

Entrepreneurship Development: A Panacea for Unemployment Reduction in Nigeria

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Abstract

This paper examines the need for promoting employment in Nigeria through the development of entrepreneurship. This paper relies on secondary data from the Central Bank of Nigeria's Statistical Bulletin and CIA Fact Sheet and other institutional publications to provide empirical basis for the study. A multiple regression statistical tool was used for analysis. The result did not support the theoretical formulation in the study. The paper however concludes that the government and its agencies should deliberately encourage entrepreneurial culture and skills in Nigeria in order to attack the level of unemployment situation in the country.

Keywords: entrepreneurship, unemployment, employable, development and empowerment.

INTRODUCTION

Economic displacement is one of the external forces that influence the development of entrepreneurship (Kuratko, 2009). This is why Alam and Hossan (2003) see entrepreneurship as playing a key role in the process of economic development through creation of employment, increasing investment and consumption of a nation. In similar vein, Chigunta (2001) notes that entrepreneurship has been receiving increasing recognition as a source of job creation, empowerment for the unemployed and economic dynamism in a rapidly globalizing world. Furthermore, Garavan and O'Connell (1994) in their contributions maintain that entrepreneurship is often used for developing enterprising people and inculcating an attitude of self-reliance using appropriate learning processes. In Nigeria before the advent of colonial government, unemployment was a rare phenomenon because the people were highly entrepreneurial and productively engaged. This entrepreneurial engagement is prevalent in Yorubaland of western Nigeria, Hausaland of the northern Nigeria, and among the Igbo people of eastern Nigeria. It is on record that Yoruba and Hausa ethnic groups are great entrepreneurs in pre and post independent Nigeria. The Ibo ethnic group particularly is recognized internationally for its culture of entrepreneurship and enterprise development (Dana, 1995). This is why

Ananaba (1969) asserts:

"The economy of the various states which make-up modern Nigeria was basically a subsistence economy and customs had established the practice that people serve their parents, village heads and the community without remuneration. On a given day, people went and work for a particular individual. Through the

day, the man they serve was responsible for their food and drink. On another day, the man returned the service and it went on until everybody in the group was served." This method encourages communal wealth creation and productive use of human resources, thus forestalling unemployment.

However, the emergence of administration in Nigeria introduced formal education which enabled people to have the opportunity of being employed in the civil service after graduation. As such, the system destroyed self-reliance, self-employment and entrepreneurial skills of Nigerians as they became permanently dependent on the colonial masters (Nicks, 2008, Raimi, 2010). This led to massive unemployment and craze in the contemporary times for ready-made jobs. It is on this breastplate that the study seeks for the development of entrepreneurship in order to sustain an economy of high level unemployment reduction.

The Concepts of Unemployment and Entrepreneurship

Every economy is characterized by both active and inactive populations. The economically active refers to population willing and able to work, and include those actively engaged in the production of goods and services and those who are unemployed. According to Fajana (2000), unemployment refers to a situation where people who are willing and capable of working are unable to find suitable paid employment. It is one of the macro-economic problems which every responsible government is expected to monitor and regulate. The higher the unemployment rate in an

economy the higher would be the poverty level and associated welfare challenges.

Fajana (2000), Alao (2005), and Wikipedia (2010) identify the following types of unemployment.

- Structural unemployment occurs when there is a change in the structure of an industry or the economic activities of the country. This may be because people's tastes have changed or it may be because technology has outmoded and the product or service is no longer in demand. It is mostly to be found in the developing countries of Asia and Africa. This type of unemployment is due to the deficiency of capital resources in relation to their demand. In other words, structural unemployment results from a mismatch between the demand for labour, and the ability of the workers.
- Frictional Unemployment is caused by industrial friction in which jobs may exist, yet the workers may be unable to fill them either because they do not possess the necessary skill, or because they are not aware of the existence of such jobs. The employable may remain unemployed on account of shortage of raw materials, or mechanical defects in the working of plants. Therefore, the better the economy is doing, the lower this type of unemployment is likely to occur.
- Seasonal Unemployment is due to seasonal variations in the activities of particular industries caused by climatic changes, changes in fashions or by the inherent nature of such industries. In the tropical region, ice factories are less active in rainy season because demand for ice is low. Seasonal-oriented industries are bound to give rise to seasonal unemployment.
- Cyclical Unemployment also known as Keynesian unemployment or the demand deficient unemployment is due to the operation of the business cycle. This arises at a time when the aggregate effective community demand becomes deficient in relation to the productive capacity of the country. In other words, when the aggregate demand falls below the full employment level, it is not sufficient to purchase the full employment level of output. Cyclical or Keynesian unemployment is characterised by an economy wide shortage of jobs and last as long as the cyclical depression lasts.
- Residual Unemployment is caused by personal factors such as old age, physical or mental disability, poor work attitudes and inadequate training.
- Technological Unemployment is caused by changes in the techniques of production. Technological changes are taking place

constantly, leading to the increased mechanization of the production process. This naturally results in the displacement of labour and finally causing unemployment.

Research work on entrepreneurship is traceable to scholars as Richard Cantillon and Jean Baptiste Say; who in their attempts provide working definitions (Binks and Vale 1990, Phuc 2006, Kanothi, 2009). Other theorist attempt at conceptualizing entrepreneurship include Knight in 1921 include (Minniti and Lévesque 2008, Kanothi, 2009). Their various definitions encouraged a wide range of comments and reactions on the concept of entrepreneurship. Binks and Vale (1990) for instance define entrepreneurship as 'an unrehearsed combination of economic resources instigated by the uncertain prospect of temporary monopoly profit'. Entrepreneur is also defined as the 'instigator of entrepreneurial events for so long as they occur'. (Kanothi, 2009).

Tijani-Alawiye (2004) defines entrepreneurship as the process of increasing the supply of entrepreneurs or adding to the stock of existing small, medium and big enterprises available to a country by creating and promoting many capable entrepreneurs who can successfully run innovative enterprises, nurture them to growth and sustain them, with a view to achieving broad socio-economic development goals. One of these goals sustaining employment.

Furthermore, Acs and Szerb (2007) note that entrepreneurship revolves around the realisation of existence of opportunities in combination with decision to commercialize them by starting a new firm. This reasoning is what Thornton (1999) call demand and supply perspectives of entrepreneurship discourse.

However, Shepherd and Douglas (1997) observe that the essence of entrepreneurship development is the ability to envision and chart a course for a new business venture by combining information from the functional disciplines and from the external environment in the context of the extraordinary uncertainty and ambiguity which faces a new business venture. It then manifests itself in creative strategies, innovative tactics, uncanny perception of trends and market mood changes and courageous leadership. To the duo, 'entrepreneurship', when treated as 'enterprise-creation' helps develop new skills and experiences that can be applied to many other challenging areas in life.

More importantly, Schnurr and Newing (1997) justify the need for promoting entrepreneurship culture on the ground that youth in all societies have sterling qualities such as resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition,

energy, boldness, audacity and courage which are all valuable traits for entrepreneurship development. Sporting this assertion was Bennell (2000) who maintains that governments, NGOs and international bodies seeking to improve youth livelihoods could best pursue their empowerment objective by tapping into the dynamism of young people and build on their strong spirit of risk-taking through entrepreneurship development.

Entrepreneurship development has also led to employment generation, growth of the economy and sustainable development. The current number of colleges and universities offering small business management and entrepreneurship development programme has grown from one university in 1947 to over 1600 in the 1990s (Solomon and Fernald, 1991; Solomon et al, 1994; Solomon, et al, 2002). White and Kenyon (2000) also found a 'flourishing youth enterprise culture' in the United Kingdom among young entrepreneurs aged 18-24 years.

In Zambia, it was show that 25% of the youth are self-employed (Chigunta, 2001). Most of these young people, especially younger youth, tend to be concentrated in marginal trading and service activities. Findings in Ghana of small scale enterprises reveal that young people owned almost 40 percent of the enterprises (Osei, Baah-Nuakoh, Tutu, and Sowa, 1993).

Similarly, research in South Africa suggests that the probability of self-employment among young people rises with age (Chigunta, 2001). When Nigerians especially unemployed youth are mentored and provided the needed resources and enabling environment for business start-ups, they will economically be engaged thereby shunning the illegal acts of hostage-taking, kidnapping, bombing and vandalism and homelessness.

According to Groves (1997), in Nickels, McHugh, and McHugh (1999), job-creating power of entrepreneurs can be worked at of some great American entrepreneurs from Du Point in 1802 to Avon in 1886 and Bill Gates to Ted Turners in the recent times.

Theoretical Framework

The theoretical foundation of this paper is based on the psychological theories of the Refugee and Schumpeter effects." These theories posit that the ability to make good judgment about the future leads an individual to become a successful entrepreneur. The need for achievement psychological approach of McClelland was particularly dominant in driving people for entrepreneurship. According to McClelland (1987), n. Arch motives seems to influence the individual to select entrepreneurial career. He opines that "the presumed mechanism by

which achievement level translate itself into economic growth is the entrepreneurial class. If the need for achievement is high, there will be more people who behave like entrepreneurs" (Islam, 1989, Raimi, 2010). The second theory is Richard Cantillon and John Stuart Mill's psychological theory of entrepreneurship, otherwise called risk taking theory (RTT). The theory considers entrepreneurship as a mentality to take chance or calculated risk, because people taking a very big risk also have a great responsibility (Alam and Hossan, 2003, sexton and Bowntown 1983). This fact can be observed in the avalanche of misplaced risky undertakings of unemployed Nigerian youth in order to engage themselves the forms of hostage taking, kidnapping, pipeline vandalism, and economic sabotage, internet frauds. This fact was corroborated by Aduba (2011) reporting for the Akwa Ibom State government as saying that one of the major factors of restiveness in the Niger Delta region is high rate of unemployment. The traits of creativity, risk-loving, innovation, strategic thinking and constructive engagement against the government by discontented Nigerians could as well be directed to entrepreneurship development (Raimi, 2010).

The Schumpeter Effect

The process of entrepreneurship activity reducing unemployment situation in the economy is termed "Schumpeter effect". Garofoli (1994) and Audretsch and Fritsch (1994) in their separate studies found that unemployment is negatively related to new-firm start-ups, that is, as new businesses are established employability is stimulated and unemployment reduces substantially. In the same vein, Lucas (1978) and Jovanovic (1982) note that high unemployment in the society is associated with a low degree of entrepreneurial activities, that is, where propensity to set up enterprises is low; the rate of unemployment would be very high. The implication of the above assertions is that those who are unemployed tend to remain so because they possess lower endowments of human capital and entrepreneurial talents required to start and sustain new firms to keep them going. A low rate of entrepreneurship culture and skills in any society may be a consequence of the low economic growth, which also reflects higher levels of unemployment (Audretsch, 1995).

The Refugee Effect

This process of unemployment fast-tracking entrepreneurship activity has been termed a "refugee effect". This remarkable view dates back at least to Oxenfeldt (1943), who pointed out that individuals confronted with unemployment and low prospects for wage employment often turn to self-employment as a viable alternative. This observation was also an extension of Knight's view that individuals make a decision among three states – unemployment, self-employment and employment. The simple theory of

income choice lends credence to refugee effect by suggesting that increased unemployment will lead to an increase in startup business activity on the grounds that the opportunity cost of not starting a firm has decreased (Evans and Leighton, 1990; and Blanchflower and Meyer, 1994). Similarly, Picot et al. (1998) and Pfeiffer and Reize (2000) observe that new firms hire the needed employees to work for them, thus helping to reduce the level of unemployment in the society. Evans and Leighton (1990) found that unemployment is positively associated with greater propensity to start a new firm. Many other studies establish that greater unemployment serves as a catalyst for startup activity (Reynolds, Miller and Makai, 1995; Reynolds, Storey and Westhead, 1994).

METHODOLOGY

The data used for this study were obtained from the official records of the Central Bank of Nigeria (CBN), National Bureau of Statistics and CIA Fact-Sheet. It covered a period spanning twelve years (1990, 1998-2009). The data collected were analyzed using multiple regression models of three functional forms initially (Linear, Semi-Log, exponential and Double-log forms) after which the one that had the highest R^2 and better F ratio, the linear form, was selected as the primary model.

PURPOSE OF THE STUDY

The specific objective of this paper is to examine the need to reduce unemployment through entrepreneurship promotion in Nigeria.

STATEMENT OF HYPOTHESIS

- H_0 : There is no significant relationship between entrepreneurship development and unemployment reduction in Nigeria.
- H_A : There is significant relationship between entrepreneurship development and unemployment reduction in Nigeria.

Model Formulation

The analysis is based on the multiple regression model such as linear, double log, semilog, because it is suitable for explaining economic phenomena with many unlike explanatory variables (Onoja and Agumagu, 2009 and Gujarati, 2006). The multiple regression analysis is a powerful statistical tool that expresses the relationship between two or more variables so that one variable can be predicted from the other. The implicit form of the multiple regression models is given by $Y = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8 + u)$.

Where Y = Industrial Production Index (as proxy for entrepreneurship development) which is the dependent variable.

X_1 = Agricultural Production Index

X_2 = Capacity Utilisation Index

X_3 = Inflation rate

X_4 = Unemployment rate

X_5 = Exchange rate of ₦/\$

The explicit forms of the models are:

$$Y_t = b_0 + b_1 X_{t1} + b_2 X_{t2} + b_3 X_{t3} + b_4 X_{t4} + b_5 X_{t5} + b_6 X_{t6} + u \quad \dots \text{ (Linear Form)}$$

$$Y_t = b_0 + b_1 \ln X_{t1} + b_2 \ln X_{t2} + b_3 \ln X_{t3} + b_4 \ln X_{t4} + b_5 \ln X_{t5} + b_6 \ln X_{t6} + u \quad \dots \text{ (Semi-log Form)}$$

$$Y_t = b_0 + b_1 \ln X_{t1} + b_2 \ln X_{t2} + b_3 \ln X_{t3} + b_4 \ln X_{t4} + b_5 \ln X_{t5} + b_6 \ln X_{t6} + u \quad \dots \text{ (Double log Form)}$$

$$\ln Y = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + \mu \quad \dots \text{ (Exponential)}$$

Where, $\ln$ = natural log to base e

b_i = coefficients of the explanatory variables

u = stochastic error term

Y_t and X_t refer to the respective dependent and explanatory variables at the given time periods coded and given earlier.

RESULT AND DISCUSSION

The regression results of the analysis showed that ordinary linear model is the best fit for the analysis. It fulfils some of the requirement such as R^2 , F statistics and expected signs. For the entrepreneurial development, the result is explicitly stated as;
 Industr. prod.index = 5.338 + 57.33agric - 2759inflatn- 29511.63unemploy.-96704exchrat.
 (4.588) (11.423)* (119014.6) (106.3) (53831.33)
 $R^2 = 0.90$

The results indicate that 90.5 percent variations in entrepreneurship development are explained by the explanatory variables. The results indicate that of all the explanatory variables specified, agricultural production index is the only significant variable influencing entrepreneurship development. The variable is significant at 5% level. The positive sign indicate that an increase in agricultural production index would increase entrepreneurial development. This finding could have been due to significant percentage of workers engaged in agricultural activities. The rate of inflation was found to be negative and non-significant influence of entrepreneurial development.

Similarly unemployment rate was found to be negatively related to entrepreneurial development. This finding agrees with works like Solomon *et al.* (2004). High rate of unemployment has been associated with low level of entrepreneurial development in any economy. This justifies the need to increase entrepreneurial activities to reduce high rate of unemployment.

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