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Patterns of Growth and Structural Transformation: The Mediating Role of Entrepreneurship for Future Development Strategies

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Abstract: *The premise that entrepreneurship is linked to economic growth finds its most immediate foundation in simple intuition, common sense and pure economic observation. With technological change and the intensified global competition, the assumption that fostering entrepreneurship means fostering a country's competitiveness today appears more valid than ever before. This thematic study analyses the role of entrepreneurial activity for adjustments on the process of structural change in Nigeria drawing on the accelerated economic transformation as a historical framework. Using multiple regression and relying on macroeconomic indicators between 1989 and 2012, the current study find that increase in manufacturing firm entry has positive and significant impact on gross domestic product. Industry capacity utilization also emerges as a good predictor for growth of increasing manufacturing entrepreneurial participation but not with growth in manufacturing GDP. The result of the study has economic implications for the continuous renewal of macroeconomic strategies aimed at transforming entrepreneurial activity into growth.*
Keywords: *Entrepreneurship; economic stagnation; economic growth; resource distribution; structural change; economic transformation.*

1. Introduction

The spate of poverty in Africa is, no doubt, a serious cause for concern. Poverty in most third world countries, including Nigeria, is not only rampant but also pervasive given the quantum of evidence that surrounds us on the level of poverty that pervade the society (Fayomi, 2006). Poverty refers to a situation where by an individual is unable to attain the minimum standard of living. It is a

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social condition characterized by lack of access to basic necessities for sustenance of socially acceptable minimum standard of living. According to Fayomi (2012), no fewer than 1.1 billion people across the nations earn less than one dollar per day, and they face daily risks and hardships that determine their very survival and existence. On the contrary, global wealth has almost doubled since 1990 but half of the world's population subsists on less than $2/day (Small Business Server, 2004). Since 1992, urban poverty headcounts in Nigeria remained almost unchanged at 37.5 per cent, while rural poverty declined from 51 per cent in 1985 to 46 per cent in 1992. However, both urban and rural poverty rates increased between 1992 and 1996, from about 37 per cent to 59 per cent and 46 per cent to 72 per cent for urban and rural areas respectively. These findings are consistent with earlier studies, which tend to suggest that poverty is more pronounced among rural than urban dwellers (World Bank 1996; Ogwumike, 2002). It was noted by the World Bank (2001) that 70.2 per cent of Nigerians live on less than $1 per day and that 69% of total population are poor. The fact that over 50 per cent of total population is poor in Nigeria is a cause for concern to policy-makers National Bureau of Statistics (NBS), (2010).

Given the exponential growth in the level of poverty in Nigeria, studies have long beamed search light on the efficacy of entrepreneurship in ameliorating it for sustainable national economic transformation. Although government has been making efforts towards nipping the scourge in the bud, private sector entrepreneurial activities have been recognized as the best bet in the direction of economic growth and development (Ahiawodzi and Adade, 2012). The raison d'être for this is not unconnected with the fact that private enterprises as evident in the high income economies are no doubt important catalysts for employment generation, poverty reduction and economic growth and development and government intervention only complements and provide enabling environment for private enterprises to thrive (Onwukwe, and Ifeanacho, 2011). In the developing economies including Nigeria, a large number of private businesses operate as small and medium scale enterprises (SMEs). SMEs are lifeblood of most economies. On the average SMEs represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries (Ahiawodzi and Adade, 2012). Specifically in Nigeria, about 80% of the country's labour force is employed by SMEs (Adelaja, 2007). It has been equally documented that SMEs provide 70% of the industrial sector employment and 60% of the agricultural sector employment (Lawal and Ijaiya, 2007). According to Abor and Quartey (2010) cited in Ahiawodzi and Adade (2012), entrepreneurial SMEs have been described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine. As a matter of fact, the role

of entrepreneurship in the economic growth and development cannot be down played.

The three tiers of government in Nigeria at the Federal, State and Local levels have implemented various policies to support entrepreneurship in recognition of its potential roles towards economic growth and development. Since the 1970s, The Federal government and other stakeholders in the private sector had been showing very keen interest in building the capacity of private business enterprises in order to take full advantage of maximum benefits accruable and derivable from the sector. These include the establishment of capacity building and funding schemes including Small and Medium Enterprises Development Agency (SMEDAN), the defunct Small and Medium Scale Industries Equity Investment Scheme (SMIEIS) Initiative, National Economic Reconstruction Fund (NERFUND), The Nigerian Bank of Industry (BoI), The Nigerian Bank of Agriculture (BOA), The Agricultural Credit Guarantee Scheme Fund (ACGSF), and Microfinance Banks to mention just a few. The multiplier effect of these entrepreneurship fostering schemes is the exponential springing up of many private enterprises in the country as evident in the upswing in the number of businesses registered in the country from 19,013 in 1999 to 81,144 in 2012 (see World Comparative data, 2013). The thrust of this thematic study is to analyze the role of entrepreneurial activity for adjustments on the process of structural change in Nigeria drawing on the accelerated economic transformation as a historical framework.

2. Literature Review

The section delves into various literatures that are related to the study.

2.1. Entrepreneurship, poverty, economic growth and economic development

2.1.1. Entrepreneurship

Entrepreneurship has been defined by Hisrich, Peters and Shepherd (2009) as;

> *"...the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence" (p.12).*

In another related definition entrepreneurship has been viewed as a process of risking resources, based on an idea (or series of ideas), to develop the idea(s)

into goods and/ or services that people perceive as valuable, and are willing to pay for in a way that maximizes returns for the enterprises (Kuenyehia, 2012). Entrepreneurship involves some elements of 'adding value' where an entrepreneur is expected to add some value to the primary inputs to create goods and services that people are willing to pay for.

These two definitions are pointing in the same direction by viewing entrepreneurship as a process through which an entrepreneur recognizes the peculiar need of the society and takes the risk of developing the products that meet such need at a return. Entrepreneurial process is therefore the process of pursuing a new venture - either by introducing new products into existing markets or existing products into new market and/ or the creation of a new organization (Hisrich et al., 2009). Basically, there are four phases in the entrepreneurial process, viz-a-viz, identification and evaluation of opportunity, development of business plan, determination of the required resources and management of the resulting enterprise.

2.1.2. Poverty

Poverty has to do with absence of resources to command means of livelihood. Over time, there has been no agreed upon definition of poverty due to its multi-dimensional nature. By using the standard of living as a criterion for poverty, the concept has been construed as a condition in which resources of individuals or families are grossly inadequate to provide a socially acceptable standard/condition of living (World Bank 1990; Central Bank of Nigeria 1999; Oghene and Achoja, 2001; Ifamose, 2001; Magaji, 2002).

Edoh, (2003) citing The Copenhagen Declaration of 1995 seems to shed more light on what really constitute poverty when it asserts that:

> *Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihood, hunger and malnutrition, ill health, limited or lack of access to education and other basic services, increased morbidity and mortality from illness, homelessness and inadequate housing, unsafe environment, social discrimination and exclusion. It is also characterized by a lack of participation in decision and in civil, social and cultural life (p.68).*

Based on the above definition poverty is no doubt a scourge that has been ravaging the African Continent including Nigeria. Poverty has become a threat to socio-economic stability in Nigeria because a large portion of the country's population live below the internationally approved poverty line which portrays that potential human resources are underutilized (World Bank, 1993).

Meanwhile Ogwumike (2001), had highlighted approaches to poverty reduction to include economic growth approach, basic needs approach, rural development approach and target approach. The two distinct strategies that have featured in Nigeria's national development plans and planning, according to Obadan (2001), are the growth strategy and the rural/agricultural development strategy.

2.1.3 Economic growth and development

Economic growth represents the increase in the market value of goods and services produced by an economy over time conventionally measured as the percent rate of increase in Gross Domestic Product (GDP) or real Gross Domestic Product (RGDP), whereas economic development refers to the sustained, concerted actions of policy makers and communities that promote standard of living and economic health of a nation. Economic development is a broader concept that encompasses both qualitative and quantitative changes in the economy. Fostering economic development is tantamount to taking multiple actions towards developing human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy and other initiatives (see Todaro and Smith 2007; Wikipedia, 2014).
Issues relating to the encouragement and development of entrepreneurship have become very crucial in the development of most third world nations. No nation ever develops without appreciable inputs from the private segment of her economy. However the performance and effectiveness of private enterprise (particularly SMEs) as instruments for economic growth and development thereby reducing poverty incidence among the populace is the topic under scrutiny.

2.2 Entrepreneurship and poverty reduction in Nigeria

One of the seemingly incontestable potentials of entrepreneurship (particularly when inference is drawn from the high income economies' experience) is its ability to alleviate poverty given its quota contribution to national economic growth and development (Abor and Quartey, 2010 cited in Ahiawodzi and Adade, 2012). The Nigeria's case seems paradoxical as the incidence of poverty has always been progressive relative to the ever increasing number of businesses springing up in the country. Table 1 presents the trends in the number of businesses registered in Nigeria between 1999 and 2012 and the corresponding incidence of poverty. From the table, the Nigerian economy had been witnessing a continuous growth in the number of private businesses which

stood at 81,144 as at 2012 as against 19,013 as of 1999. Whereas the corresponding increase in the incidence of poverty was quite high as of 1999 to 2003, 65.5% to 70%, and then it dropped to 54.4% in 2004 and to 54.0% in 2005 which was maintained until 2009. It increased to 69.0% in 2010 and went up again to 71.5% in 2011. This perhaps could be attributed to the dwindling performance of the private sector which undermines its quota contribution to the GDP and hence the continuous increase in the incidence of poverty.

Table 1: Businesses registered and poverty incidence in Nigeria (1999-2012)

Year	No of Businesses	Poverty Incidence (%)
1999	19,013	64.5
2000	19,566	65.6
2001	20,003	65.6
2002	21,122	65.6
2003	23,013	70.0
2004	23,457	54.4
2005	28,988	54.0
2006	34,531	54.0
2007	46,240	54.0
2008	64,017	54.0
2009	65,089	54.0
2010	65,074	69.0
2011	72,396	71.5
2012	81,144	67.1

Source: National Bureau Statistics (2010), CBN Annual Report and Accounts, and World Bank Data (2014)

2.3 Entrepreneurship and Economic Growth

Schumpeter (1934) was the first who identified entrepreneurship as the key to engine an economy in his book, the Theory of Economic Development. According to him, it was the ongoing entrepreneurial innovations that injected new energy into an economy for its growing and flowering. His locus classicus, the entrepreneurial innovations, consisted of five cases: (i) The introduction of a new good; (ii) The introduction of a new method of production; (iii) The opening of a new market; (iv) The conquest of a new source of supply of raw materials or half-manufactured goods; (v) The carrying out of the new organization of any industry (Schumpeter, 1934). Following his thought, a conclusion can be drawn as such, the entrepreneur's role is to reallocate the resources by breaking up the existed equilibriums, which, in other words, would become the source to change a relatively static economy and push it for further

development. Recognition of the importance of entrepreneurship also came from Kirzner, who stressed on entrepreneur's roles in information obtaining and use (Kirzner, 1973). By his definition, entrepreneurs are such kind of people who are alert to and discover the changes and, further, the profitable opportunities from the information available to them, and consequently take advantages of their findings for arbitrage. In this sense, Kirzner's entrepreneurship is a key factor in a "market process", essential in pushing an economy towards equilibrium. The two theories about entrepreneurs above seem to be contradictory. But in fact, as Casson (1987) had commented, they are not irreconcilable as fire and water, because an innovation made by one entrepreneur will bring spill-out effect, i.e., other entrepreneurs can find and use the profit opportunities originated by this innovation. For Kirzner himself, the first role of entrepreneurs is actually to expand the Social Production-Possibility Frontier (SPPF) upwards and rightwards. Its second role is to realize the move from an economically inefficient point under the SPPF towards the most economically and technically efficient production point on the SPPF (Kirzner, 1985).

2.4 Manufacturing Entrepreneurial Activity

The impact of entrepreneurial activity on economic development can be assessed by their contribution to employment generation, capacity utilization, income, aggregate output amongst others. However, the dearth of data on most of these indicators constitutes a major challenge to research in this area. Hence, the study places emphasis on manufacturing entrepreneurial activity. It is generally agreed that in an economy, especially in today's globalized world, manufacturing plays a key role in development (Albaladejo, 2003; Chenery et al, 1986). Albaladejo (2003), in assessing Nigeria's industrial competitiveness, put forth the following as key reasons the nation and, indeed any nation must pay serious attention to developing significant industrial capability:

i. Manufacturing is growing faster than the primary sector in total world trade
ii. Manufacturing is less exposed to external shocks, price fluctuations, climatic conditions and unfair competition policies
iii. Manufacturing drives and diffuses innovation
iv. Manufacturing is the main vehicle for technology development
v. Manufacturing has a 'pull effect' on other sectors of the economy
vi. The internationalization of production has spread the benefits of manufacturing.

From the foregoing reasons, stimulating more firm entry in the manufacturing sector should be more attractive to policy makers. Thus, the current study seeks to provide evidence that would be useful to support the creation of relevant policies. Providing such evidence is considered to be very beneficial for developing economies like Nigeria where manufacturing is still highly underdeveloped. For instance, as manufacturing continues to outpace primary goods export in total world trade, the manufacturing industry in Nigeria is faced with a myriad of problems ranging from harsh environment characterized by high import dependency, inappropriate policies, lack of transparent governance to low technological learning and innovation capabilities (Albaladejo, 2003; Egbetokun et al, 2009).

3. Data and Methods

This section outline the methodology observed in the study. Data for our empirical analysis were obtained from two sources: the business register maintained by the National Bureau of Statistics (NBS, 2009) and the major economic, financial and banking indicators. The NBS database include data on over 12,700 manufacturing enterprises in terms of size, location, sector, activity, date of establishment, among others. We also include CBN indicators containing real sector statistics including aggregate and sectorial GDP and GDP growth using 1980 and 1990 constant prices as well as manufacturing capacity utilization, among others.

3.1 Variables and Measure

The proxy for entrepreneurial activity is the number of manufacturing firms, the number of micro-sized firms and the proportion of micro-sized firms in total manufacturing firms created between 1989 and 2012. Our choice of the1989-2012 periods is informed by the fact that the most notable reforms that potentially influenced manufacturing entrepreneurial activity, as indicated earlier were implemented during these periods. As a finer measure of the variation in entrepreneurial activity year-on-year, we capture the trends in firm entry by calculating the difference in firm entry between a given year (t) and the previous year ($t-1$). We proxy economic growth by the country's GDP at 1990 constant prices as the endogenous variable, the growth rate of the GDP, the rate of growth of manufacturing contribution to GDP as well as industrial capacity utilization.. We present all the variables included in our analysis and their descriptive statistics (See Appendix).

3.2 Variables Estimation

The current study adopt the Ordinary Least Square (OLS) proceeded by a Multiple Correlation analysis method. Our use of OLS is predicated by the response variable (GDP) which is continuous in nature and by its reaction to the explanatory variables which we expect to be well approximated by a linear regression equation.

3.3 Model Formulation

Analysis of the current study is based on multiple regression models. The model is considered appropriate because it is suitable for explaining economic phenomena with many unlike exploratory variables (Gujarati, 2006). The implicit form of the multiple regression models is given by Y= F (M, I, T, ME, FE) ---------- (1)

When we differentiate equation (1) with respect to time, divide by Y and rearrange the terms, it gives equation (2) as:

$$\left\{\frac{\Delta Y}{Y}\right\}=\left\{\frac{\Delta Y}{M}\right\}+\left\{\frac{\Delta Y}{I}\right\}\left\{\frac{\Delta Y}{T}\right\}+\left\{\frac{\Delta Y}{ME}\right\}\left\{\frac{\Delta Y}{FE}\right\} \quad \text{---------- (2)}$$

Where;

Y/M	=	Rate of growth of manufacturing firm entry;
Y/I	=	Rate of growth of industry capacity utilization;
Y/T	=	Trend of firms entry (N10TREND);
Y/ME	=	Rate of micro-sized firm entry;
Y/FE	=	Rate of manufacturing firm entry trend;
□	=	Stochastic error term

4. Econometric Results: Impact of Entrepreneurial Activity on Economic Growth

We present in Table 2, the correlation matrix of all the variables included in our analyses, statistical significance being identified with asterisks. These univariate tests revealed first and foremost, that GDP is significantly related to nearly all of the measures of entrepreneurial activity that were used, notably micro-sized firm entry. This together with the significant correlation of firm entry with industrial capacity utilization suggests a correlation between manufacturing firm entry and economic growth. Also interesting is the relationship between GDP growth and Manufacturing Firm Entry (MFETR). It

follows then that as most firms enter the market in a large resource-based economy like Nigeria, the GDP experiences a higher growth rate. Whether this would remain so in more industrialized settings are still to be observed. From a policy standpoint therefore, finding the right conditions under which higher entrepreneurial participation will drive GDP as well as other macroeconomic indicators remain an area for future research. The linear regression estimate of the effects of entrepreneurial activity on economic growth shows that the proportion of total firms with employment size less than or equal to 10 created in the year, Industrial Capacity Utilization (ICU) and total firm entry (MFETR) are reasonable predictors for most of the variations in GDP. This supports the evolutionary economics thesis that greater entrepreneurial activity leads to greater innovativeness and growth. For Schumpeter, entrepreneurship remained a good description of novelty (Becker et al., 2002; Reisman, 2004). For emerging markets like Nigeria, it would therefore be reasonable to implement such reforms as would increase entrepreneurial participation and create appropriate conditions that would guarantee that new firm entry impact on the economy.

The results in Table 3 (see Appendix) show that manufacturing entrepreneurial participation (MFETR) has significant and positive association with GDP growth. From the â value we infer that entrepreneurial participation account for 30% of GDP variations. Similarly, micro-sized firm entry (PN10) as well as the trend of entry (N10TREND) is positive. This indicates that small business entry has positive externality on economic growth; as such we can conclude that small business entry has strong positive externality on growth. Interestingly, Industrial Capacity Utilization (ICU) showed statistically negative significant relationship with GDP. This is clearly counter-intuitive and we do not seem to have sufficient evidence to explain this. The coefficient of firm entry trend (NTREND) shows a negative association with GDP, depicting that the economy is trending backwards i.e. retrogressing into micro-sized firm (SLT). The firm loses thereby exerting negative effect on growth though this claim is statistically significantly weak. Yet, Model (1) explains 72% of GDP with an overall of Nigeria Significant F-statistic claim. Durbin Watson statistics of d=1.4478 falls between dL=0.925 and dU=1.902 showing that the variables is Model (1) are not serially correlated (Gujarati, 2007).

Model (II) is different from Model (I) in that it is autoregressive because the lagged value of the dependent variable (GDP_{t-1}) appears as an explanatory variable. The explanatory power of the model increased with the lag by about 20% implying that history matters and favourable initial conditions can

predispose the economy towards a better future. Further, Model (II) reflects the existence of past economic status having a positive statistical significant impact on the present status, and with a reversion of the negative relation of Industrial Capacity Utilization (ICU) on growth observed in Model (I) which is exactly what government policy should be directed at. For the significance of model (II), the Durbin Watson Statistics cannot be used again because of autoregressive nature of regression (Gujarati, 2006). The Durbin h statistics was calculated to account for serial correlation. Using the expression for h statistic (see appendix 1), we estimated h as 1.904. With the rule of thumb that if the calculated h statistic falls between the Upper (DU) and Lower (DL) Durbin table values, there is no correlation except otherwise. While (DU)=0.925 and (DL)=1.902, these values imply a slight autocorrelation, since $|h|>1.96$.

5. Conclusion

In this study, the authors have made an attempt to find a relationship between entrepreneurial activity and economic development on one hand and economic transformation and entrepreneurial activity on the other hand, using data specific to Nigeria. The efforts represent a very timely attempt aimed at exploring the topic the way it has been presented and our findings are consistent with current trend on the subject matter. Empirical results show that increase in manufacturing firm entry would impact positively on GDP. Whether or not this would be so for other sectors of the economy and in more advanced economies remains a question for future research. The results also show that history matters and initial conditions can predispose better future. Surprisingly, growth in manufacturing GDP is not associated with manufacturing entrepreneurial activity a condition which suggests that having more manufacturing firms operating in the country does not necessarily indicate that higher economic impact is likely. The paper also note that Industrial Capacity Utilization (ICU) is significantly associated with increasing manufacturing entrepreneurial participation but not with growth in manufacturing GDP. This suggests that though greater firm entry may lead to higher capacity utilization, it does not necessarily mediate between the capacity utilization and growth in manufacturing GDP. Our discussions have also pointed out that past policies notably the Indigenization Decree and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) have given rise to increased entrepreneurial participation in Nigeria. Future reforms should also do better to also consider institutional and infrastructural changes. The study concludes that greater entrepreneurial activity generally means greater growth and that reforms targeted at economic revival should not obstruct entrepreneurship.

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APPENDIX

Table 1 Description of variables and statistics summary, Nigeria (1989-2012)

Variable Name	Description	Minimum	Maximum	Mean	Std. Deviation
GDP	GDP at 1990 constant based prices (billion naira)	31.55	392.76	256	75.07
LSGGDP	GDP at 1990 constant based prices (billion naira)	29.95	356.28	241	82.55
MANGDPGROWTH	Manufacturing GDP growth rate	-30.9	26.2	1.52	10.53
MFTER	Total number of firms created in year t (manufacturing entrepreneurial participation)	251	871	530.33	166.05
NSLT10FETR	Number of firms with employment size less than or equal to 10 (SLT10) created in year t	97	365	219	76.9
PERCENTSLT10FETR	Proportion of total firms with employment size less than or equal to 10 created in year t	35.1	46.9	40.77	2.78
MFETRTREND	Trend in total firm entry represented by the difference between total number of firms in year t and year t1	-279	305	14.54	159.65
NSLT10MFETRTREND	Trend in SLT 10 firm entry represented by the difference between total number of firms with employment size less than or equal to 10 in year t and year t1	-164	138	7.08	79.81
ICU	Manufacturing capacity utilization	29.3	73.3	42.42	11.57

Table 2 Correlation of reform and economic growth variables, Nigeria (1989-2012)

	1	2	3	4	5	6	7	8	9
GDP									
GDPGROWTH	0.372								
ICU	-0.3331	-0.2071							
LAGGDP	0.9835*	0.2025	0.3332						
MANGDPGROWTH	0.1604	0.5652*	0.1045	0.0744					
N10	0.7619*	0.3824	-0.428	0.7371*	0.0018				
N10TREND	-0.0928	0.2311	0.0431	-0.1474	0.208	0.4211			
MFETR	0.7803*	0.3721	0.4069	0.7587*	0.0673	0.9880*	0.3448		
NTREND	-0.112	0.2492	0.0288	-0.1702	-0.138	0.4136	0.9694*	0.3632	
PN10	0.4731*	0.2874	0.4199	0.4468	-0.277	0.7203*	0.5843*	0.6090*	0.4663*

*Statistically significant correlated coefficient

Table 3 Regression of entrepreneurial activity variables on GDP Dependent variable: GDP; Sample: 1989-2012

	MODEL I		MODEL II	
Variable		t-Statistic		t-Statistic
C	77.06	0.27	-234.48	-1.76*
MFETR	0.30	3.10**	0.17	3.18**
PN10	2.86	0.39	5.88	1.79*
NTREND	-0.30	-0.73	-0.03	-0.17
N10TREND	0.02	0.02	-0.26	-0.65
ICU	-2.16	-2.17	1.44	2.28*
GDP(-1)			0.44	3.96**

R-squared	0.72	0.91
Mean dependent	256.00	266.09
Prob(F-statistic)	0.00	0
F-statistic	9.24	25.75
Durbin Watsonstat	1.45	1.33
Log likelihood	-123.25	-98.74
Observations:	24.00	23