

ENTREPRENEURSHIP, CORRUPTION AND THE CHALLENGE OF DEVELOPMENT IN NIGERIA

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ABSTRACT

The paper examines entrepreneurship, corruption and the challenge of development in Nigeria. The manifestations and problems associated with corruption have various dimensions which have constrained authentic entrepreneurial development in both urban and rural communities. Among these are project substitution, development programme distortion, misrepresentation of project finances, diversion of resources to uses which they were not meant, even conversion of public funds to private uses, etc. Corruption stalls innovation in materially backward societies. Entrepreneurship is one of the significant predictors of development and is moderated by social, psychological and economic forces. These forces are corruption-prone and over the years have significantly marred entrepreneurship in Nigeria.

Key words: Entrepreneurship, corruption and development.

INTRODUCTION

Nigeria is blessed with abundant human and natural resources which if properly harnessed would have turned this country into a developed economy. But given the massive corruption, lack of commitment, the dominant role of the public sector in the economic life of the nation, the country has lost opportunities for growth and sustainable development. Corruption has become a common phenomenon in many developing economies. There are different views on the effects of corruption on entrepreneurship. What is clear is that entrepreneurship is paramount for economic growth. Entrepreneurship development is driven by a number of factors principally social, psychological and economic. All these factors are subject to corruption and consequently can deter entrepreneurship and therefore pose serious challenge to development.

One of the primary determinants of the wealth of a nation is entrepreneurship. The ability of a nation's citizen and foreign investors to engage in building new businesses or in reconstructing existing establishments in order to adjust to changes in the economic and political environment is the hallmark of entrepreneurial development. This energizes economic growth. Entrepreneurship and economic growth are Siamese twins, that is, economic growth and entrepreneurship are mutually reinforcing. Therefore, any government interested in promoting growth should examine the factors which contribute to or deter entrepreneurship, among these is corruption (Wilkin 1979). This symbiotic relationship makes separating cause and effect difficult. Nevertheless, economists from Schumpeter to Rostow have argued that the innovational part of entrepreneurship is crucial for economic development and growth. It is entrepreneurship that leads to higher productivity, the ability to produce more from the same amount of work equals to economic prosperity (Palifka, 2006)

Corruption drastically affects economic development by causing a misallocation and misappropriation of resources (human, material and informational). What is damaging to an economy is the fact that in endemically corrupt systems, a larger segment of the population are not getting served by the government and as they do not trust the government they do not interact with the government. As these people have to get things done, they create their own systems to do things and in the process carry out unethical actions detrimental to development. Economic development depends on change. The agent of change is the individual entrepreneur responding to the incentives embodied in the institutional framework. Corruption is an informal institution that is antithetical to entrepreneurship (Mbaku, 1996).

2. ENTREPRENEURSHIP AND ECONOMIC GROWTH

An entrepreneur is conceptualized as an economic agent- individual, firm, or institution that acts in the allocation of resources – raw materials, intermediate goods, and physical, human, and social capital- either to increase the efficiency of production of existing commodities, or to create new products. In most cases, the entrepreneur operates under conditions of imperfect information about their market or productive processes (Leibenstein 1995).

Economic growth is aided by entrepreneurship. Entrepreneurship, in turn may be facilitated by economic growth (Wilkin, 1979). The influence of the role of entrepreneurship on economic development has been explained by a number of scholars (Audretsch and Acs, 2003; Reynolds, 2000).

Schumpeter (1934) argues that the entrepreneur is the prime mover and force in economic development and his function is to innovate and to introduce new activities into the market Acs and Audrestch (1990). Acs (1992) argues that entrepreneurs play an important role in the economy, serving as agents of change, being a considerate source of innovation activity, stimulating industry evolution and

cluster emergence and acting as the main source of job creation. Acs (2006) stresses that entrepreneurs create new businesses, and new businesses in turn create new jobs, intensify competition, and may even increase productivity through technological change. Moreover, entrepreneurship is important to long term economic growth because it is a fundamental source of transferring new knowledge into economic commercialized knowledge (Audretsch, D. B, Keilbach, M. & Lehman, E. 2006; Carree and Thuril 2005; Wennekers and Thurik, 1999). More specifically, Audretsch and Fritsch (2002) suggest that since the 1990s the engine of economic growth shifted from general knowledge generation towards entrepreneurship based knowledge. Thus, high measured levels of entrepreneurship have the propensity to translate into high levels of economic growth (Acs, 2006).

3. ENTREPRENEURSHIP PROMOTION IN A DEVELOPING ECONOMY SUCH AS NIGERIA

If entrepreneurship is important for growth then it is necessary to identify ways to encourage entrepreneurship. These may be divided into three groups: Psychological factors, social factors and economic factors.

3.1 Psychological factor

These consist primarily of individual characteristics, determined genetically or in the home and they allow little scope for policy. Ehigie (2003) stresses self- concept, perceived managerial competence, and work stress and business commitment as important psychological variables for perceived entrepreneurial success among female entrepreneurs in Nigeria. These same social variables could equally ignite entrepreneurial spirit among the male.

Hagen (1962) introduces the notion of innovative personality as the prerequisite for economic growth, spread of entrepreneurship and capital formation. The main psychological requirement is an innovational personality for an individual with imagination is less risk averse, and is more likely to undertake investment projects (Leff 1979).

3.2 Social factors

Social factors like social mobility, the degree of social integration, political insecurity and social/cultural legitimacy of entrepreneurial activities can affect the supply and activities of entrepreneurs. The marginalization of some groups, especially the exclusion of educated groups from the political process, has been identified by Rostow (1975) as contributing to dearth of entrepreneurship, while excessive marginalization critically detrimental (Wilkin 1996). Several of the social factors are vulnerable to corruption. Social mobility, for example will be stunted especially by traditional forms of corruption such as nepotism; only those with close family connections will be able to move up. The enforcement of patent and other laws is an area that offers opportunities for corruption.

3.3 Economic factor

Market incentives determine the demand for entrepreneurs. This demand will interact with the supply of entrepreneurs to arrive at the level of entrepreneurship in a given country. The most important incentives are the demand for industrial and other products, the availability of labour and raw inputs, the level of inflation, taxes, and barriers to the imports of necessary inputs. All these may be affected by public policy; all may be subject to corruption. Further determinants of the demand for entrepreneurs are the cost of attaining information about markets, the distribution of income, and access to resources. These are especially important in relation to corruption. High information costs and limited access to resources may increase the potential gains from corruption which subsequently limits access to resources and preserves the disparate distribution of income in a vicious self perpetuating circle.

4. THE SOCIOLOGY OF CORRUPTION

The evil of corruption exists in every facet of society. For instance, you bribe to get your child into school, you pay to secure a job and also continue to pay in some cases to retain it; you pay 10 percent to any contract obtained; you dash (bribe) the tax officers to avoid paying taxes; you pay a hospital doctor or nurse to get proper attention; you pay the policeman to evade arrest. You find government officials embezzling funds meant for development programmes and often make the programme a family affair (Baye, 1995).

Nwankwo (2010) states that the nation has peculiar cases of corruption and management problems. Chinua Achebe (1983) argues that Nigeria is a country recording a high level of corruption and mismanagement of the national resources and this has been the bane of entrepreneurship. Amadi (2000) maintains that corruption and weak accountability remains threats to accelerated development. Abiola (1998) asserts that many years ago, it was uncommon for anyone to embezzle funds meant for the common good of the society, but today anybody can siphon public funds without being persecuted.

Tracing the cause of inadequate infrastructure in our society to corruption, Ihejiamazu (2001), agrees with Aderinwale (2005) that corrupt practices have led to the implementation of badly designed projects with no economic or commercial viability. Cost escalation has resulted in pricing policies which have kept the services beyond the reach of ordinary masses who are expected to be the beneficiaries. In some cases, projects have been abandoned, both complete and uncompleted after substantial public funds have been expended. In fact, abandoned projects, particularly those of small scale industries are major problems in the Niger Delta of Nigeria. Ponder how much money is alleged to have been spent on Green Revolution (GR), Operation Feed the Nation (OFN), Directorate of Food Roads and Rural Infrastructure (DFRRI), SAP, Better Life for Rural Women (BLRW), Family Economic Advancement Programme (FEAP), Family Support Programme (FSP), Petroleum Trust Fund (PTF) NAPEP and YES (Youth Empowerment Scheme), Niger Delta Development Commission (NDDC) and other Niger Delta oriented development programmes all to no avail. Many others exist at other communities and local governments, even in our universities the reason being that funds were diverted to serve private or groups end. Therefore, these factors have perpetuated a vicious circle of underdevelopment while at the same time mortgaging development sustainability. In other words, scarce resources instead of being allocated and judiciously used on development priorities are wasted if not outrightly diverted on projects that have little, if any direct bearing on socio-economic wellbeing (Ihejiamazu, 2001).

Ihejiamazu maintains that corruption has led to the poor running and maintenance of public institutions charged with the responsibility of rendering service. In this way, the capacity and efficient programme of those institutions are subverted. The poor state of societal institutions resulting from corruption has stifled entrepreneurial activities. It has rendered the socio-political/economic environments very challenging for entrepreneurs. Multifarious problems such as dearth of infrastructure that is sustainable, that can support life; unemployment, and a plethora of social problems defying social interventions are sustained on corruption.

From the template of development sociology, corruption is a major impediment to development in materially backward societies such as ours. Our society ends up spending on a few projects much more than it should have spent. A project that should cost ₦5m turns out to cost ₦20m, one that should cost ₦10m turns out to be ₦40m or even more. All these are signals that corruption is bound to persist in our society as long as society creates goals but does not create appropriate means of attaining such goals or when the individual experiences blockade or discrimination in the process of attaining legitimate goals thus making the individual to design a peculiar mode of adaptation according to Merton. Also when the society continues to propagate and maintain the values of Sorokin's sensate culture which is premised on immediate gratification and seeking first the kingdom of materialism as postulated by Karl Marx.

Ayoola (2005) argues that corruption threatens the global market place as it affects decisions made by political and economic elites as entrepreneurs. It reduces the efficacy of those in power and discourages internal and foreign investments. Ayoola posits that corruption and bribery have moved to the forefront in business discussions. List of countries that have been politically or economically crippled by corruption continues to grow. Businesses with long term interests abroad could ultimately collapse on the altar of bribery. Nwabuike (1998) asserts that a number of public sector programmes initiated in the past have aimed at improving basic services, infrastructure for rural and urban population; extending access to credit farm inputs and creating employment etc. These programmes would have launched our society to a higher development platform but most of them were not specifically targeted as a result of poor management of resources.

4.1 Types of Corruption

Osterfeld (1992) states that in a heavily regulated economy, one can find two distinct types of corruption:

- 1) Expansive corruption which involves activities that improve the competitiveness and flexibility of the market. As example of expansive corruption Osterfeld (1992) mentions that bribing of judges, politicians and bureaucrats by members of the private sector. The payment of bribes to the right officials, he argues, can help mitigate the harmful effects of excessive government regulation and improve economic participation (Mbaku 1996).
- 2) Restrictive corruption which limits opportunities for productive and socially beneficial exchange. Restrictive corruption as argued by Osterfeld (1992) is characterized by redistribution of income and wealth in favour of individuals or groups. Most public sector corruption falls in the restrictive category and involves illegal appropriation of public resources for private use (e.g. outright embezzlement by a civil servant) or the illegal use of an individual's public position for his own personal enrichment. Public –sector corruption hinders the proper functioning of the market systems, retards economic growth, and thus is restrictive corruption.

5. ENTREPRENEURSHIP AND CORRUPTION: Forging a link

Mauro (1995) finds that corruption is strongly negatively associated with the investment rate, regardless of the amount of red tape. He states that there is evidence that institutional inefficiency causes low investment. Everhart and Sumlinski (2001) find that public investment “crowds out” private investment and that in more corrupt countries, the crowding out effect is stronger. They argue that when government projects are tainted by corruption, the quality of infrastructure suffers and this discourages private investment.

Selected indices of corruption in entrepreneurial development

1) Legislature/Politics

As in many countries, laws are influenced by the rich and powerful. Large corporations support politicians in exchange for legislation that favours their business interests and, sometimes in order to gain government contracts. The exchange politics described by Geddes and Ribeiro (1999) falls in this category.

Corruption in this area may create barriers to entry for small enterprises. If politicians protect big business, they may fight legislation that supports small loans, for example, designed to help small businesses get started.

2) Procurement

Despite the strict laws regarding government procurement there have been indications that bribery and nepotism are frequent in government procurement (Abramo, 2004). Abramo and Speck (2001) indicate that these changes resulted in a law that is stricter than the requirement of many international aid agencies and that corruption is, therefore, less probable in government works than in works commissioned by agencies; many of those expected to apply the law, however, are poorly informed regarding it.

3) Taxes

When taxes are high, firms will spend resources trying to get around them. In Nigeria, the main goal of corruption in tax collection is to reduce the total tax assessed. Thus, the monetary costs to firms of this type of corruption may be lower than the tax itself. The favours obtained include (in descending order of frequency): relaxing audits and inspections, desisting from threatening the firm, desisting from reporting identified tax fraud, advising on legal forms of reducing the tax burden, cancelling fines already assessed, letting slide undeclared values, and turning a blind eye to tax deductions that should not be granted. (Abramo , 2004). The net effect on entrepreneurship is unclear; on the one hand lower taxes (even after the payment of bribes) leave more financial resources available for investment; on the other, this corruption introduces uncertainty, requires the use of human and social resources (as indicated by Baumol (1990), and may limit entrepreneurial activity to those who are willing to engage in corruption. At any rate, this corruption is potentially as distorting as the taxes themselves.

4) Privatization

The privatization of the state enterprises reduces monopolistic control of those enterprises and removes the state and its bureaucrats from those parts of the allocation of resources. This may reduce the incidence of corruption.

Privatization also affects entrepreneurship adversely for the private sector has been less eager than the government to invest in research and development.

THEORETICAL FRAMEWORK

Schumpeter's innovation theory

Joseph Schumpeter is known for reviving an interest in economic development theory of the present century. He was strongly influenced by Karl Marx's writings and became a great supporter of the capitalistic system. Although he was convinced that capitalism brought great economic and social progress yet he was equally convinced that the system would stagnate and eventually breakdown (Jhingan 2006).

In considering the cause of development under Western capitalism, he was convinced that the causes of development could not be separated from the causes of ordinary business cycles, that they were part of the same process. Thus, he saw development as coming in a series of waves or spurts, being borne along on the rising swell of the cycles.

The central idea in his theory of development is the role of the innovator. The role of the entrepreneur as modern economists call it was conceived by Schumpeter as being split into three parts: the innovator, the manager, and the supplier of funds or capitalist. For Schumpeter, (1) the innovator is the central figure because he is the man who seeks, in the pursuit profits to put into practice changes or innovations. These might include new goods, new uses of old goods, the opening of new markets, use of new raw materials, the reorganization of product; in short, and any new idea that changes economic practice. Schumpeter observes that the innovators are likely to be the new firm and that their rise is to be encouraged.

According to the thinking of Schumpeter, in order to innovate, entrepreneurs must have access to funds and those would normally come from credit. Credit would be borrowed and innovations made. If these methods proved successful, a host of more business oriented individuals would imitate the innovation method and would borrow for the same purpose. The result would be rapid progress in investment and in the economy. Eventually, the cycle would turn downward as the new investments become productive and flood the market with goods; debts would be paid off, thus reducing the credit outstanding.

The innovator could fail in the implementation of the entrepreneurial agenda due to unethical attitude of the social/ economic and political players in the social system. Entrepreneurial development could be badly implemented if the credits are unaccounted for and poorly channeled. The theory implies that funds meant for capacity building, for existing skill acquisition and training centres, for instance, could be misapplied. The funds could be used for other unintended purposes thereby incapacitating the goals of development. The spirit of the innovator is the spirit of entrepreneurial development. Finally, the theory implies that manifestations such as slow economic growth, economic mismanagement, infrastructural deficiencies and weak political commitment to achieving development goals are indicators of corruption-infected entrepreneurial development.

CONCLUSION/RECOMMENDATION

Corruption has a degenerative impact on entrepreneurial development. It distorts incentives and destroys the productive capacity of local talents and entrepreneurs. Corruption is detrimental to long term sustainable entrepreneurial development; it is inimical to development. Its effects on entrepreneurship are significant because it perpetuates inequality, increases wealth and asset gaps between the rich and poor on national, regional, continental and global scales. Equally, it creates and sustains conditions of underdevelopment and poverty.

Nigeria where entrepreneurial skills are in particular very scarce is adversely affected by corruption. Corruption inflicts a substantial cost on the economy. It is a double edged sword; it reduces both the volume and efficiency of investment and cripples economic development.

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