Entrepreneurship and Economic Development of Selected Small and Medium Enterprises (SMEs) In Benue State, Nigeria

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Abstract: This study examined the effect of entrepreneurship on economic development of Benue State. Primary data was mainly used for the study and the data was obtained by the use of a well structured questionnaire. Demographic data obtained from the study was analyzed by the use of descriptive statistics such as percentages and bar charts. The regression result shows that there is a positive relationship between innovativeness, proactiveness and competitive aggressiveness on economic development and the relationship is statistically significant (p<0.05) and in line with a priori expectation. It was recommended among others that the factors such as the unpredictable business environment and entrepreneurship policy summersault which constitute risk to entrepreneurs in Nigeria should be addressed by the government to enhance the positive impact of entrepreneurship to economic development in Benue State.

Keywords: Entrepreneurship, Economic Development, Small and Medium Enterprises

1. INTRODUCTION

Entrepreneurship activities are very fundamental to any meaningful development of an economy (Ogundele, Olajide & Ashamu, 2008). This explains the reason behind the government conscious policy statements that are often made in this direction. However, it has been noted that the benefit and relevance of entrepreneurship to accelerate economic growth cannot be achieved in isolation without the existence of the right opportunities that serve as the wheel of its development (Abdulahi, 2012). Chukwuemeka, Nzewi & Okigbo (2008) opine that a cursory look at Nigeria indicates that there is either lack of entrepreneurship ability or that the government entrepreneurship oriented policies are not effective. Some of the entrepreneurial related policies are good but the issue of poor environmental forces hinders them (Abdulahi, 2012). In the process of examining the place of entrepreneurship in economic development, Naude (2011) sees three groups of nations- the developed, the emerging and the developing Countries. For the first (the developed), he argues that global development is entering a phase where entrepreneurship will increasingly play a more significant role. For the second (the emerging), Naude (2011) notes that impressive growth has been driven by a veritable entrepreneurial revolution; and for the third (developing countries), he opines that in the least developed countries where aid dependency is high, donors have been shifting the emphasis in development cooperation towards private sector development. Morrison (2000) declares that throughout history, entrepreneurship have become important and meaningful in a society at a point of transition, for example, traditional to modern, modern to postmodern, and state-controlled economies to free-market. Ahiazu (2010) asserts that there is a positive relationship between entrepreneurship and economic development, while Henderson (2007) states that entrepreneurship is increasingly being recognized as a primary engine for economic growth and development.

It is widely believed that entrepreneurship is beneficial for economic growth and development. Entrepreneurship has been remarkably resurgent over the past three decades in countries that achieved substantial poverty reduction, such as China. Donors and international development agencies have turned to entrepreneurship to improve the effectiveness and sustainability of aid to developing countries.

The gains of entrepreneurship are only realized, however, if the business environment is receptive to innovation. In addition, policymakers need to prepare for the potential job losses that can occur in the medium term through “creative destruction” as entrepreneurs strive for increased productivity (Sen, 2000). However, the theoretical and empirical cases for understanding the role of entrepreneurship are not yet solid. Evidence on whether entrepreneurship matters for economic growth is not straightforward; how entrepreneurship has been promoted and how it contributed to development in countries like China and the East Asian Tigers is still a matter of contention; and whether and why private-sector development
Entrepreneurship is defined as a dynamic interaction of attitudes, activities, and aspirations that vary across stages of economic development. Entrepreneurship being successful is simply a function of the ability of an entrepreneur to see opportunities in the marketplace, initiate change (or take advantage of change) and creates value through solutions (Anyadike et al. 2012). Hence, Kanothi (2009) defined entrepreneur as the instigator of entrepreneurial events for so long as they occur. Ubong (2013) views an entrepreneur as that agent of change that has the characteristics of innovativeness, ability to organize and manage resources, the staying power, readiness to take risks, and the profit drive. Today, despite the global downturn, entrepreneurs are enjoying a renaissance the world over according to a recent survey in the economist magazine (Woolridge, 2009). The dynamics of the process can be vastly different depending on the institutional context and level of development within an economy.

2. Economic Development

Economic development involves taking multiples indicators of development in perspective; sustainable growth, right allocation of scarce resources, the economic, social, political and institutional changes (Todaro & Smith, 2009). All these indicators are taken into account to bring about improvements to the lives of the poor people living in developing countries. A prior study (Porter, Sachs, McArthur, 2002) suggest that economic development occurs when an economy evolve from a resource-based economy to a knowledge-based economy. Three stages of development are distinguished; the factor-driven stage, the investment-driven stage and the innovation-driven stage. In the first stage, the factor-driven stage, the production is based upon primary factors of production: land, primary commodities and skilled labour. In the second stage: investment-driven stage, there is the rise of industrialization and the country has a middle-income status (Porter et al., 2002). To move from the first to the second stage capital accumulation is important, this enables the country to achieve “catch-up growth”. The third and highest level of economic development, the innovations-driven stage, is when the country makes technological innovations in different sectors that are globally competitive; at this stage, the country has a high-income status. To move from the investment stage to the innovation stage a country must be able to provide new knowledge (Porter et al., 2002). Audretsch and Thurik (2001) have also described the move from the second to the third stage as the transition from a managed economy to an “entrepreneurial” economy.

2.2.3 Entrepreneurship and Economic Development

Berghund (2005) believes that entrepreneurs disrupt prevailing equilibrium in economic market through innovation, thereby changing various economic benchmarks enabling growth and development within the economy. Entrepreneurship encourages self-employment and this has been found to have an impact in productivity (Chang, 2011). This is however a much-contested observation whether countries should adopt the equilibrium or self-employment model which has largely failed most countries. Ercan (2014) believes that the critical role played by entrepreneurship in economic development of an economy is a key contributor to innovativeness and products to improvement thus leading to self-employment encouragement. According to Chang (2011), the high levels of self-employment in any country have proved to be inefficient for economic development. Economic development generally refers to the sustained, concerted action of policy makers and countries that promote the standard of
living and economic health of a specific area. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and initiatives (Sullivan & Sheffrin 2003). The current global financial crises has undoubtedly given scholar an opportunity to study the effect of recessions on entrepreneurial activity in items of new venture creation and equally, the role of entrepreneurs in helping the global economy from recovery. Van Brag & Versloot (2007) are of the opinion that entrepreneurship contribute to the economic development through four main categories (employment generation, innovation, productivity and growth and increasing individuals utility levels).

2.3.4 Dimensions of Entrepreneurship

There are four dimensions of entrepreneurship namely: innovativeness, risk, proactiveness and competitive aggressiveness. The dimensions are explained individually as follows:

a) Innovativeness

The perception of an entrepreneur as an innovator is based on the paradigm, which puts the entrepreneur as a person involved in the identification of opportunities and employs the innovation tool for developing successfully new business (Meyer, 2003). According to Cogliser & Brigham (2004), entrepreneurship and innovation relates in a two-way. Entrepreneurship comes into play in innovation in a place where a person comes across something but may not have the capability of translating the same into a proposition that is commercial. In the opinion of Currie, et al. (2008), innovation relates to entrepreneurship as it its particular instrument, being an act that leads to the provision of resources with fresh ability for wealth creation. An entrepreneur is an individual, with the willingness and the capability of transforming inventions into innovations. While inventions refers to generating new concepts, innovation makes the concept alive, and entrepreneurs take risks in the process of making the concepts alive all of which determine business success.

Innovation is vital to entrepreneurship since it is part of a country’s economic growth. In the opinion of Ling, et al. (2008), countries with the largest economies can be associated with great commitment to innovation and research. Currie, et al. (2008) puts forward that in an external setting that is ever changing, innovation and entrepreneurial conduct are processes that are holistic, vibrant, and complimentary fundamental to an organization’s sustainability and success. In the setting of internationalization and fast change in technology, the significance of innovation has changed so that entrepreneurial SMEs have the image of driving innovation.

b) Proactiveness

Proactiveness is the opportunity-seeking, forward-looking perspective that involves introducing new products and services ahead of the competition and acting in anticipation of future demand to create change and first mover advantage-seeking efforts to shape the environment (Kropp & Zolin, 2005). Firms with a greater proactiveness are likely to achieve business chances in the competitive markets and take more benefits, rewards, and advantages from the markets. Consequently, proactiveness also refers to a response and an approach to market opportunities through active market research and first mover actions, such as introduction of new products and services ahead of competitors (Lumpkin & Dess, 2001).

c) Competitive aggressiveness

Competitive aggressiveness is the intensity and the tendency of a firm’s efforts to outperform industry rivals through assuming a combative posture and a forceful response to competitor’s actions and employing a high level of competitive intention in attempts to surpass rivals (Lumpkin and Dess, 2001). It is critical to the survival and success of new start-ups business. Firms that have successfully implemented the competitive aggressiveness concept tend to perceive outstanding competitiveness and gain greater business outcomes. Accordingly, competitive aggressiveness reflects to the willingness to challenge market rivals directly in order to gain market share and opportunity (Kropp & Zolin 2005). It explicitly helps firms learn industry development and understand technology development for start-up ventures. Then, competitive aggressiveness is an important mechanism to explain the aggressive completion of the markets, support firms to create effective strategies in a rigorous environment, and promote unique competitiveness and superior profitability.

Fig 1: Conceptual Framework
In the environments of competitive aggressiveness, firms are likely to use the business strategy of competitive aggressiveness in order to achieve global competitiveness (Lee & Peterson, 2000). They tend to extensively perform business operations very well when competitive aggressiveness is effectively implemented. To achieve success in doing business, firms attempt to search for new and challenging strategies via competitive aggressiveness to pursue the business goals and objectives and build better performance and competitive advantages.

2.2 Theoretical Framework

2.2.1 Theory of Allocation of Entrepreneurship Talent

Baumol theory of the allocation of entrepreneurial talent states that although entrepreneurship is typically associated with higher incomes, innovation and growth, the entrepreneur is fundamentally engaged only in activity aimed at increasing wealth, power and prestige, therefore, entrepreneurship is not inherently economically healthy and can be allocated among productive, unproductive, and destructive forms. In many developing countries, unproductive and destructive activities are substantial components, if not the substantial components in the economy, even in rapidly developing countries, opportunities for profits can outpace the evolution of institutions, and this mismatch widens the scope of rout seeking or worse activities (ACS, 2010).

The framework presented by Baumol (1990) is useful in that it brings to attention the importance of the full range of entrepreneurial activity. Strong regulatory regimes often mean that policies typically oversee the direction of entrepreneurship in the economy. In contrast, many developed countries have designed economic policies specifically to minimize the ability of entrepreneurs to engage in unproductive activities, and to support productive entrepreneurship (ACS, 2010). Baumol originally proposed a framework to understand the allocation, rather than the supply, of entrepreneurship. He assumes that a certain proportion of entrepreneurs exist across and within societies. Baumol hypothesizes that the allocation of entrepreneurial talent is influenced by a structure of rewards in the economy. He suggests that the rules of the game determine the outcome of entrepreneurial activity for the economy, rather than the objectives or supply of the entrepreneurs.

2.3 Empirical Review

Fritsch and Wyrwich (2014) investigated the effect of regional entrepreneurship culture on economic development (evidence for Germany). Particularly they investigated the effect of a high level of regional self-employment in 1995, which they used as a proxy for an entrepreneurship culture, on subsequent regional performance, particularly employment growth in West Germany between 1976 and 2008. A detailed analysis of the relationship between the historical level of self-employment and current employment change reveals that the informal institution of a culture of entrepreneurship is persistent and can endure severe shocks to the political-economic framework, including devastating wars and abrupt changes of the political-institutional regime. The results, they concluded, clearly confirmed the positive effect of new business formation and a culture of entrepreneurship on regional growth, thus demonstrating that regional entrepreneurship culture is a resource for regional development.

Fritsch and Noseleit (2013) undertook a study on the indirect employment effects of new business formation across region (the role of local market conditions). In their analysis, the effect of new business formation on incumbent firms was found positive and considerably more pronounced in regions with a high share of small firm employment. They then concluded that high levels of new firm formations in region with high shares of small firm employees. This finding was consistent with in that, an entrepreneurship culture leads to a relatively strong effect of new business formation on regional growth and development. The evidence further revealed/suggested that self-employment (in the context, new business formation) has a positive effect on regional and development, in most regions and time periods, especially in the longer run, the more intense the competitive threat the startups pose to incumbents and the more the incumbents react to this challenge by improving their products and processes, the larger the positive effects on a regions economic performance.

Stam (2008) empirically investigated the effect of entrepreneurship on economic growth and development, at the country level to compare the effect of entrepreneurship activity on economic growth in high income, transition, and low-income countries. The study used the Young Business indicator as independent variable to represent entrepreneurship. Moreover, they also investigated whether the presence of growth oriented entrepreneur is a more important determinant of national economic growth and development; then entrepreneurial activity in general using the Young Business high growth expectation rate and the young business medium growth expectation rate as independent variables and compare their impact in economic growth and development with the impact of the young business index. (Young business index = the percentage of adult population that is the owner/manager of a
business that is less than 42 months old). The results suggested that entrepreneurship does not have an effect on economic growth on low-income countries, in contrast to transition and high income countries where especially growth oriented entrepreneurship seems to contribute strongly to macro economic growth.

Thurik (2009) illustrates the relationship between entrepreneurship and level of economic development using the material of the Global Entrepreneurship Monitor (GEM). In the linear regression estimation, the total entrepreneurial activity (TEA) index is ‘explained’ using the level of economic development of countries. The TEA index is the number of ‘nascent’ and new entrepreneurs as a percentage of the population between 18 and 65 years of age. The results show a strong U-shaped relationship between entrepreneurship and level of economic development.

3.0 METHODOLOGY

Survey research design was adopted for this study. The population of study consists of 630 entrepreneurs from National Directorate of Employment training and 77 registered medium and small-scale businesses with the state Chambers and Commerce. 245 respondents were used after being subjected to Yaro Yamen formula. 238 items of questionnaire were retrieved from the respondents and used for the analysis. Multiple regression analysis was used to establish the effect of the independent variables of the study on the dependent variable while the standard error test was used to test the hypotheses of the study.

3.1 Model Specification

The implicit form of the model is as shown below:

\[ \text{ECD} = (\text{INO}, \text{RSK}, \text{PRO}, \text{CMA}) \]

The explicit form of the model is restated below:

\[ \text{ECD} = \beta_0 + \beta_1\text{INO} + \beta_2\text{RSK} + \beta_3\text{PRO} + \beta_4\text{CMA} + \epsilon \]

Where,

\[ \text{INO} = \text{Innovativeness} \]
\[ \text{RSK} = \text{Risk} \]
\[ \text{PRO} = \text{Proactiveness} \]
\[ \text{CMA} = \text{Competitive Aggressiveness} \]
\[ \text{ECD} = \text{Economic development} \]

\[ \beta_0, \beta_1, \beta_2, \beta_3, \beta_4 = \text{regression coefficient} \]

\[ \epsilon = \text{Error term} \]

\[ A\ priori\ expectation \]

\[ (\text{X}_1) = \text{Innovativeness}; \ a\ priori\ expectation\ is\ positive \]

\[ (\text{X}_2) = \text{Risk}; \ a\ priori\ expectation\ is\ negative \]

\[ (\text{X}_3) = \text{Proactiveness}; \ a\ priori\ expectation\ is\ positive \]

\[ (\text{X}_4) = \text{Competitive Aggressiveness}; \ a\ priori\ expectation\ is\ positive \]

4.0 RESULTS AND DISCUSSION

This chapter presents the result and findings of the study on nexus between entrepreneurship and economic development of selected small and medium enterprises (SMEs) in Benue State, Nigeria. The result of the study indicates a strong relationship between entrepreneurship and economic development variables as measured using a five point likert scale questionnaire. The relationship between the dependent and the independent variables of the study is established below using regression analysis.

4.1 Regression Results and Discussion

Table 4.1a: Regression coefficients

<table>
<thead>
<tr>
<th>Coefficients*</th>
<th>( \text{ECD} )</th>
<th>( \text{RSK} )</th>
<th>( \text{PRO} )</th>
<th>( \text{CMA} )</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B</strong></td>
<td>-.2585</td>
<td>.061</td>
<td>.063</td>
<td>.155</td>
</tr>
<tr>
<td><strong>Std. Error</strong></td>
<td>5.480</td>
<td>.133</td>
<td>.111</td>
<td>.095</td>
</tr>
<tr>
<td><strong>Beta</strong></td>
<td>-.472</td>
<td>.590</td>
<td>.546</td>
<td>.329</td>
</tr>
<tr>
<td><strong>Zer-o-der</strong></td>
<td></td>
<td>.305</td>
<td>.045</td>
<td>.063</td>
</tr>
<tr>
<td><strong>Par-tial</strong></td>
<td></td>
<td>.644</td>
<td>.008</td>
<td>.006</td>
</tr>
<tr>
<td><strong>Correlations</strong></td>
<td></td>
<td>.641</td>
<td>.618</td>
<td>.540</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ECD
ECD = -2.585 + 0.590INO + 0.092RSK + 0.568PRO + 0.329CMA

S (b): [0.112] [0.133] [0.111] [0.095]
P-value: {0.008} {0.650} 0.006} {0.001}

As shown by the results of the regression analysis above a positive relationship exist between innovativeness (INO) and economic development (ECD) and the relationship is statistically significant (p<0.05) and the relationship is in line with a priori expectation. This means that a unit increases in Innovativeness will result to a corresponding increase in Economic Development (ECD) by 59.0%.

The results of the multiple regression analysis shows a positive relationship exist between Risk (RSK) and Economic Development (ECD) and the relationship is not statistically significant (p>0.05) and relationship is in line with A priori expectation. This means that a unit increase in RSK will result to a corresponding increase in Economic Development (ECD) by a margin of 9.2%.

A positive relationship exists between Proactiveness and (PRO) and Economic Development (ECD) and the results is statistically (p<0.05) and in line with a priori expectation. This means that a unit increases in PRO will lead to a corresponding increase in ECD by 54.6%.

The results of the multiple regression analysis shows a positive relationship exist between Competitive Aggressiveness (CMA) and Economic Development (ECD) and the relationship is not statistically significant (p>0.05) and relationship is in line with a priori expectation. This means that a unit increases in CMA will result to a corresponding increase in Economic Development (ECD) by 32.9%.

4.2 Model summary analysis

Table 4.2: Model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.873*</td>
<td>.853</td>
<td>.402</td>
<td>12.02535</td>
<td>2.835</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CMA, INO, RSK, PRO
b. Dependent Variable: ECD

The coefficient of determination R² for the study is 0.853 or 85.3%. This indicates that 85.3% of the variations in the model can be explained by the explanatory variables of the model while 14.7% of the variation in the explanatory variables can be attributed to unexplained variation captured by the stochastic term. The Durbin Watson statistics is 2.835 shows that there is a minimal degree of negative autocorrelation in the model of the study; hence, the estimates of the model can be used for prediction.

Using the standard error test, which states that if the standard error of b1 is less than half of b2 we should reject the null hypothesis and vice versa, we thus reject the null hypothesis. That is, we accept that the estimate b1 is statistically significant at the 5% level of significance. This implies that innovativeness has a significant effect on economic development. In other words, how innovative an organization is goes a long way in bringing about economic development. Hypothesis 2 shows that Risk taking does not have significant effect on economic development. Hypothesis 3 indicates that Risk taking does not have significant effect on economic development. Hypothesis 4 shows that Competitive aggressiveness has a significant effect on economic development.

5.0 Conclusion and Recommendations

Entrepreneurship has been highlighted as significantly related to growth and development of a given economy, and thus variously referred to as a source of employment generation. Studies have established its positive relationship between entrepreneurship characteristics such as proactiveness, innovativeness, risk taking with economic development and empowerment of the disadvantaged segment of the population – which include women and the poor.

The factors such as the unpredictable business environment and entrepreneurship policy summersault, which constitute risk to entrepreneurs in Nigeria, should be addressed by the government to enhance the positive impact of entrepreneurship to economic development in Benue State Nigeria

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