

## PERFORMANCE EFFECT OF INSTITUTIONAL ENVIRONMENT ON ENTREPRENEURIAL PURSUIT IN NIGERIA

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**Akande,Olusola.O, & Alabi, Ezekiel**

Department of Management and Accounting,

Ladoke Akintola University of Technology Ogbomoso, Oyo State, Nigeria

Department of Business Administration and Management,

Faculty of Management Studies, Osun State Polytechnic, Iree.

E-mail: [sola2much4u@yahoo.com](mailto:sola2much4u@yahoo.com)

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### ABSTRACT

*This paper investigated the performance effect of institutional environment on the entrepreneurial pursuit in Nigeria with specific focus on the numbers of aspiring entrepreneurs in Ondo State. Both primary and secondary data were used. The primary data were sourced through self-administered structured questionnaire designed for small scale business owners in Ondo State. Secondary data were sourced from the register provided by the national association of small scale businesses, Ondo State chapter containing the name and traceable address of each registered member. A purposive sampling procedure was used to select a sample of one hundred and twenty (120) respondents from a population of 725 registered members. Data collected were analyzed using Simple Regression Analysis through the aid of Statistical Package for Social Sciences (SPSS) in order to examine the effect of independent variable (institutional environment) on dependent variable (entrepreneurial pursuit). The result showed that institutional environment has statistical significant effect on the numbers of entrepreneurs aspiring to establish their own enterprises in the state with a P-Value of 0.0000 which is less than 0.01 level of significance. The result of the Simple Regression Analysis showed an overall P-value of 0.0000 and R<sup>2</sup> of 0.488 percent which implied that institutional environment has statistical significant effect on entrepreneurial pursuit in the state. The paper concluded that Weak and corrupt government institution is detrimental to long term sustainable entrepreneurial pursuit and inimical to its development and therefore, recommended that a law is passed to impose death sentence on offences relating to corrupt practices to serve as deterrent to others to learn.*

**Keywords:** Entrepreneurship, Institution, Environment, Entrepreneur, Entrepreneurial Pursuit

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## INTRODUCTION

In Africa, Nigeria appears to be the most populous country and naturally blessed with resources in persons and materials. According to International Monetary Fund (2016), it is the largest economy in Africa followed by South Africa and holds the records for being the largest oil producer on the continent and the sixth in OPEC. It has championed some courses in the resolution of many political and social challenges in Africa. Years back, Nigeria had implemented some far reaching economic reforms targeted at diversifying the economy and stimulates the private sector to provide jobs for the youth. The recent development on Boko Haram and Niger Delta negotiation is a sign of commitment and determination of the Federal government to address its three-point reform agenda which covers fighting corruption, insecurity and employment.

However, Nigeria is still far away from making any significant economic and social progress required to improve the well being of an average Nigerian considering the fact that as at this present time, over half of Nigeria's population live on less than one US dollar a day. The enormity of the challenge is corroborated by Nigeria's low score on the Human Development Index (HDI), an index that measures the average achievement of a country in term of the welfare and quality of life of its people. In the ease of doing business and competitiveness, Nigeria ranks behind numerous countries with similar sized economies and with a rank similar to smaller economies or countries at war like Syria, Burundi, Congo, Liberia and Malawi among others (IMF, 2016). The state of tertiary education in Nigeria poses an even greater challenge. Tertiary education suffers from poor funding, enrolment expansion beyond the capacity of facilities and low educational quality (World Health Organization, 2008). Needful, but sad to say, that the greater percentage of Nigerian youth are unemployed, hence, to survive they take to self employment.

Consequent upon the fact that more than 60 percent of graduates are unable to secure employment immediately after graduation, many of them are wishing to be on their own rather than looking up to government for employment. The major concern of the Nigerian government is to make as many people as possible particularly the teaming young graduates to be self employed. As a result, governments aggressively embarked on entrepreneurial programmes aimed at helping youth acquire necessary resources to enable them start their own businesses. Aspiring to start new businesses is an important activity encouraged by government policy and institution and considered very germane for employment, innovation and

sustainable economic growth. This is very essential considering the various government policies to promote youth self employment such as National Directorate of Employment (NDE), Open Apprenticeship Scheme, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Economic Empowerment and Development Strategy (NEEDS). The policy thrust of NEEDS includes consolidation and strengthening an enabling environment for a competitive private sector, reduction of policy related costs and risks such as institutional corruption, red tape and administrative barriers to business, reactivation of infrastructural facilities among others (Emma, 2014).

Based on the established thrust of numerous entrepreneurial related policies in Nigeria seeking to address the rapid growth of a competitive and sustainable private sector to diversify the economic base and reduce the increasing rate of youth unemployment, it appear very little had been achieved in this regard. It appears that some of these entrepreneurial related policies are good but the issue of government institutional barrier hinders them from supporting Nigerians in their entrepreneurial pursuit. The law enforcement system, including police, judicial, taxes and procurement officers among others specifically affects entrepreneurs. Corruption in these areas creates supply and demand distortions, favouring those entrepreneurs who have connections in the public administration and creates disincentives to other entrepreneurs aspiring to start new ventures. In the light of the foregoing, this study, therefore, attempts to empirically investigate the effect of institutional environment on the entrepreneurial pursuit in Nigeria.

### **Research Question**

To what extent does institutional environment influence entrepreneurial pursuit?

### **Research Hypothesis**

**H<sub>01</sub>:** There is no significant effect of institutional environment on entrepreneurial pursuit.

### **Conceptual Underpinning and Literature review**

#### **Institutional Environment**

According to the views of many economists “institutions matter and are susceptible to analysis” (Matthews, 1986; Williamson, 1996). As Nord (1990) puts it “institutions are the rules of the game”. They include the laws and norms by which society lives and the mechanisms created to

enforce the rules and norms. The degree of match between the objectives of institutional constraints and choices that individuals make in the specific institutional environment depends on the effectiveness of enforcement mechanisms. Enforcement is carried out by three different parties; self imposed codes of conduct; retaliation and/or societal sanctions or coercive enforcement by the state (Nord, 1990). Generally, institutions can either be formal or informal in nature.

Zenger et al. (2001) define formal institutions as rules that are readily observable through written documents or rules that are determined and executed through formal position, such as authority or ownership. Formal institutions, thus, include explicit incentives, contractual terms, and firm boundaries as defined by equity positions. The informal institutions, in turn, are defined as rules based on implicit understandings, being in most part socially derived and therefore not accessible through written documents or necessarily sanctioned through formal position. Thus, informal institutions include social norms, routines, and political processes. Kraybill & Weber (1995) opine that three categories of institutions affect economic outcomes: political institutions, market institutions and civil institutions. These three categories covering the various fields of socio-economic activity, together determine the institutional environment in which individuals and their organizations exist and grow. Some authors (Dickson, 2004; Boryana, 2014) define the institutional environment as the set of political, economic, social and legal conventions that establish the foundational basis for production and exchange. According to others the institutional environment include the systems of formal laws, regulations, and procedures, and informal conventions, customs, and norms, that broaden, mould, and restrain socio-economic activity and behaviour. From the views of Brousseau & Raynaud (2006), institutional environment refers to the general institutions of societies that set the “rules of the game” and make them mandatory, either because these rules are enforced by a coercive, last resort power (i.e. the State), or because they represent the beliefs and conventions forming the identity of a society (nation, language, etc.). It includes therefore both its formal and informal components (Boryana, 2014).

### **Concept of Entrepreneurship**

The term entrepreneurship has a history that dates back to 1732 when the Irish economist, Richard Cantillon used the word in reference to individuals with “a willingness to carry out forms of arbitrage involving the financial risk of a new venture” (Minniti & Levesque, 2008). Entrepreneurship is the

capacity to harness the right quantity, quality and combination of resources that are consistent with profit making under risks and uncertainty. Essien (2006) describes entrepreneurship as the totality of self-asserting attributes that enable a person to identify latent business opportunities, together with capacity to organize needed resources with which to profitably take advantage of such opportunities in the face of calculated risks and uncertainty.

Aina&Salako (2008) describe entrepreneurship as the willingness and ability of an individual to seek out investment opportunities and take advantages of scarce resources to exploit the opportunities profitably. It is seen as the process of creating something new with value by devoting the necessary time and efforts. Timmons &Spineli (2004) define entrepreneurship as the function of being creative and responsive within and to the environment. In the view of Nwachukwu (2007), entrepreneurship is the ability to set up a business-enterprise as different from being employed. It involves the acquisition of skills, ideas and managerial abilities necessary for self-reliance. Entrepreneurship in any country is important for reducing unemployment and with the zeal of entrepreneurs, very valuable jobs will be created, not just for entrepreneurs only but also for others in the society (George &Archibong, 2010).

Meanwhile, becoming an entrepreneur is never a one day game as Ali, Tajddini, Rehman, Ali & Ahmed (2012) reveal that intentions are states of mind which motivate individuals to attain some specific goals. The entrepreneurial mind set, according to the above researchers directs toward risk taking over the fear of loss with efficacy and therefore, entrepreneurial pursuits are “the entrepreneur’s state of mind that directs attention, experience and action towards a business concept. The findings of various studies conducted by Baggozi (1989); Ajzen (1991); Abraham & Sheeran (2003); Sumra, Safarish, Suhail& Ahmad (2011) indicate that entrepreneurial pursuit or start-up is an important first step in the entrepreneurship process. In social psychology, the researchers reveal that intention is considered as the most immediate and important antecedent of behavior.

### **Relationship between Institutional Environment and Entrepreneurial Pursuit**

Successful entry into self employment and the establishment of small business require much more than entrepreneurial skills, access to capital

and markets and managerial competences among others but enabling environments for sustaining and expanding of enterprises. The clearest fact about enterprise development in recent years is that all types of business are easier to establish and ultimately more successful if framework conditions are positive, that is, if there is an enabling environment (World Bank, 1991; Palmer, 2007). However, entrepreneurial pursuits are constrained by weak, contradictory, corrupt, poor coordination between and lack of capacity of ministries and agencies concerned with education, skills, taxes and private sector development. These are obviously interrelated, as revealed by Palmer (2007) that lack of an overall strategic policy framework contributes to weak institutional linkages and hence a disabling institutional environment to entrepreneurial pursuit.

The study carried out by Mauro (1995) as cited by Festus, Bassey&Uyang (2014) revealed that institutional corruption is strongly negatively associated with the investment rate and entrepreneurial pursuit, considering the level of red tape. He further revealed that there is evidence that institutional inefficiency serves as barrier to aspiring entrepreneurs and causes low investment. In the same vein, Evertart&Sumlinski (2001) established through their study that public investment “crowds out” private investment and that in more corrupt countries, the crowding out effect is stronger. They further argue that when government projects are tainted by corruption, the quality of infrastructures suffers and this discourages private investment and entrepreneurial pursuit.

Corruption in this area may create barriers to entry for small enterprises. For instance, if politicians protect big business, they may fight against legislation that supports small loans that are designed to help small businesses to get started (Festus et. al., 2014).

From another study conducted by Opara (2011) investigating the factors constraining the growth and survival of SMEs in Nigeria: implication for poverty. The result showed that financial constraints, lack of management, institutional corruption and infrastructural constraints are negatively correlated with small business performance.

To corroborate the above positions made by various scholars, World Bank (2016) ranked Nigeria in the Doing Business Index an aggregate of 169 out of the 189 economies assessed. Nigeria’s rank for each of the ten sub-indices is as follows: Ease of Doing Business 169, Starting a Business 128, Dealing with Construction Permits 130, Registering Property 132, Getting Electricity 149, Enforcing Contract 132, Resolving Insolvency 128, Getting

Credit 118, Protecting Minority Investors 125, Paying Taxes 131, Trading Across Border 136. From these foregoing, it is clear that fostering the private sector and entrepreneurial pursuit depends on a supportive business environment but the Nigerian business climate lags behind many countries in comparable positions and this remains a strong barrier to aspiring entrepreneurs in Nigeria.

## METHODOLOGY

Survey research design was adopted in this study. This design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Data were collected from a sample of small scale business owners to examine the effect of institutional environment on entrepreneurial pursuit in Nigeria. The independent variable is institutional environment while the only dependent variable is entrepreneurial pursuit. However, the study was restricted to Akure, Ondo State. The choice of Akure stems from the fact that being the State capital and enjoys the State government's attention in terms of infrastructural development. Therefore, majority of small scale businesses that were being used for this study reside in this town. Self administered questionnaire has served as operational instrument to collect a purposive sampling primary data from 120 small business owners out of 725 names that appeared on the register provided by the National Association of Small Scale Enterprises, Ondo State Chapter and that constitute the sample size. Study also used secondary source like records provided by the association to get insight into the traceable address of each member. The variables were measured using likert scale with indicants ranging from *strongly agree (5)* to *strongly disagree (1)*. Simple regression analysis was used as analytical tool with the aid of Statistical Package for Social Sciences (SPSS) for data analysis.

## Model Specification

Mathematically, the model is expressed as follows:  $EP = \alpha_0 + \alpha_1 X_1 + \lambda$

Where; **EP**= Entrepreneurial Pursuit, **X<sub>1</sub>**= Institutional Environment, **α<sub>0</sub>**= Intercept,

**α<sub>1</sub>**= Regression Coefficient, **λ** = Stochastic error term.

## DISCUSSION

As shown in 1a below the value of coefficient of determination ( $R^2$ )= 0.488, which implies that 48.8 percent of the variation in entrepreneurial pursuit could be explained by the efficiency of institutional environment from

which entrepreneurs could be well supported with regulatory mechanisms, managerial skills and entrepreneurial competencies for a successful enterprising. In table 1b (Anova) F-Statistic reveals the value of F(61.919) significant at 0.01 confidence level. This result therefore indicates that the independent variable (institutional environment) immensely contributes to the variation in the entrepreneurial pursuit of our aspiring entrepreneurs in the study area. As shown in table 1c below, since the t-value for the regression coefficient is significant at 99% confident level (t= 7.869, P= 0.01), it implies that the predictor variable (institutional environment) makes a significant contribution to the level of entrepreneurs aspiring to own their enterprises. Moreover, the unstandardised simple regression model is  $F = 61.264 + 1.172\beta$  while the standardized beta coefficient indicates that a unit of better efficiency in the activities of institutional environment causes a 53.7% increase in the numbers of entrepreneurs aspiring to establish their own enterprises leading to rapid economic growth.

Collectively the result from tables 1a, 1b and 1c indicate that institutional environment contribute 48.8% to the numbers of entrepreneurs aspiring to own enterprises with ( $R^2 = .488$ ,  $F(1,153) = 61.919$ ,  $P < .01$ ). This implies that institutional environment influences entrepreneurial pursuit at 1% level. This result conforms to Festus et. al.,(2014) and Opara (2011) who found out that financial constraints, lack of management, institutional corruption and infrastructural constraints are negatively correlated with small business performance and hindrance to entrepreneurial pursuit. Furthermore, it was revealed that effective institutional environment with ( $\beta = .537$ ,  $t = 14.971$ ,  $P < 0.1$ ) is positive and significantly related with entrepreneurial pursuit in the study area. This indicate that less corrupt and strong institutional environment has significant influence on the entrepreneurial pursuit. This result is in line with the findings of the study carried out by Evertart and Sumlinski (2001) that when government projects are tainted by corruption, the quality of infrastructures suffers and this discourages private investment and entrepreneurial pursuit. Corruption in this area may create barriers to entry for small enterprises.

**Table 1a: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.488 <sup>a</sup>	.483	.479	2.044

a. Predictor: (Constant), Institutional Environment

b. Dependent Variable: Entrepreneurial Pursuit

Source: Field Survey, 2016



**Table 1b: Analysis of Variance (ANOVA)**

Source	Sum of Square	df	Mean Square	F	Sig.
Model					
Regression	258.765	1	258.765	61.919	.000a
Residual	639.403	118	4.179		
Total	898.168	119			

a. Predictor: (Constant), Institutional Environment

b. Dependent Variable: Entrepreneurial Pursuit

Source: Field Survey, 2016

**Table 1c: Simple Regression Analysis Showing the Performance Effect of Institutional Environment on Entrepreneurial Pursuit**

Model	Unstandardised Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
1 Constant	61.264	4.092		14.971	.000
Entrepreneurial Pursuit	1.172	.149	.537	7.869	.000

Source: Field Survey, 2016.

## CONCLUSION

Based on the empirical results of this study examining the performance effect of institutional environment on entrepreneurial pursuit, the Nigerian economy is such that much effort with very little result has been made by governments to encourage investment that can help to create employment opportunities for the youth and other job-seekers by providing enabling business environment where corporations, enterprises and businesses can thrive. It should also be noted that there is problem of serious unemployment in Ondo State which resulted to youth restiveness and high rate of crime. On this note and in line with the objective of the study, the following conclusions were drawn;

There was awareness creation on the crucial role of entrepreneurship and entrepreneurial development as well as training in fostering employment generation among the teaming youth for economic growth and wealth creation but weak as well as corrupt government institution has posed a strong barrier to aspiring entrepreneurs. Corruption has a degenerative effect on entrepreneurial pursuit. It distorts incentives and destroys the productive capacity of local talents and entrepreneurs. Weak and corrupt government institution is detrimental to long term sustainable entrepreneurial pursuit and inimical to its development. The effect of a weak and corrupt institutional environment on entrepreneurship is very significant because it perpetuates inequality, increases wealth and asset

gap between the rich against the poor entrepreneurs. in the light of the above conclusion, the following recommendations may be found useful;

- There should be needs to ensure that a law is passed to impose death sentence on offences relating to corrupt practices to serve as deterrent to others to learn.
- Government needs to create a business friendly environment with modern infrastructural facilities and stable macro-economic policies.
- Individuals and Non-governmental Organizations should join hands with government in the fight against corruption.

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**Reference** to this paper should be made as follows: Akande,Olusola.O, & Alabi, Ezekiel (2017), Performance Effect of Institutional Environment on Entrepreneurial Pursuit in Nigeria. *J. of Management and Corporate Governance*, Vol.9, No.2, Pp 1-12

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