

Theoretical Alignment of Accounting and Entrepreneurship in Business: Why Entrepreneurship Skill is a Great Intellectual Asset in Today's Knowledge Based Economy?

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Abstract

The main objective of this paper is to articulate a theory-based balanced sheet with emphasis on the location of entrepreneurship skill in accounting conceptual framework. The paper is a mixed research adopting both qualitative and quantitative methods. It made use of descriptive research design and obtained data from secondary sources. The paper reviewed the fundamentals of entrepreneurial theory by adopting an integrative and analytical view of entrepreneurship, providing room for entrepreneurial views reconciliation in conformity with the position of entrepreneurial skill as an asset element in accounting. It focused on industrialization processes across the globe showing how entrepreneurs were able to accumulate wealth, whether legitimately or illegitimately, through the use of their entrepreneurial skills. The paper refutes the view that the knowledge-based economy is a new normal based on new innovative discoveries. It rather upholds that entrepreneurial skill had been part of the accounting conceptual framework and a consistent part of capitalism but is only attracting massive attention now due to hyper unemployment and underemployment. The findings disclosed that, though, entrepreneurs are often constrained by general framework of capitalist ideology, accounting framework explains the variations in entrepreneurial behaviours. The paper concludes that historical evidence across the globe show that accounting theory deepens understanding and perception of the role of entrepreneurs in a dynamic economy. The paper recommends further integration of accounting and entrepreneurship to ensure massive business growth and economic development.

Keywords: Accounting, Business, Entrepreneurship, Knowledge-based economy, Intellectual asset and Theoretical alignment.

Introduction

The double entry accounting system was theoretically recognized in 1494, when Luca Pacioli, a theologian and venetian mathematician published a book entitled “sum of Arithmetic, Geometry, Proportion and Proportionality” (Headd, 2018; Tom, 2016). The original title of the book was “Summa de Arithmetica, Geometry, Proportions and Proportionality”. The book also treated the method of double registration of accounting which is known referred to as dual system accounting or double entry accounting. Despite the fact that the author of the book, Luca Pacioli, is known as the “father of accounting”, only just one small chapter was dedicated to treat double registration of accounting and explanation was provided at the beginning of that chapter that the author never invented double entry accounting but only elaborated on it “as a venetian method that is recommended and can be used as a guideline for others (Tom, 2016).

Accounting further recorded great development due to economic revolutions in Europe, America and China; and capitalism propelled trade exchange. Much development has taken place in the field of accounting to date since the emergence of dual accounting system. The economic revolution of Great Britain in the 18th century further led to rapid developments in accounting theory and practice. As businesses grew in size, it became difficult for owners to personally keep records of all business activities. Accounting records became very essential and accountants became the most sought for. The managers thus became separated from the owners (or shareholders), and these owners (or shareholders) started not to be directly and physically involved in the daily business activities. This created a need for monitoring and evaluating managers, thus leading to auditing of financial records, which subsequently enhanced the development of the accounting theory and practice (Foray, 2004).

This separation of businesses from their owners led to relatively little attention being paid to entrepreneurs and entrepreneurship, both as individuals and as functional set of responsibilities, respectively, in accounting literature. This is explainable by the structure of the big businesses that emerged in the 20th century where the entrepreneurial function is subsumed within a managerial bureaucratic system where there were powerful managers and weak shareholders in what is then referred to as “Berle and Means structure” (Donovan, 2021; Stam & Garnsey, 2007).

The fundamental problem is that if there is a shift in demand for accountability from managers to entrepreneurs there would be an obvious endogenous challenge because that could mean that keeping accounting records and ensuring accountability might be considered the function of entrepreneurs and not that of accountants and managers. However, evidence has shown that accounting is not a mere technical reflection of predetermined economic variables, but are intentional creations of economic visibility as a vital medium for ensuring the smooth economic governance and control of a business (Livsey, 2019; University of Alabama School of Business, 2018; Tom, 2016). Hence, this paper is aimed at analyzing accounting and entrepreneurship simultaneously from theoretical perspective.

Literature Review

Most literatures on accounting/finance and entrepreneurship were focused mainly on explaining managerial behaviour with regards to incentives on monitoring and contracts by using derivative of principal-agent and cost. The following is a brief review of literatures on accounting theory and entrepreneurship.

The Role of Accounting in Entrepreneurship

Accounting is an exciting skill for any entrepreneur that is interested in success and growth. If you must make money with your business idea, then you must learn how to manage it and the fundamental management tools is accounting. According to Headd (2018) of the U.S Small Business Administration (SBA), “cash flow issues (a basic element of accounting) and low sales account for the majority of small business failures”. No matter how daring you are as an entrepreneur you cannot optimize your entrepreneurial potential unless you gain mastery of the financial aspect of your business through the use of basic principles of accounting. Successful entrepreneurs must use accounting skill in their business practices if they must grow and succeed. When you launch a business and it comes commercially viable money must change hands into your hands and you must need to show accountability of that money (Hunt, 2021; Doanh, 2021; Donovan, 2021).

Entrepreneurs work with various types of financial elements categorized as assets and liabilities. In the basic terms of accounting of an entrepreneur, an asset is something the business owns, and liability is something the business owes. Entrepreneurs work fixed investment as well as working capital items such as buildings and premises, equipment, employee salaries, raw materials and inventory, amongst others. There is also need for the emerging entrepreneurs to manage the debts associated with early stages of entrepreneurship. Depending on chosen business model, a newly emerged entrepreneur may use borrowed money as start-up capital, which he/she would eventually payback, most times with interests or a share of profit. Some other entrepreneurs may launch their businesses with investors' money, grants, bank loans, personal savings or a combination of these. In all of these, it will require accounting skills to keep track of cash flow (University of Alabama School of Business, 2018).

Notwithstanding the source of your start-up capital you can't afford to accumulate debts that your business cannot pay back or eat up all your budgets. Neither can you just overlook your sales and profit movements if you are really interested in being a successful entrepreneur. This is where the fundamental role of accounting in entrepreneurship becomes sacrosanct. Even the most basic accounting skill would assist an entrepreneur to stay focused and be above board. Budgeting, bookkeeping and financial literacy would help entrepreneurs to maintain tight budgets and manage financial liabilities and ensure profitability, which would in turn satisfy stakeholders and enhance investors' trust for more funding. This would further spur the growth and development of the business.

Accounting also empowers entrepreneurs to quantify and concretize their goals. With these monetized and concretized goals in place, entrepreneurs can monitor their businesses to see whether targets and performance expectations are being met (Stam & Garnsey, 2007).

Entrepreneurs with good accounting skills and money management habits would have all the relevant accounting information at their beck and call. Hence are more prepared and never overwhelmed to handle tax filing, welcome new investors, calculate periodic profits or secure new loans (Donovan, 2021). Accounting is also very relevant to entrepreneurs for forecasting. Success minded entrepreneurs rely on financial metrics to forecast earnings, operating costs, change in prices and fluctuations in markets. These forecasts prepare the entrepreneurs to strategize on how to meet business objectives, future challenges and potential demands. If a financial setback sets in these forecasts assist the entrepreneur to develop remedial strategies (Tom, 2016). These rolls become more essential to most start-up entrepreneurs in developing and third world countries due to lack of needed resources to employ accountants. Even those that have the resources should also be committed to understanding basic accounting. This will make them more comfortable when discussing financial realities in their businesses with both employees and outside parties (Barman *et al*, 2021). They must master the capturing of profits and losses, recording and classification of expenses, preparation of tax documents, etc. However, it may take years of education to master accounting but at least the entrepreneurs must have some form of basic accounting skill if he must succeed.

Entrepreneurship as an Intellectual Asset in today's Knowledge Based Economy

The fuel of today's economy is knowledge same way coal, petroleum and valuable metals were the nucleus of the industrial revolution of the 18th century. What we have today is the knowledge revolution as the paradigm has shifted in favour of intellectual asset. This is evidenced in the fact that the world's 30 top richest people in the world made their money out of knowledge creations in the form of technological innovations, e-commerce creations and innovative entrepreneurship which are all creations of critical thinking and knowledge.

The bedrock of all technologies is knowledge which is characterized by high relevance of Information and Communication Technology (ICT), more intangible assets than tangible assets and knowledge-intensive activities (Foray, 2004). The growth of knowledge-based economy has fast surpassed high-technology and ICT services and has now touched all sectors of the world economy. Wealth accumulation, itself, has now become a function of the production and exploitation of knowledge.

Several recent studies such as Barman *et al* (2021); Pereira and Bamel (2021); Al-Omouh (2021) and Livsey (2019) have discovered that entrepreneurs have great and positive influence on economic growth and development. Recent comparative findings on entrepreneurship and SMEs growth in various continents and countries have shown that entrepreneurship is now taking over as the fulcrum of most economies. In UK, for example, 5% of the adult population is either entrepreneurs already or preparing to launch a start-up business. Evidence have shown that scientific and technological knowledge are sources of entrepreneurial opportunities in USA, Europe, China, Japan and India.

Entrepreneurship of a necessity involves how individuals respond to economic opportunities. It goes beyond recognizing opportunities to commercializing the recognized opportunities. Also, studies such as Donovan (2021) and Doanh (2021) have shown that

entrepreneurial opportunities are not exogenous in nature but rather endogenously and systematically created by the individual from the environment under given conditions. The findings of the above-mentioned research revolve around the capacity of an individual to recognize and identify opportunities and take calculated actions on them by establishing a new business.

Also, to buttress the linkage between entrepreneurship and knowledge-based economy, there are empirical researches (Hunt, 2021; Stam & Garnsey, 2007; Foray, 2004) showing that firms located very close to knowledge sources introduce innovations at faster rates than competing firms located far from knowledge source.

Methodology

The paper is a qualitative research using analytical and explanatory methods to articulate a theory-based balanced sheet with emphasis on the location of entrepreneurship skill in accounting conceptual framework. The paper reviewed the fundamentals of entrepreneurial theory by adopting an integrative and analytical view of entrepreneurship, providing room for entrepreneurial views reconciliation in conformity with the position of entrepreneurial skill as an asset element in accounting.

Result of the Findings

The first step for the analytical model is the two sources of business knowledge or skill accessible by entrepreneurs. The first is idiosyncratic or tacit knowledge (ISK). This type of knowledge could be as a result of learning internally from the organization the general ways of running businesses. An alternative source of business skill is from outside the organization, that is, external accumulation of business skill known as Public Good Knowledge (PGK). If the knowledge is useful, it can be appropriated as private rent or perquisites (PQ) or as external financial stakeholder return or profit (π) plus monitoring cost (MC). This produces the alternative balance sheet represented as

$$PGK+ISK=PQ+MC=P \text{ ----- (1)}$$

Or

$$PGK+ISK-PQ-MC=P \text{ ----- (2)}$$

In both equations, P= business knowledge or skill accessible by entrepreneurs

In an extreme case where all business skills or knowledge is ISK, internalization of economies of scale will lead to efficiency in production. Here, from the perspective of money market, risks are peculiar to individual firms and as such diversification could be deterred by control of specific product markets by monopolies. On the other extreme, if all business skills or knowledge is PGK, efficiency in production is only attained by specialization and profits normally accrue only to owners. An interesting aspect of the equation 2 is the extent that business knowledge is acquired by owner-managers (less monitoring costs). This depends on the social capital. Social capital explains the accumulated wealth that is traceable to production in a capitalist system. Problems resulting

from an internal internalization of knowledge will be shared by both private capital and social capital.

This analysis can further be explained in a typology of entrepreneurship adopted from as represented in Table 1. The quadrants are explained in turn, drawing reference from historical examples. Each column of the matrix shows different level of accountability defined by degree of dependency on external finance. The rows show creation of value via labour control on the first row and exploitation of price differences on the second row. There would be a congruent alignment in the different categories via economic growth processes. The more the progress in technology on former business knowledge and innovations, the more the increase in internalized sourced and publicly sourced knowledge. This leads to deskilling from the base of the organization upwards as specialization increases, thereby increasing the scope of managerial activity. However, entrepreneurial rents are accessible to the extent of knowledge localization in the firm domain, whereas technical and innovation requirements increase the generic skills available in the public space through quality education.

Table 1. Knowledge Based Typology of Entrepreneurship

| Location of Business Knowledge/Entrepreneurial Skill | | Accountability | |
|--|-------------------------------------|------------------------------|---------------------------------|
| | | High | Low |
| Internal | 1. ISK= π (Venturers/Investors) | 1. ISK=MR(Entrepreneurs) | |
| | External | 3. PGK= π (Arbitrageurs) | 4. PGK=MR(Serial Entrepreneurs) |

Source: adapted from Tom (2016).

This shows the aggregate behaviour of entrepreneurs. It reflects the location of business knowledge/entrepreneurship knowledge and other resources and how these resources are accessed. This can further expand to the resource-based view of the firm where resources are internal, and ISK meant to increase internationalization in hierarchical structure. In the same vein, where knowledge is PGK, SMEs and other specialized businesses by entrepreneurs thereby narrowing the resource base and pull market inputs for other general functions. All these indicate a calculative view of entrepreneurs as falling into the decision of becoming good or bad.

The industrial revolution brought about the emergence of a network of entrepreneurs in order to eschew market processes thereby avoiding supervisory costs and personal technical skills while leveraging with investors to share business risks. Entrepreneurs were able to accumulate wealth, whether legitimately or illegitimately, through the use of their entrepreneurial skills.

The first finding indicates that the knowledge-based economy is not a new normal based on new innovative discoveries. Entrepreneurial skill had been part of the accounting conceptual framework and a consistent part of capitalism but is only attracting massive attention now due to hyper unemployment and underemployment. This is in conformity with the findings of Barman *et al* (2021) and Pereira and Bamel (2021).

The second finding disclosed that, though, entrepreneurs are often constrained by general framework of capitalist ideology, accounting framework explains the variations in entrepreneurial behaviours. This contradicts the results of Foray (2004). However, it agrees with the findings of Stam and Garnsey (2007) and Hunt (2021).

Conclusion

The study has examined the theoretical alignment of accounting and entrepreneurship in Business and the reasons why entrepreneurship skill is a great intellectual asset in today's knowledge-based economy. From entrepreneurial typology leading to the two findings, the study discovered that the knowledge-based economy is not a new normal based on new innovative discoveries, and that entrepreneurial skill had been part of the accounting conceptual framework and a consistent part of capitalism but is only attracting massive attention now due to hyper unemployment and underemployment. It was also discovered that though entrepreneurs are often constrained by general framework of capitalist ideology, accounting framework explains the variations in entrepreneurial behaviours. The study concludes that historical evidence across the globe show that accounting theory deepens understanding and perception of the role of entrepreneurs in a dynamic economy.

Recommendations

Based on the findings, the study makes the following recommendations;

- i. Various drafters of the curriculum for entrepreneurial study should make basic accounting compulsory for learners of entrepreneurial skills as accounting is an integral part of any entrepreneurial skill.
- ii. Students and apprentices undergoing acquisition of practical entrepreneurial skills should brace up to also study basics of accounting to ensure success in their future entrepreneurial endeavours.
- iii. The integration of accounting has gone further in recent years and as such accountants should embrace entrepreneurship both in theory and in practice.

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