Entrepreneurship as an Intervention Strategy to Poverty Alleviation in Developing Economy

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Abstract

Empirical studies revealed that the problem of poverty is highly prevalent in most Sub Saharan African States such as Nigeria. This situation calls for various international agencies and government of those nations to embark on strategies to alleviate the scourge of poverty and promote productive ventures. Poverty is a global issue that could be combated through targeted entrepreneurial projects. High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing World’s population into self employment whereas, entrepreneurship has played an important role in economic growth, innovation and competitiveness, it may also play role overtime in poverty alleviation. This paper discusses the major issues related to entrepreneurship as strategic tool to poverty reduction intensity in Nigeria. The analysis is widened to explain the determinants of entrepreneurial activities and other factors influencing its development in third world economies. The study also emphasizes policies expected to boost entrepreneurship as a determinant of the extent of the riches or poverty of Nigeria. It provides a basis for the encouragement and stimulating of entrepreneurial spirit that will counter the effect of poverty in our economy. It concludes that, to combat poverty in Nigeria and other African States micro enterprises will contribute significantly to economic growth which will serve as a necessary vehicle or channel through which low income earner can escape poverty.

Key words: Entrepreneurship, Poverty Alleviation, Economic Growth, Strategic Tool, and Competitiveness
Introduction

Nigerian economy over the years had witnessed several macro economic imbalances which had greatly affected the wellbeing of her citizenry. The policy makers are yet to come up with appropriate measures to reduce the impact of economic difficulties emanating from financial meltdown, falling oil revenues, militancy in Niger Delta, and wastages of abundant mineral resources like the gas flaring. All these and other factors made her belongs to the category of developing nations in the sub sahara Africa, with high poverty index.

The country is endowed with vast resources both human and material to the extent that there should be no traces of poverty, but the country enjoys poverty in the midst of plenty. It is an oil rich country whose majority of her inhabitants lack basic amenities to make life worth living. Poverty has been noted to be lack of adequate basic necessities of life such as food, clothing, light and shelter among others. Jhingan (2003), noted that poverty is misery go around plaguing the country. Poverty reduction is the most difficult challenge facing Nigeria and its people and the greatest obstacle to pursuit of sustainable socioeconomic growth. Inadequate growth is the main cause of poverty in Nigeria.

There have been sharp contrasts between economic potential and achievements in Nigeria due to a number of factors prevailing with the advent of oil boom in the 1970s, which peaked in 1981 and then declined up to 1995. However, some recovery has since taken place. The dependency on oil, a single commodity, notorious for sharp price fluctuations in the world market led to Dutch disease in Nigeria. The Dutch disease led to decline of agriculture and hindered the development of manufacturing.

Generally, Nigeria emerged from colonial status as a poor country. Her situation is weakened by poverty, disease and ignorance. Poverty in Nigeria is multi-faceted, multi-dimensional and multi-disciplinary. The Nigerian economy has been characterized by the paradox of growth without poverty reduction and the trickle down effect of growth on the poor, slow response of government to the endemic and persistent problem of poverty and poor governance. Thus far, this characterization of the economy requires articulation for the purpose of designing programmes that are truly poverty reducing.

Nigeria's economy depends heavily on the oil sector, which contributes 95 percent of export revenues, 76 percent of government revenues, and about a third of gross domestic product (GDP). With its large reserves of human and natural resources, Nigeria has the potential to build a prosperous economy, reduce poverty significantly, and provide the health, education, and infrastructure services its population needs. Despite the country's relative oil wealth, poverty is widespread and majority of her population lives in extreme poverty.

Going by the findings of the African Development Report (1993), about 62% of the estimated unemployed are in the age bracket of 16-24 years, a glaring feature of the un-employment profiles in developing countries and Africa in particular is the upsurge in the number of the educated among the unemployed. Amongst these are highly trained graduates of tertiary institutions who are experiencing few job opportunities.

Entrepreneurship has increasingly been held out as an alternative to traditional economic development strategies and policies. Advocates for entrepreneurship-based policies suggest that
entrepreneurial development generates greater returns to the public than other alternative strategies such as industrial recruitment, or retention and expansion. Developing entrepreneurial skills is a key strategy to reduce poverty, create income and employment opportunities aims at promoting better business environment, building institutional and human capacities that will encourage and support the development of rural dwellers.

It is universally acknowledged that entrepreneurs have immense potentials as a stimulant of economic growth and sustainable development. The job creating and poverty reducing propensity is extremely important in developing countries, especially among African states. There would be no meaningful reduction in poverty level of the Least Developed Countries, in sub-Saharan Africa if the government does not embark on entrepreneurial activities to empower its citizenry. This makes entrepreneurship a must important step to ending poverty and brings income opportunities for the majority poor.

Various projects and programs have been targeted towards alleviating poverty, yet such program is not yielding expected results. Hence, this study aims at examining the following issues: firstly, it sets out the reasons why promoting entrepreneurship as an intervention strategy or force of economic change that must take place if most developing countries are to survive the scourge of poverty and food insecurity ravaging the world today; and what policies are necessary in order to create an environment conducive to entrepreneurship in most sub-sahara African states. It also emphasizes the significance of entrepreneurship and the need for people to develop and build their entrepreneurial skills by engaging in meaningful productive ventures that will add values to economic development and create more wealth. (Olayemi and Iwaloye, 2008). Thus, the objective of this article is to create a better understanding of the concepts of entrepreneurship and poverty alleviation intersection, based on an aggregation of the extant literature in these two fields. The study attempts to structure and synthesize the existing scholarly works on this topic, thereby generating new knowledge and contributing to existing ones.

Research Questions

In an attempt to achieve the above objectives this study shall provide answers to the following leading questions:

- To what extent has Nigeria government developed the potentials of her citizenry through entrepreneurship?
- What are the contributions of entrepreneurship to nation building in an attempt to reduce poverty incidence in developing countries?
- How does entrepreneurship development reduce the rate of high incidence of poverty in Nigeria?

Hypotheses

The under listed hypotheses will also form the bases to carry out an empirically analysis in this study. They are as follows;

$H_0$: An increased awareness in developing and encouraging entrepreneurship may not reduce poverty incidences in developing countries.
Conceptualization and Review of Literature

The Concept of Entrepreneurship

Entrepreneurship practices exist in most countries of the world, including developing economy like Nigeria. In the United States of America, for example, entrepreneurial business practices have created the personal computer, biotechnology, fast food, and overnight package delivery services; transformed the retailing business; invented the integrated and microprocessor; among others. No economy can survive, grow or develop without efficient and effective entrepreneurial practices. It can be posited that without entrepreneurship (which involves the conceptualization, birth, growth and development of new concerns or enterprises) there would be no serious business development in any economy. The total process of economic change in Nigeria would be a function of the entrepreneurs available.

The definition of Entrepreneurship is as diverse as the different functions of the Entrepreneur. Baumol (1993) and subsequently Dejardin (2000), stress that entrepreneurial activities can also range from being productive to society at large to searching for surplus profits with negative consequences, all depending on the structure of incentives and possibilities. Accordingly, the entrepreneur is then viewed as a person who either creates new combinations of production factors such as new methods of production, new products, new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business (Tyson, Petrin, Rogers, 1994).

Early Economists agreed that among the four factors of production, (land, labor, capital and organization) organization is the factor, that is the coordinating factor that brings together the other three factors and that entrepreneurship is the element that powers and strengthens the organization. These economists approved that the entrepreneur has a vast understanding of the workings of the industry in which he determines to undertake the venture. Also, the entrepreneurship is a skill that not everyone possesses. The ability to be an entrepreneur is inherited and is displayed by a minority in a population.

A few modern Economists believe that entrepreneurship is itself the fourth factor of production that is the most important in driving a successful economy. These experts are of the view that entrepreneur are defined by their risk taking abilities and their intentions to fill in the void because of the existing lack of knowledge about a product. According to them the entrepreneur ventures are carried out where there is a gap in the development of a product. The entrepreneurs work to fill the gap by introducing something that increases the effectiveness of the already existing product.

Entrepreneurship describes the process of value creation through the identification and exploitation of opportunities, e.g. through developing new products, seeking new markets, or both (Lumpkin, Shrader, & Hills, 1998; Shane & Venkataraman, 2000; McClimate, Bhat, & Baj, 2000). It focuses on innovation by identifying market opportunities and by building a unique set of resources through which the opportunities can be exploited, and is usually connected with growth (Davidsson, Delmar, & Wiklund, 2002).

According to Schumpeter, “Everyone is an entrepreneur when he actually carries out new combinations”. Finding new combinations of factors of production is a process of entrepreneurial
discovery that will become the engine that drives economic development. These "new combinations" constitute better ways to meet existing demand or create new products, often making current technologies and products obsolete (in a "process of creative destruction"). The firm of the innovative entrepreneur will, consequently, grow through the dual process of taking market share from existing suppliers and increasing overall demand for the products offered in the market (by extending the boundaries of economic activity).

Thus, the process of creative destruction is built on dynamic, deliberate entrepreneurial efforts to change market structures and can be propitious for additional innovations and profit opportunities. Based on the concept of creative destruction, Schumpeter formulated his theory of long waves of business cycles and economic growth. Business cycles are seen as the result of innovation, which consists of the generation of a new idea and its implementation in a new product, process or service, leading to the dynamic growth of the national economy, the increase of employment, and creation of pure profit for the innovative enterprise (Schumpeter 1942: Dejardin 2000: Jääskeläinen 2000: Thurik and Wennekers 2001).

Schmitz (1989) presents a model in which entrepreneurial activity is a key determinant of productivity growth. In his model Schmitz focuses in particular on the role of imitative activities of entrepreneurs in economic growth. This focus is motivated by the growth experience of numerous economies, suggesting that it is less the innovating entrepreneur à la Schumpeter than the imitating entrepreneur who contributes to growth. Imitating entrepreneurs are entrepreneurs who imitate existing activities and put them into practice, thereby often creating knowledge through a process that Schmitz characterizes as learning by implementing.

**Poverty and Poverty Trends in Nigeria**

Economist refers to poverty as a situation of low – income or low consumption. As such people can be referred to as being poor when their measured standard of living in terms of income or consumption is below poverty line. Poverty has been defined as the inability to attain a minimum standard of living (World Bank Report, 1990). The report constructed two indices based on a minimum level of consumption in order to show the practical aspect of the concept. While the first index was a country specific poverty line, the second was global, allowing cross-country comparisons (Walton, 1990).

Poverty has also been conceptualized in both the “relative” and “absolute” term. This is generally based on whether relative or absolute standards are adopted in the determination of the minimum income required to meet basic life’s necessities. The relative conceptualization of poverty is largely income-based or ultimately so. What is most important to deduce from these different definitions is that, poverty must be conceived, defined and measured in absolute quantitative ways that are relevant and valid for analysis and policy making in that given time and space.

Aluko (1975) refers to poverty as a lack of command over basic consumption needs, which mean, in other words, that there is an inadequate level of consumption giving rise to insufficient food, clothing and/or shelter, and moreover the lack of certain capacities, such as being able to participate with dignity in society. While Olayemi (1995) refers to the poor as those having no access to the basic necessities of life such as food, cloths and decent shelter, are unable to meet social and economic obligation, they lack skillful and gainful employment, have few, if any economic assets and sometime lack self esteem.
Poverty could mean living on less than a dollar per day or ‘the inadequacy of opportunities for access to education, health transport and productive employment’. Van De Wale (1990) carried out a study on poverty alleviation in Nigeria; she suggested that the satisfaction of basic needs directly alleviate some of the most severe consequences of poverty. She contended that healthy, well nourished and educated individuals obviously have a higher standard of living than the sick, hungry and ignorant ones. This is because the former are more productive and better able to respond to new opportunities. She therefore suggested investment in human capital and involvement of the poor in the growth process.

The World Bank (1996) assessed the poverty trend in Nigeria between 1985 and 1992 using household expenditure as poverty line and their findings shows that poverty was more pronounced in the rural than the urban areas. It has been noted that people living in rural peripheries shoulder the burden of the world’s poverty. Dudley (1975) also observed that the incident of poverty in Nigeria is much higher in rural areas than any other area. The poor in most developing countries are to be found among the rural landless, the small farmers, the unemployed and the urban underemployed. Generally, the poor are dis-proportionately located in the rural areas.

Nigeria emerged from her colonial status as a poor country. Her situation is weakened by poverty, disease and ignorance. The Nigerian economy, until recently, has been characterized by the paradox of growth without poverty reduction and the trickle down effect of growth on the poor, slow response of government to the endemic and persistent problem of poverty and poor governance. Thus far, this characterization of the economy requires articulation for the purpose of designing programmes that will truly reduce poverty (Olayemi, 1995).

The Effects of Poverty

While the causes of poverty might be macro, the effects are felt on a micro level, creating hardship for communities, families, men, women and children. Its worst attribute is that poverty breeds poverty; it is virtually impossible to break free from its grasp. If one cannot afford proper nutrition or health care for one’s family, children grow up at greater risk of acquiring a life-threatening or disabling disease. If one cannot afford to educate one’s children, they will have few avenues for a life different than that of their parents. If one cannot afford to buy one’s own land or home or livestock, there are few opportunities to build assets that will last over time.

Most of the world’s poor are self-employed. Without the security of formal jobs, each day they work from dawn to dusk, whether by raising chickens, selling produce in markets or weaving baskets. All or most of this money goes toward basic survival; however, there is little to no money left over to improve their quality of life or expand their businesses. Thus, living in poverty almost always means that the harsh reality of today will repeat itself tomorrow.

Methodology

Sample Size and Procedure

Structured questionnaire were administered and personal interviews conducted to gather
information or responses from respondents carefully selected because of the interest shown in the study. The respondents comprises of university students that have the desire to be entrepreneurs in the near future having undergone a course on the subject matters. Other categories of the respondents were mainly practicing indigenous entrepreneurs like artisans, farmers, craftsmen and women, petty traders and others using locally sourced raw materials. Convenience sampling technique was also adopted for personal interview of key informant. A sample size of 133 respondents showed keen interest out of a total of 158 reached for both personal interview and questionnaire administration. The regression (empirical) analysis was adopted to test acceptance level of the hypothesis 1, while the statistical Analysis of Variance (ANOVA) method was used to determine the acceptance or rejection of succeeding hypotheses.

**Procedure:** The participants were contacted as individuals and some as group and after brief explanation on the purposes of their consent were sought without coercion. The structured questionnaires were then administered and interviews conducted where necessary based on the fact that participants had a clear understating of variables involved to assist their choice of responses. The set of research materials were completed at an average time of thirty five minutes.

**Discussion of Findings**

The data was tested using the linear regression analysis to look at the respondents’ perceived increased awareness of entrepreneurship as strategic influence to reduce poverty incidences in developing economies. The results are shown in table 1.

**Table 1: Regression Result for an increased Awareness of Entrepreneurship Capacity Development**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>27.576</td>
<td>2.465</td>
<td>11.456</td>
<td>.000</td>
</tr>
<tr>
<td>ECONDEV</td>
<td>.089</td>
<td>.075</td>
<td>.139</td>
<td>1.033</td>
</tr>
<tr>
<td>GROWDEV</td>
<td>-.057</td>
<td>.125</td>
<td>-.055</td>
<td>-.413</td>
</tr>
<tr>
<td>STANDLIV</td>
<td>.061</td>
<td>.086</td>
<td>.082</td>
<td>.748</td>
</tr>
</tbody>
</table>

The result of regression analysis for entrepreneurship capacity as dependent variable as shown in table revealed that the need for economic development has strongly influence the justification for poverty alleviate, though growth may not be significantly noticed as a result of entrepreneurship development. The results show that, there is improvement in standard of living when and if entrepreneurial capacity is enhanced. Therefore, hypothesis 1 is rejected.

The study sought to provide a basis for the encouragement and stimulating of entrepreneurial spirit that will counter the effect of poverty in developing economy. It investigate the predicting capacities of entrepreneurial activities to contribute significantly to economic growth which will serve as a necessary vehicle or channel through which low income earner can escape poverty. This finding emphasizes the need for an increased awareness in entrepreneurship to boost economic growth by
reducing poverty incidence. It has been established by several studies that abilities to create opportunities and follow them up by taking risks are essential factors accounting for successful entrepreneurship, which may significantly alleviate the scourge of poverty.

Beck and Demirgüç (2004) in their study explored the relationship between the size of the SME sector, economic growth and poverty. Whilst they found a strong association between the importance of SMEs and growth in GDP per capita, they were unable to demonstrate that SMEs foster economic growth or reduce poverty. They conclude with the views that SMEs are a characteristic of successful economies rather than a cause and that putting in place policies and institutions that foster a positive and supportive business environment promote economic growth, and through overall growth, reduce poverty.

Developing entrepreneurial skills is a key strategy to reduce poverty, create income and employment opportunities aims at promoting favourable business environment, building institutional and human capacities that will encourage and support the rural dwellers. There would be no meaningful reduction in poverty level of the Least Developed Countries, in sub-Saharan Africa if the government does not embark on activities to empower its citizenry.

Conclusion

An entrepreneurial economy, whether on the national, regional or community level, differs significantly from a non-entrepreneurial economy in many respects, not only by its economic structure and its economic vigorousness, but also by the social vitality and quality of life which it offers with a consequent attractiveness to people. Economic structure is very dynamic and extremely competitive due to the rapid creation of new firms and the exit of ‘old’ stagnant and declining firms.

This is why entrepreneurship is considered to be a prime mover in development and why nations, regions and communities that actively promote entrepreneurship development, demonstrate much higher growth rates and consequently higher levels of development than nations, regions and communities whose institutions, politics and culture hinders entrepreneurship.
References


