

# New Business Creation, Economic Growth and Poverty in Nigeria

**Abubakar Salisu Garba**

Department of Business Admin & Management,  
School of Management Studies  
Kano State Polytechnic, Nigeria

E-mail: [abubakarsg@yahoo.com](mailto:abubakarsg@yahoo.com)

**Abstract:** The objective of the paper is to determine the effect of economic growth and poverty on new business creation. New business creation is seen as something good for the economy which takes different forms with varying degree of impact on country's economic performance. Economic growth and poverty issues are highly essential in any socio-economic discourse. Understanding their influence on business creation could help in providing information on the nature of entrepreneurial activity in a country. The paper used time series data for 30 years in which vector autoregression (VAR) model was used for analysis. It is found that economic growth and poverty negatively affect new business creation but the null hypotheses that economic growth and poverty does not Granger caused new business creation are accepted. Most of the previous studies examined the influence of entrepreneurship on economic growth and there is paucity of research measuring the effect of poverty on entrepreneurship. It may be of interest to other researchers to find out why the relationship between poverty and business creation is not positive in some developing countries despite high incidence of poverty.

**Keywords:** Business creation; Entrepreneurship; Economic growth; Poverty

**JEL classification:** L26, M13

## Introduction

Business start-up or creation of new organization is often considered synonymous with entrepreneurship (Keister, 2005). There is growing number of new business start up particularly among adults but in developing countries the number or prevalence rate is much higher compared to developed countries (Reynolds, Bygrave, Autio, Cox and Hay, 2002). Entrepreneurship serves as a mechanism for economic prosperity especially in developing countries that are bedeviled with different kinds of socio economic problems.

Balakrishnan, Gopakumar and Kanungo (1998) states that the potential of entrepreneurship to harness the talents, capabilities and create vibrant economy is increasingly being recognized in developing countries. Micro and small business activities have since been recognized as a vehicle for entrepreneurship. The significance of micro, small and medium enterprises (MSMEs) has been appreciated globally in terms of growth, productivity and competitiveness of economies. The MSMEs subsectors is considered to be the primary source of job creation, a breeding ground for domestic entrepreneurial capacities, technical skills and technological innovativeness as well as managerial competencies for private sector development.

New business creation is seen as something good for the economy. It takes different forms with varying degree of implication on country's economic performance (Bamoul, 1990). It is important to mention that not all so called activities termed entrepreneurial contribute to the wellbeing of the economy. The socio-economic status of individuals in the country influences their decisions to involve in entrepreneurship or create a new business venture. The strength and viability of the economy is dependent on some factors that shape how innovative entrepreneurs operate and how opportunities are created on continuous basis in the country.

When an economy is doing well people may have various options to exercise ranging from self employment (business ownership) to employment for a pay (employee). The decision of individual to become business owner is influenced by his ability and willingness to identify and explore opportunities in the business environment which will offer higher return than being an employee. But when the economic situation is not good in the country these opportunities will certainly be narrowed and become highly competitive among individual actors. The possible repercussion of limited opportunities will be among other things decrease in economic growth and increase in poverty. Business creation became an inevitable option to pursue depending on the status of the economy and individual differences

on why they choose to create their own business. In any case there are both pull and push factors that motivate individuals to create a new business (Wang, 2006). It is pertinent to ask whether economic growth and poverty stimulate business creation in Nigeria. Therefore the objective of the paper is to determine the effect of economic growth and poverty on new business creation.

## **Economic theory of firm and entrepreneurship**

The reward for entrepreneurial activity can be measured in monetary form through profit or gains from the production of ideas or tangible goods. The economic theory of firm assumes that the primary goal of a business venture is to gain and maximize profit. For any firm to realize this pressing need there must be some prerequisite arrangement right from conception, take off and implementation of production processes. Some may consider production to be highly structured mechanical process in which raw materials can be transformed into output or finished foods but it is actually more than that. The same notion of profit applies to service sector that use knowledge and idea as input instead of raw material. Entrepreneurship is the most fundamental aspect of firm formation because entrepreneurs are those that innovate through establishing new firm, new market, new product and new source of supply and new production process as discussed repeatedly in the literature by Schumpeter. It is argued that entrepreneurs will probably lose their character as soon as they have created a business and decided to manage it routinely as many people do (Foss and Klein, 2004). Entrepreneurship is nothing but the act of creativity and the evolution of novelty (Khalil, 2006).

Taking Schumpeter's approach on entrepreneurship is suffice to argue that the day to day running of the business require no entrepreneurship. People will continue to maintain their name as entrepreneurs when they actually carry a new combination and cease to be sooner they settle down performing routine managerial function. Schumpeter carefully distinguished the entrepreneurs from capitalist. He simply believes that an entrepreneur needs not to have capital. He can develop idea or concept and allow capitalist to bear the risk by investing their capital to actualize the idea initiated by the entrepreneur. At the same time entrepreneurs do not require to operate within a particular confine (Foss and Klein, 2004). Entrepreneurship takes place in a firm only if new combination becomes apparent. Some assumed that entrepreneurship is the same with small business management, it only involves managing a successful small business venture. To some extent people see entrepreneurs as managers of small business or start up and sometime even managers of family owned businesses.

The act of innovation and management failed to provide a link between the theory of firm and entrepreneurship. This is simply because first, entrepreneurs need no firm to be innovative and even if it took place within a firm, that character ceases to be the moment things are

routinely carried out. Secondly management function can be performed irrespective of the size of the firm. If managing small business is considered as entrepreneurship what about other activities in the large firm. These approaches failed to provide any cogent explanation or linkage between the theory of firm and entrepreneurship. Entrepreneurs are being associated with some characters such as creative, boldness and imaginativeness. If this is the case, what links is entrepreneurship with a firm? There is no clear explanation on whether such character is necessary or incidental condition for entrepreneurship (Foss and Klein, 2004). If different group of people become creative, imaginative and bold can they be considered as entrepreneurs or not?

The assumption of entrepreneurship as alertness to profit opportunities argued by Kirzner is also considered to be weak in linking entrepreneurship and theory of firm. Kirzner claimed that entrepreneur is an arbitrageur who discovers a discrepancy in prices that can be exploited in order to gain profit. Entrepreneurs in such a circumstance buy at low price and sell at higher price. The situation may change in such a way that the entrepreneur anticipated profit opportunity but realize that the price falls in the market before selling his commodities. The time lag between purchase and sell can make a difference in which the Kirzner's entrepreneur has no control over. The literature is not very clear on the position of the entrepreneurs when suffer losses. Must entrepreneurs create new firm in order to respond to profit opportunities?

Entrepreneur as conceived by Kirzner do not require a firm to carry out his economic function. All the approaches to entrepreneurship such as innovation, management, alert to profit opportunity and creativity or imaginative do not provide much needed explanation that will satisfactorily link theory of firm and entrepreneurship. Entrepreneurship as a judgment can be considered to yield acceptable explanation about the link between entrepreneurship and theory of firm. This view or approach of judgment to entrepreneurship is often associated with Frank Knight who considers entrepreneur as someone who has decided to bear some business risk. Knight introduces the notion of judgment to link firm with profit and existence of uncertainty. In the first place judgment is refers as business decision making when possible future outcomes are generally unknown (Foss and Klein, 2004 and Foss, Foss and Klein, 2006).

The implication of Knight's asset or capital ownership is that no entrepreneur without possession and control of capital in the business. In fact asset ownership is very crucial as per as firm creation is concern. In a nut shell theory of firm is a theory of how entrepreneurs exercise their right by deciding on the right combination of these assets. This clearly forms the basic link between the theory of firm and entrepreneurship as oppose to other approaches. Entrepreneurs' judgment is further classified into two categories based on ability of the entrepreneurs to carry out decision by themselves or delegate to other employees who will decide with some restriction. The

entrepreneurs' judgment can either be derived or original. The original judgment has to do with the formation of enterprise and the actual execution of business idea. The owner or entrepreneur may choose to exercise his original judgment either directly or indirectly in the management of firm asset. The owner may delegate some of the decision right to his subordinate or managers who in turn are expected to exercise derived judgment with certain restriction in order to avoid any form of unproductive entrepreneurial involvement. This aspect of managing the derived judgment is very important to the success of entrepreneur. It is logical to conclude that in this kind of approach theory of firm became a theory of how the entrepreneurs organize the combination of assets of the firm. Theory of firm and entrepreneurship need to be integrated in order to provide plausible explanation on whether entrepreneurs need to create firm or not.

### **Relating new business creation with economic growth and poverty**

There is no doubt that entrepreneurship has many definitions and meanings emanating from various fields and contexts of the study. These definitions can be classified based on their theoretical and operational nature. The theoretical definitions cover many entrepreneurial activities while operational definitions deal with particular issue (Karlsson, Friis and Paulsson 2004). The meanings could be narrowed down to two which entails owning a business and entrepreneurial behavior (Sternberg and Wennekers, 2005). Business owners are normally entrepreneurs who create a business to carry out some functions but at the same time as argued previously entrepreneurs do not necessarily have to create a firm, they can be found in organization spearheading innovative activities.

The speed of economic progress of any country is influenced by many factors (Stel, Carree and Thurik, 2004) which include human and social capital, natural resource endowment, property right and rule of the game etc. Creation of new business could also accelerate economic performance by enhancing productivity through innovations and competitions. It can affect economic growth in many ways as well (Acs and Audretsch, 1990). One thing that is critical to new business creation is the need for sustenance into the future. For a business to be viable the entrepreneur must be ready to face challenges from other competitors. The major instrument that enables the business owners to conquer market share is how innovative is the business they have created. Generally innovation creates efficiency and offer choices to the society.

In developing countries it is often assumed that the higher rate of business creation is necessitated by the need to create self employment (Koster and Kumar Rai, 2008). But there is a less push in countries that offer good welfare package to cater for the basic needs of the citizens (Herenkson, 2005). Since business start up or creation of new firm is an act that is entrepreneurial, any increase in number of business could be a possible

indication and perhaps measure of entrepreneurship (Sanyang and Huang, 2010). The global entrepreneurship monitor (GEM) research provides one of the important reference points in the analysis that links entrepreneurial activity and economic growth. GEM result indicates that entrepreneurial activity has a significant relation with economic growth. It is shown that high rate of business creation or entrepreneurial activity is accompanied with economic growth (Sanyang and Huang, 2010). The increase in the number of business will create intense market competition, high productivity and economic performance (Nickell et al, 1997 and Nickell, 1996).

It is somehow difficult to model relationship between entrepreneurship and economic growth because of some factors that influence the two variables. There are studies that attempted to investigate two directional relationships between economic growth and entrepreneurship (Thurik et al, 2008 and Mojica-Howell et al, 2012). Many studies examined the influence of entrepreneurship on economic growth (Amoros and Cristi, 2011). Some studies examined the influence of economic growth on entrepreneurship (Stel, et al, 2007; Wennekers et al, 2007 and Storey, 2003). Entrepreneurship is likely to be endogenous where high level of economic growth has a strong incentive for opportunity based business start up. Phehn- Dujowich (2012) found that economic growth Granger caused entrepreneurship and Hartog et al (2010) found evidence for existing long run equilibrium between business ownership and economic growth measured by per capita income.

The U-shaped approach is useful in understanding either increasing or decreasing rate in entrepreneurship in developing countries over time. This approach is considered as less useful in explaining entrepreneurship in broad terms. There is U-shaped curve relationship between rates of business creation and the level of GDP per capita overtime in a country. In early stage of development there will be higher rate of necessity business creation but as the country's GDP per capita increases there will be a decrease in the rate of business owners. This perhaps as a result of many openings for paid employment that will attract many necessity entrepreneurs to abandon their own businesses. While in the later stage the relationship tends to appear positive (increase in GDP per capita causes increase in the rate of opportunity business ownership). The U-shaped curve framework was initially developed to understand how entrepreneurship increases in high-income OECD countries (Acs, Desai and Hessels, 2008).

High entrepreneurial activity is expected to translate into high level of economic growth (Acs, 2007). It is expected to have both necessity and opportunity entrepreneurship in a country but the ratio of necessity to opportunity entrepreneurs can be an indicator of level country's economic development (Acs, 2007). The relationship between necessity entrepreneurship and economic growth is likely to be negative for developing countries and positive for developed nations. In India the increase in economic growth is not goes with the decreasing rate of entrepreneurial activity as expected in the GEM model

(Koster and Rai, 2008). The result shows weak positive relationship between economic growth and entrepreneurship in least developed regions.

Economic growth and poverty reduction are supposedly the primary goal of development endeavors (Akoum, 2008). Poverty reduction and analysis of long term socio economic development should be consider when discussing any developmental issues (Szirmai, 2005). Poverty creates predicament and debilitates people from realizing their hopes and dreams. Identifying causes to poverty could help when addressing its severity and consequences. Many factors may come to mind when discussing causes of poverty, because it is difficult to single out a particular factor as the only cause or responsible for poverty in a country (Ajaikaiye and Adeyeye, 2002). Many factors contribute to how people transit into poverty which includes low income, low productivity, low economic growth and unemployment. O’Boyles (1998) categorized these factors into personal (old age, unemployment, dependence and illness etc) and familial (increase in family size, drop in net worth and death of family breadwinner etc). Although the severity and challenge of these factors are dependent on individuals and to a certain extent can be remedied by reversing the poverty threats or causes.

To exit from poverty someone may think of securing a job and income by involving in an entrepreneurial activity. Business creations provide employment opportunities which will affect poverty level of the people especially unemployed in both rural and urban areas. When poor are directly involved in entrepreneurial activity there will be likelihood that their economic condition can be improved or completely changed. It should be understood that people became self employed through creation of their own business for several reasons. The size of the business or firm does not matter, it could be one man show or involves other parties. What is important is how it contributes to economic development through increasing productivity, job creation and income distribution among people.

There are few of research that focused on examining the effect of poverty on economic growth. Presumably there should be a dual direction of causal relationship between poverty and entrepreneurial activity. One strand of the relationship is attributed to the fact that poor people have limited skills, capital and it is difficult for them to get a stable paid job, hence they create new micro venture in order to be self employed and earn income for life sustenance. While other strand considers that creation new of businesses will open up opportunities, reduce

unemployment, generate income and wealth which consequently reduce poverty.

### Data and Method

The data for this study was collected from relevant official sources for 30 years (1981 to 2010). The number of new business created (new) was collected from corporate affairs commission of Nigeria, number of poor as a measure for poverty (pov) and gross domestic product as a measure of country’s economic growth (gdp) were obtained from National bureau of statistics, Nigeria. Equation (1) represents the functional relationship of new business creation with economic growth and poverty;

$$\lnnew = \beta_1 + \beta_2 \ln gdp + \beta_3 \ln pov + e \tag{1}$$

Where *lnnew* is the logarithm of new, *ln gdp* represents the logarithm of gdp, *ln pov* indicates logarithm of pov,  $\beta$  are the estimated coefficient and *e* is the error term.

Vector autoregressive (VAR) is used which provides a simple framework that systematically capture rich dynamic in multiple time series. It is employed to provide a consistent and better approach in describing data, forecasting, structural inference and policy analysis (Stock and Watson, 2001; and Gujarati and Porter, 2009). Unit root test is used to determine the properties of the data. It is useful method in testing the stationary of economic data. The augmented dickey-fuller (ADF) is selected for the unit root analysis. Cointegration test was conducted to find the long run relationship between the variables (Masih, 1995). This test is important because of the economic implications, perhaps the system is in equilibrium in the long run or it may be sensitive to test hypotheses before making estimation of the multivariate dynamic model (Engle and Granger, 1987).

Therefore, Johansen and Juselius (1990) cointegration technique was used to find whether there is a cointegrating vector or not. Under this method two likelihood ratio (LR) test statistic (trace test and maximum eigenvalue test) were used to find the number of cointegrating vectors. The cointegrating regression considers only the long-run property of the model, and does not deal with the short-run dynamics explicitly. But a good time series modelling should describe both short-run dynamics and the long-run equilibrium simultaneously. Therefore the Vector error correction model (VECM) which includes error correction term (ECT) is used to capture the long run deviation from the equilibrium. The model is represented in equation (2);

$$\begin{bmatrix} \Delta \ln new_t \\ \Delta \ln gdp_t \\ \Delta \ln pov_t \end{bmatrix} = \begin{bmatrix} \Delta \ln new_{t-1} \\ \Delta \ln gdp_{t-1} \\ \Delta \ln pov_{t-1} \end{bmatrix} + \prod \begin{bmatrix} \Delta \ln new_{t-1} \\ \Delta \ln gdp_{t-1} \\ \Delta \ln pov_{t-1} \end{bmatrix} + \begin{bmatrix} \epsilon_{new} \\ \epsilon_{gdp} \\ \epsilon_{pov} \end{bmatrix} \tag{2}$$

where  $\Delta$  is the first difference operation,  $\prod$  is the error correction term in levels,  $\Gamma(L)$  is a 3 x 4 matrix of coefficient estimated, L is the lag operator,  $\Gamma$  shows the

short run adjustments among variables in the system  $\epsilon$  is the error term.

### Results and discussion

ADF unit root result is presented in table 1 which shows that the null hypothesis of presence of unit root can be

rejected after first differencing. It also reveals that all the variables are integrated order of one I(1).

**Table 1: ADF unit root test result**

Variable	level	first difference
<i>lnnew</i>	-3.209853(1)	-5.435927(0)**
<i>lngdp</i>	-1.803796(1)	-3.612126(0)**
<i>lnpov</i>	-2.983307(1)	-5.673263(0)**

Note: *lnnew*, *lngdp* and *lnpov* is the natural log of new business creation, gdp and poverty respectively. Asterisks (\*\*) indicate level of significant at 5% level. The figures presented are the t statistic in constant with trend test and values in bracket are lag length.

Based on this outcome of stationarity, cointegration was conducted to examine the long run relationship among the variables. In table 2 panel A the Johansen multivariate cointegration maximum likelihood test result is shown which indicates the existence of one cointegrating vectors after adjustment. Although the variables move differently, they share a common trend in the long run. This also means that the variables will have a long run equilibrium relationship.

In table 2 panel B the normalized cointegrating estimation is reported. The coefficient of *lnpov* is statistically significant and *lngdp* is not significant. The coefficients indicate the long run elasticity of the variables which shows that *lngdp* and *lnpov* are negatively related to *lnnew* in Nigeria. The result shows that holding poverty constant increase in economic growth will lead to decrease in the rate of new business creation. The result impliedly means that the decreasing rate is in necessity entrepreneurship. There are similar

findings from other studies to indicate that economic growth negatively relate to entrepreneurship (Carree et al, 2002; Stel et al, 2004; Naude, Amoros and Cristi, 2012 and Wennekers et al 2005). The negative relation reflects the left hand side of U shaped curve relationship between economic and entrepreneurship as explained in the literature. The U shaped approach is useful particularly in understanding why entrepreneurship or self employment is decreasing over time in developing countries (Acs et al, 2008). The Nigerian business environment became very unfriendly and hostile to various categories of entrepreneurs. Many operators in the real sector who cannot withstand the pressure have closed their business. This is perhaps as a result of lack of necessary infrastructure, inadequate incentive for small and medium enterprise and increasing cost of production. The increase in the economic growth is largely influenced by the oil transactions and operations of service firms dominated by the giants in the communication and banking sectors.

**Table 2: Johansen and Juselius cointegration test result**

Panel A: Johansen multivariate test					
Null	Alternative	Unadjusted $\lambda_{max}$	Adjusted $\lambda_{max}$	CV ( $\lambda_{max}$ 5%)	
$r = 0$	$r = 1$	20.348	18.313	17.797**	
$r \leq 1$	$r = 2$	12.056	10.850	11.225	
$r \leq 2$	$r = 3$	1.670	1.503	4.129	
Panel B: Normalizing equation					
Variables	<i>lnnew</i>	<i>lngdp</i>	<i>lnpov</i>		
	-1.000	-0.157(-0.54)	-0.529(-1.96)		

Note: Lag selection is based on Aikaike information criterion. r is the number of cointegrating vector. Asterisks \*\* indicate significance at 5% level. Figures in parenthesis are t-statistics

The necessity entrepreneurship is usually driven by push factors when other opportunities for paid employment are not available. This situation is often associated with low economic growth which is caused by the macroeconomics instability or economic depression. An economy characterized with high growth can be attractive to opportunity entrepreneurship. The opportunity entrepreneurs are innovative who immensely contribute to the economic performance of a country. Many studies affirmed that necessity entrepreneurship has little or no impact on economic development as compared with opportunity entrepreneurship. It is found that opportunity entrepreneurship has a positively and significantly effect on economic development (Acs and Varga, 2005).

The empirical evidences on the influence of poverty on entrepreneurship are scantily reported in the literature. But there is evidence to show that globally a substantial

number of the poor acts as entrepreneurs (Amoros and Cristi, 2011). The negative relationship reveals in this paper indicate that as poverty is increasing the rate of new business creation is declining which is contrary to the expected push hypothesis in low income or developing countries. In this case poverty does not provide enough inducement for business creation. Looking at the prevailing economic conditions in Nigeria, it may be interesting to ask why the relationship is not positive. There is need to assess various factors on their mediating role between poverty and business creation.

Poor are inherently facing constraint of resources, they have low skill, minimal access to network and sources of finance. The most prominent factor hindering the poor from entrepreneurship is the availability of start-up capital. Usually harsh economic condition do not give room for personal saving and couple with the failure of

the formal financial institutions to provide timely and adequate funds subjected the poor to liquidity constraint problem (Buera, 2009; Hurst and Lusardi, 2004 and Fonseca et al, 2007). The amount required to start up micro business perhaps is meager but because the conventional banking sector do not make adequate

provision for their financial needs make the whole problem aggravated. Additionally, the operational ineffectiveness and inadequate geographical spread of microfinance institutions to supply fund also render the poor and other disadvantaged people helpless without paid job and self employment in Nigeria

**Table 3: VECM and short run Granger causality**

Dependent variable	Chi-square statistics			
	<i>lnnew</i>	<i>lngdp</i>	<i>lnpov</i>	ECT
<i>lnnew</i>	-	2.837(0.09)	0.010(0.92)	-0.69***
<i>lngdp</i>	7.565(0.02)**	-	0.173(0.67)	-0.02
<i>lnpov</i>	0.001(0.97)	2.774(0.09)	-	-0.07

Asteriks \*\*, \*\*\* denote significance at 5% and 1 % level respectively. The figures represent the chi-square statistics and values in parenthesis ( ) are the p-values.

The result of Granger causality is shown in table 3. It can be seen that the null hypotheses of *lngdp* and *lnpov* does not Granger caused *lnnew* are failed to be rejected. But it is found that *lnnew* does Granger caused *lngdp*. This result indicates the presence of one direction of causality from *lnnew* to *lngdp*. This means that new business creation directly caused economic growth which supported the Schumpeterian effect hypothesis. The new business creation is considered as one of the main sources for innovation, structural change and growth (Wang, 2006). The proliferations of new firms created raised competition which increases the technical efficiency as well as productivity of the nation. In the Schumpeterian tradition, it is entrepreneurs who create innovative ventures that force the economy out of state of equilibrium (Grilo and Thurik, 2005). The creation of new business is not sufficient to cause growth until it is accompanied by innovations. Therefore the new businesses are expected to make impact on the economy by altering the existing equilibrium position and sustaining the high competition generated in the market.

Schumpeter (1934) considers someone to be an entrepreneur only if he is able to carry out new combination which includes creation of new organization that brings market to a disequilibrium state.

The error correction term for *lnnew* is statistically significant which shows that it is the only variable that will be responsible for any short run adjustment. In case of any shock or innovation to the system it will take less than 2 years (69% per year) for the system to revert to its long run equilibrium state. In table 4, the diagnostic test results are presented. The model can be considered robust because it satisfies the necessary requirements for homoscedasticity and well specified. The estimated residuals have normal distribution pattern and the residual are not serially correlated. The model is relatively stable as the cumulative values are within the two standard deviations boundaries at 5% level as shown in the recursive parameter estimate of CUSUM test and CUSUM of square test in figure 1 (see Appendix 1).

**Table 4: Diagnostic test result**

JB	AR(2)	ARCH(1)	WHITE HETERO	RESET
1.6369 (0.238)	5.8428 (0.0525)	5.9356 (0.0538)	1.4111 (0.2559)	0.8006 (0.3790)

Note: AR and ARCH are the Lagrange multiplier tests for serial autocorrelation and ARCH effect respectively. RESET refers to Ramsey Reset specification test. JB is the Jarque Bera statistics for residual normality test and White Hetero refers to White general heteroscedasticity test. Figures in parenthesis are p- value.

### Conclusion and policy implications

Entrepreneurship is the most fundamental aspect of firm formation because entrepreneurs are those that innovate through establishing new firm, new market, new product and new source of supply and new production process. Entrepreneurs lose their names as soon as they have created their business and continue to operate like other people do (Foss and Klein, 2004). The negative relationship between new business creations is an indication of decreasing rate of necessity entrepreneurship. There is evidence to show that poverty does not provide sufficient inducement for creation of new business. The severity of impoverishment could further restrain poor from attempting to be

entrepreneurial by owning a business. It is understood that unavailability of start-up capital is one of major factor hindering the poor from starting up a business. The poor needs small amount of capital to start up micro business but because the conventional banking sector does not make adequate provision for their financial needs the situation became aggravated. The operational ineffectiveness and inadequate geographical spread of microfinance institutions to supply fund also render poor and other disadvantaged helpless without paid job and self employment in Nigeria.

It is therefore suggested that the government should consider revising its policy on poverty reduction by

ensuring that poor people are empowered financially through affordable loan scheme that will encourage them to engage in entrepreneurial activity instead of demanding for government welfare packages. Creating businesses alone cannot provide the necessary impetus for economic growth unless they are accompanied and sustained through innovations. There is need to harness the potentialities of the poor to become high impact entrepreneurs rather than necessity entrepreneurs. It may be interesting for future studies to find out why the relationship between poverty and business creation is not positive. There is need to assess various factors and their mediating role between poverty and business creation.

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**Appendix 1**

Figure 1: CUSUM of squares and CUSUM test

