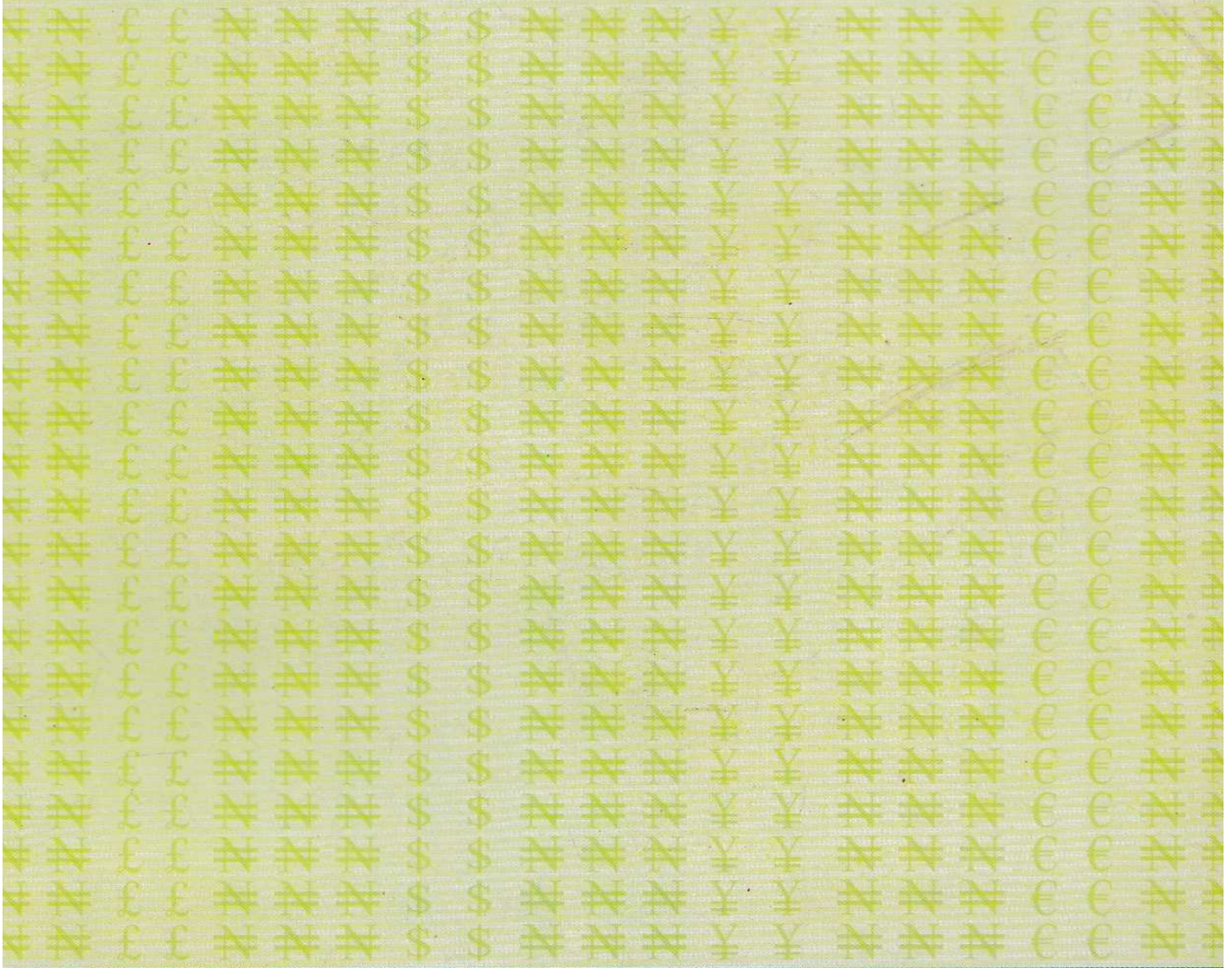


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**Business as the Foundation
for
Socio-economic Development**

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*Business enterprises contributed immensely to the economic and social transformation of the countries that are now commonly referred to as **developed**, and for this reason less-developed countries (LDCs) in general have sought to stimulate the establishment of a variety of businesses in their territories as they struggle to narrow the development gap. Driven by the desire to achieve results quickly, governments got involved in the promotion of businesses in what came to be known as public sector-led development. The efforts, in most cases, produced unsatisfactory results. The failure heightened criticisms of government involvement in the economy and led to a successful campaign for the economic policy of privatization and the adoption of the broad strategy of private sector-led development. Unfortunately for African countries, private sector-led development has also failed to produce the desired changes as business enterprises are still very few and limited in capacity, and the private sector as a whole is still very weak and dependent on external markets. But Africa needs strong business enterprises and a dynamic private sector to be able to overcome its backwardness. This paper reviews these issues and outlines some of the changes that are required to stimulate the emergence of socially-transforming business enterprises in African economies.*

Introduction

Business, in the context of this paper, is any **organization** that is engaged in the production or distribution of goods or services for profit. This definition indicates four main elements of business that should be noted by people seeking to either understand or engage in it. The first element is that business involves a variety of creative activities, for instance, identifying what good or service needs to be produced and figuring out how to produce and distribute it. The second element is that business involves the employment and management of resources human, material, and financial resources as the objectives of the organization are pursued. The third element is that business involves the creation or transformation of goods that are desired, or the transfer of goods from producers to users and provision of other desired services. The fourth element is that business is conducted with a view to making a profit, i.e., a reasonable return on the capital employed. The first three of these elements indicate two things about business, namely its importance to the social and economic well-being of the society as a whole and its risky nature. The fourth element shows why private people often take the risk involved in organizing and running businesses.

The purpose of this paper is to draw attention to the need to take the creation and growth of businesses much more seriously in the process of national development than we have seen in the past, particularly in Africa and the other parts of the world still characterized by unemployment, poverty, and generally low living standards. The paper is organized in three main sections. In section one we look in some detail at the ways in which businesses affect the economic and social well-being of nations. In section two we examine the broad approaches to the promotion of businesses in a society. In the third and final section we discuss

what it would take to stimulate the creation of business enterprises for the purpose of speeding up the development process in less-developed countries, with emphasis on the situation in Africa.

Business and Socio-economic Development

Socio-economic development is the ultimate objective of every modern society. By this we are referring to a general improvement in economic and social conditions which we often see in the policy documents of governments. Such improvement usually is the result of some positive changes in the society, including

- a reduction in the level of unemployment,
- a rise in incomes generally and a reduction in poverty,
- a reduction in personal and regional inequalities,
- increased capacity of the society to meet its needs, i.e. improved technological capabilities,
- increased output of goods and services (i.e., economic growth), and
- an improvement in the quality of life in the society as a whole.

These desirable changes, generally regarded as the components or **indicators of development**, all depend on the state and performance of businesses in the society.

Business and economic growth: The growth or size of an economy, usually measured by the gross domestic product (GDP), depends largely on the businesses in the society their number, variety, and strength. By their investments and operations in general, through which they transform materials with little or no market value, businesses produce desired goods and services, and total output of the economy grows with growth in the number and variety of businesses in the society.

Business and the problem of unemployment: Businesses create jobs through which unemployment is reduced in the society. And it is only by the growth of businesses that a society can hope to sustain jobs. Thus, where unemployment is a problem it must be that the business sector is weak and unable to create the desired job opportunities.

Business and the problem of poverty: Poverty exists because the victims either have no jobs or hold jobs that produce incomes that are inadequate for their basic needs. And, because the problem has to do with job opportunities, only businesses can produce the desired solution job creation. Every society therefore needs a variety of business enterprises to create and sustain large enough job opportunities to be able to avoid or reduce poverty.

Business and socio-economic inequalities: Inequalities, whether personal or regional, have to do with economic opportunities. And economic opportunities depend on the state of business. We can see this in Nigeria today and indeed in virtually every other country. Regions in which we see a significant number of businesses, for instance Lagos, Port Harcourt, and, to some extent, Kano, Kaduna, and Ibadan in Nigeria, provide more and better economic opportunities and are generally more developed than regions or sections that are not so characterized. To a large extent, the opportunities created by businesses also account for the infrastructural gap between cities and villages in virtually every country, which also contributes to the persistent rural urban migration that is experienced particularly in the less-developed countries (LDCs) in Africa, Asia, and Latin America.

Business and technological capabilities: Businesses provide opportunities for the society to develop capabilities in modern technologies. We define technology here as the **knowledge and skills** needed for carrying out productive activities. The foundation for the acquisition of such knowledge and skills (i.e., the 'know-why') is normally provided by schools and training institutions in general, but the critical stage of testing out and consolidating the ideas and skills the stage at which the 'know-why' is translated into 'know-how', especially for latecomers in the development process requires the existence of a variety of functioning business enterprises.

Business and the quality of life: The quality of life is usually measured by access to health services, clean and safe water, and adequate housing.¹ Business enterprises affect the quality of life in a society through their effects on the other indicators of development outlined earlier employment opportunities, higher incomes, technological capabilities, and reduction in poverty. Where the business sector is large and strong, the combined effects of the enterprises generally impact positively on those variables on the basis of which the quality of life in the society is measured.

Business enterprises have other positive effects on the society. Business practices, including

- analytical approach to decision-making,
 - calculated risk taking,
 - emphasis on strategic planning, effectiveness, and efficiency, and
 - motivation of workers for improved performance,
- combine to generate in the society new and generally positive attitudes that are crucial in socio-economic transformation.

But business also has negative consequences for the society. These are the destructive effects of the activities of enterprises on the environment, which include pollution, soil erosion, depletion of natural resources, and other forms of environmental degradation. These consequences are inevitable; they result from the demand for raw materials that may lead to an intensification of mining activities and deforestation, the disposal of waste from production processes, and the processing techniques that are adopted by some business enterprises. But the negative consequences of business can be controlled and minimized with appropriate public policies and regulations, and in societies where the problems seem not to be noticeable, or particularly damaging, it must be that there are appropriate and effectively implemented public policies and regulations concerning such matters. Thus, each country must balance the drive to stimulate business enterprises with appropriate regulations and regulatory framework in order to ensure sustainability of the productive activities and survival of the society.

Approaches to the Promotion of Businesses

Because of the positive effects of business activities on the society, as outlined in section one, countries have generally sought to stimulate the establishment and growth of businesses in their territories. In pursuing the objective, two main strategies have been adopted. The first of these is to encourage private individuals, groups, and organizations to set up and run (privately- owned) business enterprises, which leads to the emergence and/or growth of **the private sector** of the economy. This is the private sector- led economic strategy. The second strategy is for the government, acting on behalf of the public (i.e., the state or society as a whole), to set up and run business enterprises. Each of these strategies has been used with some

degree of success in some countries, but the prevailing economic philosophy favours the private sector-led strategy.

For most of the more-developed countries (MDCs) of today, including the United Kingdom (UK), most of Western Europe, the United States of America (USA), and Canada, private sector-driven development emerged as a natural strategy. We learn from Higgins & Higgins (1979) that, in the case of Europe, Some chance historical events combined with favourable economic and cultural conditions, starting and sustaining a process of change to which the Europeans responded with vigor, but for a long time with little comprehension of the process of growth in which they were participating (p. 67). Those chance events included opportunities for trade, opportunities to colonize hitherto 'unsettled districts', emergence of ports, and access to 'new commodities and new techniques', made possible by the religious movements especially The Crusaders of the 11th, 12th, & 13th centuries.

European people's responses to the chance events resulted in private enterprises and innovations in agriculture (and the eventual agricultural revolution), social change, expeditions that led to the 'discovery' and colonization of more territories, industrial revolution and urbanization, and the development of international trade. This spirit of enterprise spread to the United States of America and some other parts of the American continent through European settlers and led, over time, to the emergence of the scale of business activities that has made the United States' economy the largest in the world for many years now. Some other

MDCs took a different route; they adopted the public sector- led strategy. The countries in this category include Russia, China, and Ukraine.² In each of these cases, the adoption of the public sector- led development strategy was propelled by a dissatisfaction with the outcome of the private enterprise system and a desire to catch up with countries that were already ahead in the development league. Their achievements inspired similar efforts in many less-developed countries (LDCs), including Nigeria, but the attempts in these other countries failed to produce the expected results and the strategy was abandoned.³

Most economists today tend to prefer the private sector- led development strategy. There are two main reasons for this, namely a distrust of government or all political authority, and the advantages often claimed for the private sector- led strategy.

Proponents of the private sector-led strategy argue, for instance, that private sector enterprises are generally more 'open to ideas' than state- owned enterprises, and therefore faster in adapting knowledge for local production, especially knowledge that already exists in the more economically advanced parts of the world' (Fields & Pfeffermann, 2003, p. 6). Furthermore, they argue, private investment is 'more closely associated with (economic) growth than is public investment,' ... 'tends to embody newer technologies and more capital than public investment', provides a 'sustainable and reliable' base for government's tax revenues, and creates more and better jobs than the government and public investment.⁴

The distrust of government emanates from frequent complaints about corruption and inefficiency in the activities and services of the institution. Critics argue, with abundant evidence from many of the LDCs that attempted public sector- driven development,

that the corruption that characterizes government activities leads to inappropriate business practices and wrong choices, resulting ultimately in a perverse structure of production and downright waste of resources. And, because of these negative effects, critics maintain that 'government has no business in business'.⁵ This view became dominant beginning about the close of the 1970's and led to the economic policies of deregulation and privatization of state-owned enterprises championed by the World Bank and its sister institutions. The view is being questioned today by the consequences of the global financial crisis that has been attributed largely to excessive economic deregulation. Evidence of the questioning includes the appeals for government bail-out programmes for some private enterprises and the call for **rethinking economics** as countries struggle to deal with the **economic meltdown** that has resulted from the financial crises.

Clearly, we are back to square one in this debate. The prevailing economic philosophy up to about 1930 favoured reliance on private enterprise, with the role of government restricted to the maintenance of law and order. The policy crashed with the Great Depression which began in 1929, and economic philosophers advised and worked for government intervention that brought about recovery. By the close of the 1960's and early 1970's government intervention was no longer producing satisfactory results as 'stagflation' emerged. Critics of government involvement in the economy raised the argument that intervention was a mistake, urged a return to reliance on private enterprise, and began a campaign for adoption of the economic policies of deregulation, privatization, and 'minimal government' which we saw in the late 1970's and early 1980's. Now reliance on private enterprise has failed again, and again governments are

being urged to intervene although this time the term being used is 'stimulus package', not intervention. This circular dance shows the crucial roles of private enterprise and government in the development process, and stresses the need for policies that strike an appropriate balance in the involvement of each of the sectors in the struggle for socio-economic development.

Stimulating Business for Socio-economic Development

The way forward in stimulating the creation and growth of business enterprises for the purpose of promoting socio-economic development, as pointed out in the previous section, requires the co-operation of government and private business operators. But success will require new attitudes on both sides.

The role of government

The role of government in stimulating the creation of businesses for the purpose of promoting socio-economic development will depend on the level of development the country has already attained. For MDCs, because the capacity to produce and distribute goods and services already exists, a strengthening of regulations and the regulatory framework may be enough to improve the functioning of the markets and ensure the production of the desired outcomes. In such an environment producers generally watch and react to government's economic policy measures as they affect them, and so appropriate changes in policy measures could be used to achieve desired results.

The situation is different in LDCs. This is because these countries lack producers with the relevant capacity to respond positively to government's economic policy measures, and it is this lack of productive capacity that holds them back in the struggle for

development. For this reason, governments in LDCs need to do more than strengthening regulations and the regulatory framework in seeking to stimulate the creation of business enterprises; they need to assist private business people to acquire the knowledge and skills relevant to their lines of activity without which no significant business enterprises can be created. And in this, useful lessons can be learnt from the experiences of the more successful LDCs, including Brazil, Mexico, and India.⁶

The role of private business people

Private business people also need new attitudes. The starting point in this, especially in African countries where the private sector is weak and dependent, must be a desire to seek and apply new knowledge and skills in business operations: new knowledge and skills in business formation and management, project evaluation and selection, project and operations financing and financial management, marketing of products, and accounting for resources employed.

Business formation: The dominant form of business organization in most LDCs, especially African countries, is sole proprietorship. This has its advantages and disadvantages, but the disadvantages, especially lack of continuity and limited access to finance, weaken the contributions of this class of enterprises to the needed socio-economic transformation. Partnerships and corporate forms, guided by carefully drafted contracts, seem more advantageous and need to be encouraged. In addition, business people need to learn to apply modern management ideas and techniques, including techniques in project management, in

order to improve efficiency and competitiveness which are necessary for growth and sustainability.

Project evaluation and selection: This, perhaps, is where the most attention is needed. Many private business people in Africa, especially Nigeria, do not take the matter of project evaluation seriously. By this attitude, most business people often miss the opportunity of early discovery of problems or potential problem areas in their projects and end up tying up useful capital in unworkable ventures. This attitude has to change as we search for better results from the private sector. Business people need to be encouraged and assisted to subject their project ideas to careful analysis and evaluation before decisions are made about implementation.

Project financing and financial management: The main issue here is the need for business people to apply some of the ideas about project financing and financial management that are taught even in junior business schools. The ideas and tools include financial planning, risk identification and assessment, and budgeting and budgetary control. The application of some of these ideas and tools should help to avoid or at least reduce some of the problems that often cripple businesses particularly in less-developed countries.

Marketing of products: Marketing is another aspect of business that has not received the attention it deserves in the LDCs, especially among local business operators, and this must be a major factor in the frequent cases of business failure in these countries. Often, especially in Africa, proprietors of failed businesses look for explanations in supernatural forces; they blame evil manipulations by wicked competitors for their fate even where it is obvious that they had not taken their customers or potential customers into account in their business

calculations. Proprietors of private businesses in Africa in particular and LDCs in general, need to learn to focus on the needs and circumstances of their customers if they must grow and sustain their businesses.

Accounting for resources employed: This is about tracking the financial activities of the business and presenting information to stakeholders for evaluation of performance. The accounting function tells stakeholders how their resources have been used and what they have got as a result, the change in the results over the relevant period, and the outlook for the future. Whatever the form of business, this function has to be performed properly to be able to produce accurate data for the evaluations that have to be made and the decisions that have to be taken by both the managers and the other stakeholders, all of which are crucial to the growth and sustainability of the enterprise. Private business proprietors, particularly in LDCs including virtually every African country, who usually seek to avoid the expenditure on accountants and the accounting function, need to re-examine their attitude for this, more than anything else, may be the source of 'the cankerworms and caterpillars that often eat their money', hinder progress, and deny their societies the developmental impact that business enterprises have made in the more-developed parts of the world.

Conclusion

Our purpose in doing this paper was to draw attention to the need for less-developed countries (LDCs), especially African countries that have been pathetically unsuccessful in the struggle for development, to re-examine their attitude to business and the business sector of their economies. We began with an outline of

the components of socio-economic development that countries often claim to seek, and discussed the contributions of business enterprises to each of the components. Thereafter, we examined the broad approaches that countries have adopted in seeking to promote the creation and growth of businesses in their territories. Finally, we focused on what we consider would be required for success in stimulating the creation and sustainability of the business enterprises needed to speed up the transformation of LDCs, with emphasis on the need for new attitudes on the part of both government and private business people. We believe that genuine co-operation will produce better and mutually beneficial outcomes.

End Notes

1. For the purpose of assessing the quality of life, **access to health services** is measured by 'the proportion of the population that can expect treatment for common diseases and injuries, including essential drugs on the national list, within one hour's walk or travel', and **access to safe water** is measured by 'the proportion of the population using any of the following types of water supply for drinking: piped water, public tap, borehole or pump, well (protected or covered) or protected spring. See UNDP (2000). **Human Development Report 2000**. New York: Oxford University Press, pp.277-281.
2. See Higgins, B. & Higgins, J. D. (1979). **Economic Development of a Small Planet**. New York: W. W. Norton & Co., for a detailed account of the development of some of the MDCs today, including Western Europe, Russia, and Japan.

3. In virtually all the LDCs in which the attempt at public sector-led development failed, reports show that the main reason was mismanagement of the processes. In Nigeria, for instance, studies conducted particularly in the 1970's and 1980's give accounts of the abuses that were bound to cripple the so-called efforts at development. Some of the works include Schatz, S. P. (1997), Eteng, I. (1981), Onimode, B. (1981), and Forrest, T. (1982).
4. See Fields, G. S. & Pfeffermann, G. (2003). **Pathways Out of Poverty**. Boston: Kluwer (for World Bank), pp3-7 for empirical evidence of the advantages of private firms.
5. See discussions of 'the economics and politics of government ownership' in The World Bank (1995). **Bureaucrats in Business**. Washington, D. C.: Oxford University Press(for the World Bank)
6. Baranson, J. (1981) presents an instructive account of the experiences of some Latin American countries in the development of technological capabilities. Brazil's approach beginning about 1975, the same year in which Nigeria established motor vehicle assembly plants, led to a state-owned company Empresa Brasileira de Aeronautica, S. A. (EMBRAER) that now produces the **Embraer aircraft** that has become popular with Nigerian airlines. Nigeria's assembly plants have almost all collapsed.

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