and businesses; as the managerial process of creating worth, utility or value by combining human and non-human resources in order to exploit grey opportunities (Aluko et.al 1993).

In spite of these different views on entrepreneurship, there are certain concepts regarding the behaviour of the entrepreneur that seem to be points of agreement. These are:

- i. Risk taking
- ii. Innovation (newness)
- iii. Wealth Creating.

An entrepreneur combines the factors of production (land, labour and capital) to create products, services and job opportunities. The average entrepreneur sees opportunities that others do not perceive or care about and uses relevant data and information to create something new.

3.0 ECONOMIC SIGNIFICANCE OF ENTREPRENEURSHIP

Entrepreneurial practices exist in most countries of the world including Nigeria and help to create new ideas and products in areas such as information, technology, food processing, service industries among others. According to Stoner and Freeman (1995). It is a non continuous practice which appears in order to start or initiate relevant changes in the production process and then disappears until such a time it appears again to start or initiate some other changes in the production process. Entrepreneurial activities can result in the creation of new businesses or initiation of new ideas in existing organisations (Intrapreneurship). The goal of an entrepreneur from economic perspective is wealth creation even though there may be several other motivating factors for the entrepreneur including financial attraction, desire for independence/security in self employment, disruption in present life style such as in retirement, relocation, retrenchment or even completion of an educational/training programme individuals culture, family background, peers and teachers. (A culture that places high value on an individual who successfully creates a new business will spawn more company formation). Other factors include existence of infrastructure, finance, education and role models.

Entrepreneurs come in sizes, large, medium and small. However, increasing attention is being given to small and medium scale enterprises. The argument that is that they are greater in number, more widely spread throughout the economy and thus exert considerable influence on the development process through the collective greater output and employment potentials.

SMEs also offer easier entry to prospective entrepreneurs because they are usually not committed by huge investments in complex machinery and personnel. They provide opportunities for the expression of latent entrepreneurial ambitions aside from serving as vehicles for the propagation and diffusion of innovative ideas both indigenous and imported (Owualah 1999). They are better positioned to react faster to their environment and customer needs. Such enterprises clearly represent the overwhelming majority of industrial capacity in most countries including less Developed countries (Ogun & Anyanwu 1995). In the words of Michael Nali, Trade and Industry minister, Papua New Guinea, small and medium enterprises hold the key to creating wealth and job opportunities for the majority of Papua New Guineans, a country with surplus labour and high unemployment.

Entrepreneurship plays a great role in the economic development of Nation. According to Aluko et al (1998) without entrepreneurship which involves the conceptualisation, birth, growth and development of new concerns or enterprises there will be no serious business in any economy. Entrepreneurial activities significantly affect the economy of an area by building the economic base and providing jobs. The role of entrepreneurship in economic development involves more than just increasing per capita output and income, it involves initiating and constituting change in the structure of business and society (Hisrich and Peter 1995). This change is accompanied by growth and increased output which allows more to be divided by the various participants. New firms are believed to drive economic change and therefore productivity increases and new wealth (R. McGraw, 2000).

While entrepreneurs may create organisations to pursue lifestyle choices, such as being their own boss, from an economic perspective the key to entrepreneurship remains the creation of wealth through innovative activities.

Entrepreneurship contributions to economic growth and development include:

- Creation of employment opportunities for surplus labour thus addressing the problem of unemployment.
- Creation of wealth thus addressing the problem of poverty.
- Increased productivity through research and development, investment in new plant and machines.
- Promoting innovative technologies, products, services and ideas.
- Promoting the utilisation of local resources – human and material.
- Mobilisation of Savings

4.0 ENTREPRENEURIAL PROCESS

Many individuals have difficulty bring their ideas to the market and creating a new venture. However, many new businesses are being formed all over the world each day despite recession, inflation, lack of infrastructure etc. The creation of these new ventures go through a series of stages as identified by some writers.

4.1 McGrath (2000) using her real options reasoning identified four processes through which entrepreneurial activity leads to economic her argument is based on change is the premise that according to (Dixon and Pindyck 1994) Start ups are analogous to options. They are investments in real assets that convey the right to make further investments in the future should conditions prove favourable, and should conditions not prove favourable, resources can be withdrawn from the option and redeployed elsewhere at a loss only of the amount of the sunk cost invested in the business at the further and from studies conducted by Geimens, Folta, Cooper & Woo (1997) business founders have been found to elect to exit when their business prove less attractive than other alternatives, not necessarily when they failed to deliver economic returns.

The four processes identified are:

- i. Identifying opportunities to take out options and investment in an option.
- ii. Uncertainty reduction process
- iii. Exercising entrepreneurial option
- iv. Closure process.

i. **Identifying opportunities:** This is a process of 'discovery' by 'alert' entrepreneurs. This may occur through deliberately produced information or through pure charge. The natural culmination of the opportunity recognition process is investment in an option i.e. investment in a new business.

ii. **Uncertainty reduction process:** This is the process of determining whether further investment to exercise the option is warranted. This may be done through the use of

information that become available as time passes or deliberate creation of additional information by making investment.

iii. **Exercising option:** This implies making follow-on investment necessary to extract profit streams from it if the option continues to appear to have value through the uncertainty reduction process.

iv. **Closure Process:** This involves the termination of businesses that were launched but which are no longer viable. The outcome is the creation of slack or unallocated resources which can be directed to the pursuit of other different options.

4.2 According to Hisrich and Peters (1995) the entrepreneurial process has four distinct phases. These are:

- i. Identification and evaluation of opportunity
- ii. Developing the business plan.
- iii. Determining the resources required
- iv. Managing the resulting enterprise created.

They opine that while these phases proceed progressively, none is dealt with in isolation or is totally completed before work begins on factors in a sequential phase.

Identification and evaluation of opportunity: Opportunities result from an entrepreneur being alert to possibilities or by establishing mechanisms to identify potential opportunities. Sources of opportunities include, consumers and business associates, members of the distribution system and technical people. On identifying opportunities, each opportunity must be carefully evaluated. The evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, its differential advantage and its competitive environment.

Developing the Business Plan: A business plan is a very important document to the entrepreneur at the start up stage. It helps to maintain a perspective for the entrepreneur of what needs to be accomplished. It is important in developing the opportunity and also essential in determining the resources required, obtaining those resources and successfully managing the resulting venture. A business plan will often include financial plans, marketing plans, production plans, human resource plans etc. The business plan is prepared by the entrepreneur who may seek the help of consultants in the preparation of the plan.

Determining the Resources Required: The resources needed for the opportunity must be assessed. The available resources are appraised and critical resources are identified. The various available sources of these resources are also identified with a view to establishing the least costly source.

Managing the Enterprise: An enterprise is created through the implementation of the business plan. The business structure is put in place to facilitate the management and control of the new enterprise to ensure its success.

- 4.3** According to Moore (1986) in Aluko et al (1998) entrepreneurial process consists of:
- i. Innovation
 - ii. Triggering event
 - iii. Implementation
 - iv. Growth

Innovation: The process starts with the entrepreneur generating ideas for a new product, service, venture or business. Such ideas can be obtained through an organised process of search or by chance.

Triggering Event: These may be personal, sociological and environmental factors. The personal factors include, personal values, education, experience, tolerance, achievement motivation, age, job loss, leadership trails, dissatisfaction, etc. The sociological factors include parental influence, role models, friends etc. The environmental factors include availability of resources infrastructure, level of competition, government policy, market need etc.

Implementation: An idea may be pursued or dropped. Decision to pursue an idea will have inputs from the triggering event. Pursuing an idea will result in the creation of a new organisation business or venture.

Growth: This involves nurturing the created organisation to ensure its survival and growth.

4.4 The entrepreneurship process according to Aluko et al (1998) can also be conceptualised in terms of inputs and outputs. The relevant inputs in the process include environmental opportunities, entrepreneurial individuals, organisational context, a business or venture concept and various human and non-human resources. The outputs on the other hand vary and can comprise creating new products and services, a going business or venture, profit or any performance index, employment, asset, growth or failure.

In summary successful entrepreneurial activities can be viewed generally as a sequence which begins with identifying an opportunity and culminates in the creation of something new which is of value (creation of wealth).

5.0 ENTREPRENEURSHIP AND WEALTH CREATION

Wealth as some often think is not merely the possession of money. For instance, simply adding some money to an economy (by printing more currencies) will not increase wealth, it will only contribute to inflation making the money worth less than it was. Money is often used as a measure of wealth, a means to store wealth and a useful set of symbols for the exchange of wealth, it can therefore be a useful tool in generating wealth.

Real wealth is generated when value of output is more than the combined value of input. The clue according to Bartle (1998) to increasing wealth in an economic system is investment where immediate consumption is forgone in order to make increased production of wealth in the future.

The entrepreneurial process which involves recognising an opportunity, investing in the opportunity by creating new firms which bring new products and services to the market thus contribute to increasing productivity and new wealth. Entrepreneurs direct savings (existing wealth) away from immediate consumption towards investment and the creation of new wealth. A society can eradicate poverty through entrepreneurial activities. In fact, little growth or development is made without a visionary entrepreneur who conceives a business idea, persists in overcoming internal and external constraints and shoulders the responsibility for failure or success (Morris and Sexton 1996).

The creation of a new business is very risky, and there are more new business ventures that fail than succeed (Hisrich and Peters 1995).

There is therefore more to having a successful business than just having a good idea, there must be a good entrepreneur. To be one of the few successful entrepreneur requires an objective assessment of:

- (a) The viability of prospective business i.e. is the business profitable?
- (b) One's own strength and weaknesses in terms of what it takes to be a successful entrepreneur. What then does it take to be a successful entrepreneur?

5.1 Entrepreneurial traits

Although the ideal entrepreneur cannot be profiled some characteristics and traits are commonly found in successful entrepreneurs. These include:

- Desire to be independent/be in charge
- Initiative
- Responsibility
- Tenacity
- Creativity
- Intuition
- Ability to handle ambiguity
- Strong belief in one's ability
- Total commitment to the implementation of business.

5.2 Entrepreneurial Skills

Certain skills are required by entrepreneurs to create and maintain successful and profitable enterprises. These may be broadly classified into three as follows:

- i. Technical skills
- ii. Business management skills
- iii. Personal entrepreneurial skills

Technical skills include:

- Oral communication
- Writing
- Reading
- Organisational ability
- Knowledge of technology
- Technical know-how of area of business.

Business management skills include:

- Identification of needs/opportunities
- Planning and goal setting
- Locating resources
- Identifying constraints
- Decision making
- Financial and Accounting Skills: Keeping financial records, knowing financial position, calculating income and cost, establishing budgets.
- Credit skill: dealing with banks, understanding and negotiating for credit, interest and service charge.
- Clarifying roles and tasks.
- Control: evaluating and making changes in response to evaluation.

Personal Entrepreneurial skills include:

- Inner control/discipline
- Risk taker
- Change oriented
- Persistent
- Innovative
- Visionary leader.

6.0 ENTREPRENEURSHIP IN NIGERIA: THE JOURNEY SO FAR

There is a growing world-wide awareness that entrepreneurial activities especially at the small and medium scale are crucial to economic growth.

Nigeria over time has produced some successful entrepreneurs. A number of organisations large and small have been the result of both public and private sector entrepreneurial activities. Such organisations include Eleganza Group of Companies, Doyin Industries, Emzor Pharmaceuticals, ABC Transport Ltd among others. These companies are the result of the efforts of individuals who have efficiently and effectively applied the resources of time, manpower, material, machines and money to exploit hidden opportunities and satisfy identified needs and wants. (Aluko et al 1998)

These companies have created new products, new services and new jobs.

Successive Nigerian Governments have adopted various strategies aimed at reducing unemployment, reducing poverty level and promoting industrialisation in order to achieve the much desired economic development. The earlier strategy adopted was that of import substitution industrialisation immediately after independence in 1960 to reduce dependence on imports and create employment. However, the resulting large scale industries being capital intensive were ill-suited to the resource endowment of Nigeria where labour supply (especially unskilled labour) was enormous (Adegbite 1995). It was soon discovered that the strategy did not achieve its aim of reducing unemployment and poverty level.

Based on a common finding that SMEs have a lot to contribute to the development and growth of any economy and according to World Bank report (1978), SMEs provide more employment per unit of capital invested, subsequent Government efforts at promoting entrepreneurial activities concentrated on encouraging the creation and growth of SMEs. The argument in support of

strategies that encourage the growth of SMEs is that SMEs offer the following advantages:

- Easier entry to entrepreneurs
- Greater use of local raw materials thus reducing imports
- Being labour intensive and can therefore employ more labour
- Use of local technology
- Dispersal of economic activity
- Wealth redistribution
- React faster to their environment and customers need.

Government support, for the SMEs are in the form of financial, technical and managerial assistance through some institutional arrangements including the following:

- (a) Establishment of Industrial Development Centres (IDCs) in some states which later spread to all state capitals and other big cities in the state started in 1964. The IDCs were established to provide training, technical and managerial support to SMEs in their states
- (b) National Directorate of Employment: Established in 1986. Programs under the NDE include:
 - i. The National Open Apprenticeship Scheme (NOAS) designed for young school leavers to acquire necessary skills for them to go into self-employment. Loans are also provided under this scheme.
 - ii. Entrepreneurship Development Programme (Job creation loan Guarantee Scheme) designed to make bank lending for viable business proposals more flexible towards young graduates who have neither equity nor collateral.
- (e) The Nigerian Industrial Development Bank (NIDB) to provide loans to SMEs and LSEs and technical/management assistance to entrepreneurs.
- (f) The Nigerian Bank for Commerce and Industries (NBCI) set up in 1973 to provide loans to SMEs (both locally sourced and foreign loans).
- (g) The National Economic Reconstruction Fund (NERFUND) established in 1989 to provide medium to long term funds to SMEs in both domestic currency and in foreign exchange through participating commercial and merchant banks.

However, despite the various forms of government support, the SMEs have not yet succeeded in providing the much desired economic growth, unemployment is still high, and poverty level on the increase. This has been attributed to the many problems still facing the SMEs. These problems include:

- **Lack of infrastructure:** The condition of Nigerian roads, telecommunication system, electricity generation leaves much to be desired.
- **Financial constraints:** Commercial and merchants banks still find loans to the SMEs and unprofitable venture because the cost of monitoring small loans dispersed to the many borrowers usually outweighs the benefits.
- Lack of appropriate technical and managerial skills.
- Uncontrollable environmental variables including exchange problems, inflation, smuggling and low productivity of labour.
- Technological constraints.

7.0 CONCLUDING OBSERVATION

All over the world, there is increasing interest in promoting the growth of entrepreneurship especially at the small and medium scale enterprises level. Governments of various countries

including U.S.A., Japan, Korea, India have encouraged individuals to form new businesses by providing government support in the form of tax incentives, provision of good roads, communication system and institutional arrangements to provide finance for such businesses.

The emerging global networked economy is also providing unprecedented opportunities for small firms to reach and supply global markets from a relatively low capital base. Local prosperity for an economy will therefore depend on breeding and nurturing local entrepreneurs with global vision who will be able to embrace new technologies with competence and confidence and apply them to yield social and economic advantage.

Nigeria is not left out, the increasing awareness of the use of the INTERNET for such business purposes, as; providing new ways of marketing and distribution of products should put the Nigerian entrepreneurs on the global market and thus expose them to new wealth creation opportunities.

Successive Nigerian Governments have also made various attempts at promoting entrepreneurship by establishing various policies to encourage the growth of small and medium scale businesses in Nigeria including the establishment of NERFUND, NIDB, NACS, NBCI and Peoples Bank. However despite these various government policies and measures in previous years directed at the growth and survival of the SMEs which form the bulk of entrepreneurial activities, there are still a number of problems plaguing the SMEs which include lack of funds, inadequate infrastructural facilities, lack of access to improved production technologies, inability to expand among others.

To promote the growth of SMEs and in effect encourage more entrepreneurial activities in future which will ensure the attainment of the national goals of poverty eradication and employment generation, it is recommended that the Nigerian Government should provide support in the following areas:

1. Provision of adequate infrastructural facilities such as good roads, electricity, water and good system of telecommunication. Liberalisation of telecommunication system to bring real completion and bring about local provision of cheap high performance network to properly expose the entrepreneur to global markets should be pursued.
2. Establishment of technical and management consultancy services to assist entrepreneurs in broadening their production and management skills.
3. Establishment of associations specifically consisting of SMEs to enable them channel their contributions to appropriate quarters on issues that affect them i.e. ensuring effective SME representation.
4. Establishment of specialised agencies such as:
 - i. Investment promotion agencies to attract local and foreign investor.
 - ii. Training agencies to organise regular training for entrepreneurs in form of workshops, seminars etc. in areas such as financial management, marketing management etc.
5. Provision of tax incentives, such as accelerated capital allowances, tax exemption on interest income on credits given to SMEs.
6. Encouraging through fiscal policies, the setting up of venture capital organisations by the private sector to supply finance to SMEs.
7. Establishment of SMEs credit guarantee and insurance schemes to encourage bank lendings to SMEs.

8. Promoting the demand for the products of this sector through policies that will ensure that government agencies and departments procure certain items from SMEs and encourage subcontracting by the large scale companies to the SMEs.
9. Encouraging entrepreneurial studies in formal educational institutions.
10. Involving professional bodies such as ICAN in the organisation and management of the specialised agencies.

Conclusively, the future of entrepreneurship in Nigeria seems bright but dependent on Government taking measures to encourage their growth and encourage co-operation of the large scale companies, financial institutions, educational institutions and professional bodies.

I wish to thank the Institute for this unique opportunity given to me to make my modest contributions to this all important topic. I hope I have been able to stimulate some interest in the process.

Thank you all for listening.

S.O. AJIBOLADE

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