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Impact of Entrepreneurship on Economic Development in Nigeria

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Abstract: Entrepreneurship is seen as a significant factor used in modern economies for wealth creation, improvement in the standard of living, and the development of the economy. Despite these loadable roles, its impact in the attainment of required development has not been well felt in Nigeria. This study examined the impact of entrepreneurship on economic development in Nigeria. Annual time series data spanning from 1992 to 2022, analysed with ARDL techniques was employed. Rate of self-employment existing in the country was used to proxy entrepreneurship. Contribution of SMEs, private sector credit and inflation rate were also added in the model while human development index was used to represent economic development. The result showed that self-employment rate is positive but insignificant in the short-run while its impact on economic development in the long-run is significant. Contribution of SME and credit to private sector is positive but insignificant on the long-run while the impact of inflation rate is inversely related. This indicated that government in conjunction with monetary authorities should formulate and implement sound economic policy that will make entrepreneurship to strive; this should not be done without taken cognizance of macroeconomic

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variables. More importantly, the financial institutions especially deposit money banks should be made to support entrepreneurship development by providing the start-up funds for entrepreneur at a reduced or concessionary rate.

Keywords: Entrepreneurship; Economic Development; Self-Employment Rate Contribution of SMEs

1. Introduction

In modern economies where globalization, technological changes, restructuring and outsourcing dominate business enterprises, the concept of entrepreneurship cannot be relegated to the backseat. This is based on its role in the attainment of economic growth and development and its wheel for the realization of long-term sustainable development, wealth creation, employment generation and the causal factor for the economic advancement of many nations (Juliana, *et al.;* 2021). Therefore, Asogwa and Arinze (2017) noted that entrepreneurship is one major economic variable that has captured the attention of both government and the policymakers in both developed and developing countries and as such attracted the interest of researchers in the field of finance in recent years.

The act of creating or discovering an unnoticed idea to make a profit is known as entrepreneurship. Entrepreneurship has a wider role in the accomplishment of economic development as it entails initiating and creating changes to business structure within the society. These changes are recognised through increased output which allowed more wealth to be created among the participants. In the word of Omoruyi *et al.* (2017), the desire to be financially independent and to be their bosses stimulate the interest of an entrepreneur and therefore turned passions into profit-generating businesses. An entrepreneur is a person that carved out a niche for himself and carefully scanned the prevailing opportunities and the threats in an environment, using the available resources for the realization of economic value such as profit.

On the other hand, economic development can be realized when a country experienced a prolonged and sustained increase in the output of goods and services produced which is accompanied by a positive adjustment in the social, economic and political system. This is based on the evidence that the real income per-individual person increased over a long period while the rate of poverty is kept at the minimum level (Uma, *et al.;* 2015). According to Chigbu (2006) economic development occurred when income is equally distributed and improved health accompanied by sustainable environmental development. Therefore, for developing countries like Nigeria to experience sustainable economic development, the role of entrepreneurship must not be undermined. This is because the dynamic economic conditions existing in the world today require individuals with entrepreneurship skills for creative thinking that can stimulate economic growth and development in the country. Thus, entrepreneurship served as a critically important dimension for explaining and predicting the economic progress and development of an economy.

Entrepreneurship is seen as a significant factor used in modern economies for wealth creation, improvement in the standard of living, vital in the production system and the development of the economy. Despite these loadable roles, its impact in boosting the economy of Nigeria in the attainment of required development has not been well felt. This may be caused by prevailing uncertainties triggered by political unrest, social disorder, kidnapping happening in the country. In addition, various government and non-governmental programmes initiated at different levels meant to aid enterprises have not achieved their intended purposes (Juliana, *et al.;* 2021).

This aside, studies such as Faajir, 2019; Omoruyi, *et al.;* 2017; Uma, *et al.;* 2015; Dau & Cuervo-Cazurra, 2014; Okechukwu & Nwekwo, 2020; Olaniyan & Ayangbekun, 2017; Guryay, *et al.;* 2007 among others have looked into the relationship between entrepreneurship and economic development. Most of these studies have produced conflicting outcomes by either positive relationship (Juliana, *et al.;* 2021; Faajir, 2019; Omoruyi, *et al.;* 2017; Uma, *et al.;* 2015; Dau & Cuervo-Cazurra, 2014), negative relationship (Okoye & Nwisienyi, 2019) or neutral relationship (Guryay, *et al.;* 2007). The negative relationship created by these two variables might be connected to each country's specific institutional factors such as economic, political, development in human capital or environmental factors among others that can propel initiative leading to economic development. These conflicting results among previous scholars necessitate the need to justify the true position of the relationship between entrepreneurship and economic development with specific focus on Ekiti State, Nigeria.

The significance of this study cannot be undermined as it will assist the entrepreneur to realize that entrepreneurship skills are vital for the nation's economic development, especially in the areas of employment created, living standard improvement, economic and social value-adding benefit it will bring and the overall development it will translate in the state and the economy as a whole.

2. Conceptual Review

2.1. Entrepreneurship

Omoruyi *et al.;* (2017) defined entrepreneurship as the potentials possessed either by an individual or groups of individuals in an organization who identify new opportunities existing in society to gain economic advantages such as profit that will, in turn, bring success to the initiator or the organization that invents it. Dau and Cuervo-Cazurra (2014) described entrepreneurship as when new businesses are created which involved coordinated efforts from a person or groups in society to create new economic value-added. Uma, *et al.;* (2015) described entrepreneurship as the introduction of resourcefulness to adjust a business situation and make it a

new undertaking. This could be created through the diversification of existing businesses into new lines to increase its potential for profit generation.

It should be noted that several measurements of entrepreneurship such as the World Bank entrepreneurship index, total entrepreneurship activities, self-employment rate and global innovative index have been devise in the literature. However, due to inability of data for most of these measurements, self-employment rate was adopted in this study as used by Okoye and Nwisienyi (2019). According to Okoye and Nwisienyi (2019), a self-employed person works on his or her own volition or create a partner to work with. In the view of Okechukwu and Nwekwo (2020), self-employed occurs where remuneration of owner depends on the profit generated by such an enterprises.

2.2. Economic Development

Economic growth and development have been a popular term in literature over the years. Many scholars are fond of using the word interchangeably without considering the conceptual differences. A nation can experience economic growth without a corresponding economic development. One may even wonder why researchers and policymakers lay much emphasis on these two concepts. Economic growth is supposed to enhance or facilitate economic development. In considering the nitty-gritty of the concept of economic growth, technically one can say economic growth is the product of the quality of output as determined by the quality of input. While economic development is a continuous improvement in the economic well-being and quality of life of people in a particular country in line with targeted goals and objectives (Omoruyi, *et al.;* 2017; Uma, *et al.;* 2015). Economic development is conceptualized to mean an increase in life expectancy and economic well-being of people over a period of time. Against previous studies that measured it with gross domestic product, human development index which is more reasonable was employed in proxy economic development.

2.3. Empirical Review

Juliana *et al.* (2021) carried out a study on the innovative and creative ideas on development of entrepreneurship in Nigeria. Ordinary least square coupled with ANOVA tests were used in the testing of hypotheses. The study revealed that the advancement of technology and creative thinking served as an inducement for the development of entrepreneurship in Nigeria. Vatavu *et al* (2021) carried out their study among on entrepreneurship in relation to economic development through the intervention of policies initiated by the government among 8 developed countries of the world. The period of data covered is from 2001 to 2018. Correlation and OLS was the estimation techniques used. The result outcome showed that social norms,

involvement of entrepreneurial at the early stage, cultural value, level of infrastructure have a positive impact on economic development among the selected countries while anxiety about the likely failure of the business influence economic development negatively.

Okechukwu and Nwekwo (2020) examined entrepreneurial development as a means for achieving security challenges for unemployed youth in Nigeria. The study utilized descriptive statistics of mean, median, standard deviation, frequency counts and percentages. In addition to these estimation techniques, Z-test was employed in the testing of hypotheses formulated. The findings showed that security challenges ravaging the country are caused by growing unemployment and the prevailing corruption among our leaders. Onileowo and Anifowose (2020) examined entrepreneurship as the bedrock for economic growth in Nigeria. The study relied on previous studies and revealed that one of the instruments often employed in realizing sustainable economic development in Nigeria is entrepreneurship. The study further proofed that through job creation ability of an entrepreneur, economic growth is realized.

Faajir (2019) evaluated the impact played by entrepreneurship on the economy of Nigeria. A survey design involving a structured questionnaire distributed among SMEs owners located in Benue State. The study employed descriptive coupled with simple regression analysis and discovered a significant positive relationship between entrepreneurship and the Nigerian economy. Okoye and Nwisienyi (2019) examined how entrepreneurship has helped in improving economic growth in Nigeria. Data from 1996 to 2018 were used in the study analysed with ARDL techniques. The empirical findings revealed absence of positive relationship between entrepreneurship and economic growth in Nigeria while private sector credit exhibited significant direct impact on economic growth of Nigeria.

Omoruyi *et al.* (2017) studied if entrepreneurship served as a bolster to economic growth in Africa. The study relied on content analysis based on past studies and also employed descriptive research. It was discovered that entrepreneurship influence economic growth in a positive way based on the employment created which invariably reduces poverty among African nations. In line with this findings suggested the need for the inclusion of vocational training coupled with entrepreneurship in the educational system. Olaniyan and Ayangbekun (2017) carried out a study on how peace and progress can be sustained with entrepreneurship to aid economic development in Nigeria. The study relied on contents analysis based on past studies and showed that the prevailing corruption, kidnapping and militant activities in the country have reduced the effectiveness of enterprises in the country thus suggesting empowerment of the youths to reduce the prevailing social vices in the country.

Asogwa and Arinze (2017) conducted a study on how development in entrepreneurship has assisted economic growth using Enugu State as a case study. A questionnaire was distributed among the target respondents analysed with the aid of Chi-square. The study found that the entrepreneurial role in the attainment of economic growth cannot be undermined in Nigeria. The study, therefore, suggested the restructuring in the area of macro credit facilities provided to businesses within the country.

3. Materials and Methods

Annual data covering from 1992-2022 were employed in the analysis of the impact of entrepreneurship on economic development in Nigeria. Data for the study were extracted from CBN bulletin and world development indicator. Since it involved time series data, unit root test was first carried out to know the stationary order of the series. The test outcomes lead to the use of Autoregressive Distributed Lag (ARDL) techniques.

3.1. Model Specification

The model used in this study has its basis from the model conducted in the work of Okoye and Nwisienyi (2019) when accessing how entrepreneurship has helped in improving economic growth in Nigeria. Okoye and Nwisienyi (2019) used gross domestic product as the dependent variable while self-employment rate, credit to private sector and inflation rate constituted the independent variable. In line with this, this study replaced gross domestic product with human development index as it shows not only the aggregate realized output but accounts for economic well-being of people over a period of time. In addition, since most entrepreneurs create their own private businesses, the study considered it necessary to include the proportion of contribution made by small and medium enterprises. Arising from this, the model for this work is hereby formulated as:

$$ECD = f(SER, CSME, CPS, INFR) \quad (1)$$

In a detail form, equation 1 can be expressed as:

$$ECD = f(\beta_0 + \beta_1 SER + \beta_2 CSME + \beta_3 CPS + \beta_4 INFR + \mu) \quad (2)$$

Where:

ECD=Economic Development

SER=Self-employment Rate

CSME=Contribution of Small and Medium Enterprises in the economy

CPS=Credit to Private Sector

INFR=Inflation Rate

$\mu =$ $Error\ term$

$\beta_0, \beta_1, \beta_2, \beta_3\ and\ \beta_4 = Coefficients\ of\ the\ Estimates$

Table 1. Variables Expected Relationship in line with Literature

Dependent Variable	Independent Variables (Macroeconomic Variables)	Expected Relationship
Economic Development (ECD)	Self-employment Rate (SER)	+
	Contribution of SMEs in the economy (CSME)	+
	Credit to the Private Sector (CPS)	+
	Inflation Rate (INFR)	-

Source: Author's Computation, 2023

4. Discussion and Findings

4.1. Results of Analysis

Table 2. Augmented Dickey Fuller (ADF) Unit Root Test

Variables	ADF			Integration Order
	@5% Critical values	t- stat.	Prob.	
ECD	-2.967767	-6.752711	0.0000	I(1)
SER	-2.967767	-5.072936	0.0003	I(1)
CSME	-2.967767	-4.897183	0.0005	I(1)
CPS	-2.967767	-5.011934	0.0003	I(1)
INFR	-2.967767	-3.115867	0.0364	I(0)

Source: Author's Computation, 2023

The ADF unit root test outcome is reported in Table 2 and it revealed that economic development, self-employment rate, contribution of SMEs in the economy, and credit to private sector exhibited a unit root due to their level of integration i.e I (1) while inflation rate showed absence of unit root. However, series such as ECD, SER, CSME and CPS that were not stationary became stationary after converting them to first difference. Based on the tested unit root outcome of mixed integration, ARDL was carried out. To arrive at appropriate lag for the ARDL test, VAR lag length was carried out. The VAR lag selection for ARDL test suggested lag order one as indicated in table 3

Table 3. Lag Selection for ARDL Model

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-33.48469	NA	9.78e-06	2.654117	2.889857	2.727948
1	84.58180	187.2779*	1.64e-08*	-3.764262*	-2.349818*	-3.321276*
2	100.5111	19.77425	3.64e-08	-3.138693	-0.545546	-2.326552

Sources: Authors' Computation, (2023)

4.2. Test for Co-integration

Table 4. ECD Unrestricted Model

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.***
C	-1439.833	447.7992	-3.215354	0.0040
ECD(-1)	0.401550	0.139044	2.887930	0.0085
SER	-25.88968	102.5066	-0.252566	0.8029
SER(-1)	344.5111	102.9173	3.347454	0.0029
CSME	0.513039	2.850179	0.180003	0.8588
CPS	3.347285	3.407476	0.982336	0.3366
INFR	-0.428956	1.132168	-0.378880	0.7084
INFR(-1)	2.058009	1.192475	1.725831	0.0984

Source: Author's Computation, (2023)

R^2 = 0.712204; **Adjusted =** 0.620633; **F-stat.** = 7.777586; **Prob. (F-stat.)** = 0.000091

This test preceded the ARDL bound test which provides insight as to whether long-run interconnection among variables is upheld.

Table 5. ECD Bound Test (Co-integration Approach)

F- Statistic	4.320992	
Significance	**I0 Bound**	**I1 Bound**
5%	2.56	3.49

Source: Authors' Computation, (2023)

The bound test for entrepreneurship impact on economic development in shown in Table 5 and it revealed that the presence of long-run interconnection among variables is upheld as F-statistic value of 4.320992 is greater than upper bounds outcome of 3.49. This validate rejection of hull hypothesis which decline long-run relationship.

Table 6. ARDL Short and Long-run result for ECD Model

Variables	Coefficient	Prob.
LR C	24.936970	0.0100**
SER	53.411079	0.0099**
CSME	0.857280	0.8571
CPS	5.593258	0.3680
INFR	-2.722121	0.1846
SR D(SER)	11.391285	0.8836
D(CSME)	-2.142712	0.3410
D(CPS)	6.539246	0.0209**
D(INFR)	-0.808839	0.3949
CointEq(-1)	-0.617039	0.0000***

****, denotes 1% level of significant and ** means 5%.*
Source: Author's Computation, (2023)

The short and long-run interrelation among variables employed in the analysis of impact of entrepreneurship on economic development is revealed in Table 6. ECM coefficient of -0.617039 and p-value of 0.0000 indicated that the deviation from short to long run is moderate with about 62% implied that nearly 62% correction exist before it reaches its long-run stage. The parameter coefficient revealed that self-employment rate has a direct insignificant impact on the short-run while its impact on the long-run is significant with 53.411079 units. It explained that a 1% unit increase in self-employment rate will correspond to 53.4% rise in economic development. Contribution of SMES has an insignificant negative impact on the short-run but impact positively with economic development on the long-run with 0.857280 units, implied that a unit rise in contribution of CSME will result in a corresponding increase of 86% in the long-run. Similarly, private sector credit has a significant direct impact on economic development in the short run while its impact is not significant on the long-run though still has a direct impact of 5.593258 units. This explained that a 1% rise in credit to private sector will lead to a corresponding increase of 5.6% increase in economic development. Lastly, inflation rate in both short and long-run came out to be negatively related with economic growth, implied that as inflation rate increases by a unit will result in a corresponding decrease of 2.7% of economic development on the long-run.

4.2. Diagnostic Tests

Table 7. ARDL Diagnostic Estimations

Normality Test		
Stat.	Values	Prob.
Jarque-Bera	0.606941	0.738252
LM Correlation Test		
Stat.	Values	Prob.
Obs*R^2	0.3657	0.2380
Heteroskedasticity Test		
Stat.	Values	Prob.
Obs* R^2	2.557973	0.9227

Source: Author's Computation, (2023)

The robustness outcome of the model is illustrated in Table 7 and it revealed normality of residual, absence of LM correlation problem and homoskedasticity of the residual P-value of all tests exceeded 5%.

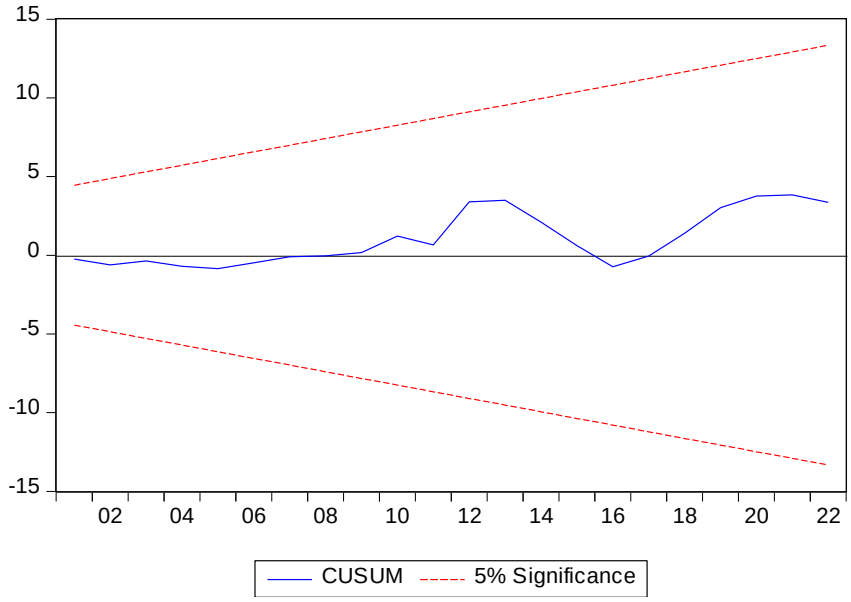

Figure 1 Cumulative Sum (CUSUM) Stability Test

The cumulative sum (CUSUM) stability test was performed to determine the fitness of entrepreneurship and economic growth model. Since the plotted CUSUM graph is within 5% significant level, the coefficients of the estimated model is therefore, accepted

4.3. Findings and Implication

To examine the impact of entrepreneurship on economic development in Nigeria, annual data called from CBN bulletin and world development indicator was employed. It was revealed that presence of long-run interconnection among variables is upheld and the ARDL outcome demonstrated that in the long-run, self-employment rate exhibited a direct and significant impact with economic development. This outcome goes in direction with Juliana *et al.* (2021), Vatavu *et al* (2021), Okechukwu and Nwekwo (2020), Faajir (2019), Omoruyi *et al.* (2017), Olaniyan and Ayangbekun (2017), Asogwa and Arinze (2017) works. The direct impact revealed that for economic development to be achieved in Nigeria, entrepreneurship must be the bedrock of the economy. This is more important as the volume of imported items can be reduced when entrepreneurship skills are encouraged. This positive impact contradicts the work of Okoye and Nwisienyi (2019) that revealed absence of positive relationship between entrepreneurship and economic growth in Nigeria. The authors claimed that due to the poor supports received from either the government or financial institutions existing in the country, the contribution of entrepreneurship to economic development has been weak.

However, contribution of SME and credit to private sector is positive but insignificantly related. This connotes the extents of supports received from deposit money bank in the country to SMEs and private businesses existing in the country. This negates the works of Onileowo and Anifowose (2020), Juliana *et al.* (2021), Vatavu *et al* (2021), Okechukwu and Nwekwo (2020) among others. Lastly, it was revealed that inflation rate induces economic development negatively.

5. Conclusion and Recommendations

From the analysis of entrepreneurship and economic development in Nigeria, the study employed annual time series data spanning from 1992 to 2022, analysed with ARDL techniques. It was revealed Long-run interconnection among variables exists and the outcome also showed that self-employment rate is positive but in significant in the short-run while its impact on economic development in the long-run is significant. Contribution of SME and credit to private sector is positive but insignificant on the long-run while the impact of inflation rate is inversely related. This indicated that government in conjunction with monetary authorities should formulate and implement sound economic policy that will make entrepreneurship to strive; this should not be done without taken cognizance of macroeconomic variables. More importantly, the financial institutions especially deposit money banks should be made to support entrepreneurship development by providing the start-up funds for entrepreneur at a reduced or concessionary rate.

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