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Entrepreneurship contribution of foreign direct investment: A reality of unfulfilled vision in Nigeria

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Abstract

The direct foreign intervention in business has been an over flogged issue for quite some decades especially in major public and corporate organizations in Nigeria, but not much was noticed from entrepreneurship contribution of foreign direct investment in the country. This paper therefore seeks to examine how real is the contribution of foreign direct investment to entrepreneurship in Nigeria, using descriptive method of analysis. The analysis reveals only the evidence of significant domination in oil and gas and oil servicing industries, which mainly accounted for the unabated level of unemployment of both human and material resources. In addition, the study also discovered that the indigenous know-how among local artisans is also less competitive. The study therefore concludes that the entrepreneurship contribution of foreign direct investment is highly insignificant to realize the vision of government in Nigeria and suggest more participation and contribution of foreign entrepreneurs to support the industrialization efforts of the country.

Keywords: Entrepreneurs; Industries; FDI; Sectoral Analysis; Nigeria

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1. Introduction

One of the macro-economic goals of every economy is to attain a full employment. There have been several arguments from many quarters with the views that new firm creation and conscious efforts at building entrepreneurship capacity are the engines of productivity growth and economic development. It was also opined that scrutinizing how an economy transformed through a command or centrally planned to a market based economic system have laid much emphasis on privatization of existing firms rather than on the creation of domestic entrepreneurial oriented firms, but then it is arguably an equally germane channel for productivity growth and development. But in the recent time, several researchers have started to evaluate what determines the level of growth and development of entrepreneurship in an average economy, including the impact of the business environment, institutions, and the role of the government. But, the roles foreign direct investment (FDI) plays in new business development and growth of entrepreneurship in the developing economies can never be over emphasized, in that inflows of foreign investment has been revealed and believed to having capacity to play an important role in growth engendering, technology transfer, new market development, and enterprise restructuring. Bartels (2000) is of the opinion that FDI, in its nature, is an international account that reflects acquiring a long-lasting interest by a resident entity of one country into a resident entity of another country. It has also been defined as the very process by which an investor of a foreign country acquires asset in another country for controlling the production, distribution related issues of a service or product in another country or for getting ownership stakes.

In Nigeria, the foreign direct investment (FDI) has played an important role in the economic development policies of several developing countries including Nigeria. Since the introduction of structural adjustment programme (SAP) in 1986, Nigeria, for example has focused mainly on foreign direct investment based industrial development policies. Young et al. (1994, p.2-6) identified that an FDI inflows well harnessed can bring in the latest technology, create employment and lead to tradable goods. They further opined that FDI not only enables the transfer of intangibles to another country but also makes knowledge spillovers possible and therefore may play a role in the growth and development of indigenous entrepreneurship. These knowledge spillovers can lead to the establishment of new home-grown enterprises in the host country leading to further economic development. According to UNCTAD (2000, p.16) reports, where FDI was referred to as a major Industrial Development Policy tool and that FDI has also been a growing phenomenon: the reports indicated that between 1979 and 1999, the ratio of world FDI stock to world GDP rose from 5% to 16% and the ratio of world FDI inflows to GDP formation rose from 2% to 14%). Though a large of the world's $648 billion FDI inflows are to developed countries, the residuals of the FDI is referred to as the dominant source of inflows of financing in developing and third world countries and is especially directed to new Greenfield investments and certain industry sectors (UNCTAD, 2005, p.301). The role and scope of FDI has changed with the advent of the global knowledge economic system.

Conversely, it has been expressed in some quarters that in today's global knowledge economy, intending firms have more preference for countries in which they can take advantage of strategic assets, especially intangibles such as information and human capital than countries where otherwise holds because this type of foreign investment is long–term and its physical which will definitely requires knowledge transfer across the

Multi National firms. The Multinationals' ability to access the host countries' resources heavily rely on its ability to build an effective intangible asset such as its goodwill and the trust such Multinationals is able to sustain between firms and its actors such as customers, partners, governments, and suppliers. Terjesen, Planck and Acs (2007, p.3) were of the views that during the course of these FDI activities, there is a transfer of technology and intangibles to the host country that involves people and machinery, and some of this knowledge spills over. These spillovers are not necessarily intentional, given that these Multinationals are profit-maximizing entities and will not be willing to transfer knowledge unless it obtains a return. Whereas, knowledge spillovers has been regarded as a resultant effect of a gap in technology between foreign and local firms.

However, in the literature, not all the types of FDI will have the same potential for knowledge spillovers. In opinions of Buckley et al. (1988) cited in Terjesen et al. (2007, p.3), it was revealed that the potentials for knowledge spillovers are related to the types of FDI and the level of human capital in the host country. According to these authors, it was argued that FDI in high technology industries is more likely to generate knowledge-intensive spillovers. In UNCTAD (1994), it was reported that high levels of human capital in form of formal education, consistent on-the-job training including industry, management, and business development experience will also make it easier for entrepreneurs to start high value-added firms. Individuals working in Multinationals generally obtain higher levels of training and development than in local firms and wish to obtain the best returns for these skills. Individuals may feel unable to realise appropriate returns in the existing firm or may believe that the bureaucratic Multinational does not value this knowledge, and seize the opportunity to create a new entity. It was further revealed in the reports that, for such entrepreneurial activity to occur, the host country will require a cultural context that supports indigenous entrepreneurial activity as a desirable economic choice. For entrepreneurs to exploit opportunities that arise from knowledge spillovers, entrepreneurs need the appropriate personal 'knowledge' and resources. Furthermore, as different types of FDI enable different levels of knowledge spillovers. To buttress these, Acs and Varga (2005, p.4) were of the opinion that it is expected of the entrepreneurs to note that entrepreneurial activity will be more pervasive in sectors where entrepreneurs are exploiting opportunities relating to agglomeration of Multinationals.

Entrepreneurship in the third world countries like Nigeria is an under researched topic. This is mainly because of the scarcity of comprehensive comparable data suitable for analysis. Additionally, a new research trend has emerged in recent years, which tries to uncover the relation between institutional quality Multinationals and entrepreneurship. The motivation for this study is to make a contribution to this kind of literature and to provide useful insights for policy making relative to entrepreneurship in developing countries specifically Nigeria. It has been emphasized by several development economists such as Bianchini (2010, p.4) who revealed that the integration of developing countries with the global economy increased sharply in the 1990s with changes in their economic policies and lowering of barriers to trade and investment. Most countries strive to attract foreign direct investment (FDI) because of its acknowledged advantages as a tool of economic development. Ayanwale (2007, p.1) is of the view that many African countries and particularly Nigeria, joined the rest of the world in seeking FDI as evidenced by the formation of the New Partnership for Africa's Development (NEPAD), which has the attraction of foreign investment to

Africa as a major component. He stated further that FDI is assumed to benefit a poor country like Nigeria, not only by supplementary domestic investment, but also in terms of employment creation, transfer of technology, increased domestic competition and other positive externalities But asserted that the empirical linkage between FDI and economic growth in Nigeria is yet unclear, also that recent evidence affirms that the relationship between FDI and growth may be country and period specific. In view of this assertion, the study seeks to review how the embracement of FDI has contributed to the growth and development of entrepreneurial activities in Nigeria, especially in the creation of new firms and sustaining the capacity of the existing ones.

2. Literature review

2.1. Theoretical review

Theoretically, this work adopts the internalization theory proposed by Buckley and Casson (1976), Helpman (1984), Caves (1985) as analyzed in Morck and Yeung (1997, p.2) where they asserted that information-based assets are the key prerequisite for the existence of synergy and further noted that this is because information-based assets have increasing returns to scale. This theory tried to describe how local firms' knowledge of laws and relationship with local players provide 'home court advantages'. Besides, the authors opined that foreign firms must therefore leverage special advantages, often information-based intangibles, in order to compete in these markets. Foreign firms must choose from a number of international trade options such as exporting, licensing, strategic alliances, or joint ventures. However, they were of the views that Multinationals find it difficult to leverage capabilities through arm's length transaction such as exporting due to the need for on-the-ground service or the presence of high trade barriers. Options such as licensing, strategic alliances, or joint venturing may not be optimal due to Multinationals' concerns about piracy of intellectual property, reverse engineering of goods and also differing production qualities of branded goods. When faced with such problems, firms choosing to internalize by retaining direct control of their intangibles become Multinationals. Consequent upon this, the domestic firms in the host country are deprived of those benefits that are crucial to their growth and sustainability.

Apart from the internalization theory, the dependency theory was also taken into consideration to analyse the role of FDI in the underdevelopment of Third World economies. The Dependency Theory is rooted in Marxist thought was put forward by Singer and Prebisch in the 1940's known as Singer-Prebisch thesis where it was stated that the poverty of the countries in the periphery known as the third world is not because they are not integrated into the world system, or not 'fully' integrated as is often argued by free market economists, but because of *how* they are integrated into the system, Wiki (2013). The theory debunks the Modernization Theory's assertion that all societies progress through similar stages of development and that today's underdeveloped states are experiencing a similar situation as today's developed states and therefore need investment, technology transfer, and closer integration with the developed states to accelerate their development. The dependency school classify countries into centre which they referred to as the developed, industrialized world and the periphery economies which they classified as the underdeveloped agricultural and mostly the Africans and that the relationship between them is determined by the structure of the world economy. The Dependency Theory after it was postulated in Latin America later became famous and was commonly applied in the 1960's to Africa and other Third World Countries. The Dependency Theory is premised on the belief that:

- Poor nations provide natural resources, cheap labour, a destination for obsolete technology, and markets to the wealthy nations; without which the latter could not have the standard of living they enjoy.
- Wealthy nations actively perpetuate a state of dependency multifaceted means such as education, sports, economic, media control, politics, banking, finance and human resource development.
- Wealthy nations actively counter attempts by dependent nations to resist their influences by economic sanctions and/or the use of force as the case may require.

This implies that dependency is sustained by the exploitative tendencies and practices of Multinational firms by creating dependent industrialization in the name of bringing in an FDI which destroys local entrepreneurship capabilities of the host and dependent countries and technological innovation. The host economies were made to be worse off because the profits of Multinationals are repatriated and this also constitute capital flight on dependent economies. Again, foreign firms usually gain control of key industrial sectors leaving the local firms to operate in capital markets as expressed in study carried out by Terkula (2011, p.3). More so, He further noted that capital-intensive rather than labour – intensive method of production is introduced thereby causing unemployment. Dependency also encouraged an international division of labour between the high technology of the centre and the low technology of the third world economies which are the dependencies. This is because of the fact that the idea hampers self-sustaining development based on local resources and initiatives which resultantly increases unemployment and corrupts the labour market because the Multinational Enterprises (MNEs) pay higher wages to workers than domestic employers.

2.2. Empirical evidences

Several studies have analyzed the impact of FDI presence on domestic firms' productivity. The study carried out by Ayyagari and Kosová (2008, p.21) is one of the first to examine how FDI presence affects domestic firms' formation in a transitional country. To support the study, the authors employed an extensive firm-level panel dataset of 979 domestic and foreign firms in the Czech Republic, during 1994-2000. The data set covers a broad range of 245 industries and their results however, revealed that foreign presence generates significant positive spillovers on the entry of domestic firms. Further in their study, when analysing horizontal entry spillovers, they found that a 10% increase in foreign market share increases the entry rates of Czech firms on average by 1.6%. However, the duo stated that FDI spillovers via vertical linkages (both forward and backward) are of a much higher magnitude than horizontal spillovers. Therefore, a 10% increase in foreign presence across all downstream industries according to Ayyagari and Kosova, increases the average domestic entry rate in the supplying industry by 9.4%, and further noted that, the existence of entry spillovers varies greatly with the type of industry. One conclusion that could be drawn from their study was that while the service industries benefit from huge FDI spillover effects through both horizontal and vertical channels, manufacturing industries do not experience any significant positive spillovers from FDI. This suggests a higher entry barrier effect in manufacturing.

Adegbite and Ayadi (2010, p.11) also in their study where they examine the role of FDI in Economic development of Nigeria found out that FDI has contributed significantly to output growth in Nigeria. Their study revealed further that the efficacy of FDI in generating the desired growth may be limited by the level of infrastructural development in Nigeria. Besides, human factor is an important factor in FDI-growth debate in Nigeria. The implication of this is that if Nigeria put sufficient investment into high levels of human capital development, she can maximize the technological spillovers associated with foreign direct investment.

Another author that examined how FDI affects growth is Imoudu (2012, p.11) who wrote on the Impact of Foreign Direct Investment on Nigeria's Economic Growth between 1980 and 2009, using the Johansen's Co integration approach and concluded that Nigeria is yet to fully reap the benefits of FDI, as its impact on growth at the moment is very little. The study however asserted that hopes are rift that if round pegs are put in round holes, the anticipated benefits of FDI will begin to manifest in Nigeria.

2.3. Conceptual analysis on entrepreneurship and FDI

2.3.1. The concept of entrepreneurship

The concept of entrepreneur has generated several definitional arguments which could not produce a clear-cut definition. Morrison (1998) asserted that many definitions have been put forward with several indices such as economic function, ownership structure, degrees of entrepreneurship, size and life-cycle of the firm and resource base. In the earliest period, the word entrepreneurship stems from French, which literally means "between-taker" or "go-between" (Ottih, 2000) cited in Briggs (2009, p.2). The term entrepreneur was also used in the middle ages to describe both an actor and a person who managed large production projects. In the modern age, risk was later connected to the concept of entrepreneurship as one of the characteristics of a market oriented economy. In entrepreneurship, a process is involved and this include all the functions, activities and actions associated with perceiving opportunities and creating organizations to pursue them (Bygrave, 2004). The process has 4 phases namely identification and evaluation of opportunity, development of business plan, determination of the required resources and management of the resulting enterprise. The entrepreneurial process is influenced by the personality of the entrepreneur and environmental forces which trigger events that stimulate growth and give to a birth new enterprise.

In the recent times, Foreign Direct Investment has been regarded as a parasite that feed on the host and as such retarding the development of domestic industries for export promotion. However, Bende-Nabende and Ford (1998) as quoted in Nyamwange (2009), submit that "the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image". Caves (1996, chap.2) observe that the rationale for increase efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gain, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets. Carkovic and Levine (2002, p.1) notes that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spill-over. According to Athukorala (2003, p.4), FDI is said to "provide much needed resources to developing countries such as capital, technology, managerial skills, entrepreneurial ability, brand and access to markets which are essential for developing countries to industrialize, develop, create jobs and attack the poverty situation in their countries". Though these phases according to Hisrich et al. (2008) quoted in Briggs (2009, p.3), changes with time but noted that no one stage is dealt with without interference from the next while the work on the other phases begins.

2.3.2. The FDI concept

The concept of Foreign Direct investment (FDI) refers to a movement of capital that involves ownership and control of a firm in another country. The concept of FDI and economic development has remained on the relationship between the MNEs and the host societies and how development is appraised in these host societies. The issue of contribution to development through social responsibility by the business enterprise has become a topical issue in management decision and is negatively favoured in these host societies. The Multinationals provides inputs at lower cost to local downstream buyers or by their increasing demand for inputs produced by local upstream suppliers. This took place in some developing countries including Nigeria as nationals of these countries have their capacity built in various sectors and now hold technical and managerial positions in multinational enterprises. Host economy receives rents from multinational enterprises. It is argued that by attracting multinational firms, the host economy captures a portion of the rents that these firms generate (Glass and Saggi, 1999, p.11). Multinational enterprises pay corporate tax and other taxes imposed on them by the host government, which generates huge sums of money in U.S dollars that have enabled the governments of host economies in their developmental strides. Another area is an Increases an economy's access to specialized intermediate inputs which are produced in more developed economies and accessible abroad through multinationals.

This, according to the proponents of FDI, it raises the economy's total factor productivity, especially in the less developed economies through access to the stock of knowledge capital. This access makes labour and other factors in the host economy more productive (Hanson, 2001, p.17). Besides, FDI Improve the living standard of the host economy. It is argued that MNEs pay their workers higher wages, hence improvement in the standard of living. Meanwhile, MNEs pay the highest wage to nationals of the host countries and the trickledown effects of this accelerate the development of the regions. Moreover, Thomson (1999, p.23) also asserted that "FDI is also capable of enhancing the level of competition in an economy and bring in ideas; innovations, expertise and other forms of technology, which host economy could not necessarily have created on its own". Besides, Terkula (2011, p.7) noted that "Through foreign investment, the liberalization of the telecom sector in Nigeria has brought a tremendous growth and development. Today, Nigerians could afford to access telecommunication services in both rural and urban areas as a result of investment by Mobile Telecommunication Network. The impact has been that of economic growth and development".

The continuous inflow of foreign direct investments into developing and third world countries could also produce negative impacts which may include dependence on import for raw materials which limited the impact of massive devaluation on exports, high dependence on multinational enterprises and poor linkage between foreign affiliates and the local economy which reduces the scope of technology transfer through FDI. For instance, in Nigeria, there is no linkage between the operations of the multinational oil companies and the local industries. Worst still, the refineries in Nigeria for some time have been moribund and the federal government had to depend on import of petroleum products, hence the prices of the products have soared over the years. The same multinational oil companies have not considered it worthy of investing in the refining of petroleum products. Instead, Nigeria buys from foreign companies owned by the same multinational oil companies (Terkula, 2011, p.7).

Negative impact of FDI could also be noticed in the area of technological transfer. Transfer of technology is one of the rationales behind FDI. The most enduring potential benefit to developing countries from FDI according to Thomson, (1999, p.19-20) is "the transfer of technology. He further asserted that the transfer of technology promotes sustainable development by enhancing indigenous capabilities. Proprietary technologies and other intangible assets are the back bone of most firms, and they are understandably reluctant to share with the others who might one day become potential rivals". "It is therefore, saddened to note that indigenous entrepreneurship capabilities are not developed to the extent that it will promote technological revolution in Africa". He further noted that "in Nigeria's oil industry where joint-ventures agreement has been signed between the NNPC and foreign oil companies, no tangible level of transfer of technology have been noticed, as the foreign oil companies are the ones involved in the exploration and excavation of petroleum products. Rather, their activities have underdeveloped certain areas of the country as a result of the environmental degradation". Similarly, Terkula (2011, p7-8) further noted that "Peugeot Automobile Nigeria (PAN) has operated in Nigeria for a long time yet, there is no evidence or sign that any brand of vehicle have been designed and produced by Nigeria. What is obtainable is just assembling plants". According to Rivera-Batiz (2005, p.186) FDI also weakens the domestic industries by stifling them. He further argued that "foreign firms tend to over flood the host countries through dumping and stifling domestic production of similar products or items. The Nigerian economy has been suffocated with different kind importation which includes cheap cloth fabrics, common food items, toothpicks and even children toys. Similarly, Rivera-Batiz (2005, p.187) maintained that "multinational enterprises engage in predatory practices, formal or informal collusion and political lobbying to reduce domestic competition, allowing them to capture monopoly or oligopoly rents". In supporting this, it is worthy of note that in Nigeria, multinational enterprises like Siemens and Halliburton including the construction giant Julius Berger are known to have offered inducement to those at the corridors of power in order get government patronage in pursuit of their investment drive.

3. Data identification and analytical method

The study relies only on secondary data. Data on the number and percentage of small and medium enterprises across various sectors of the economy are identified, to capture the entrepreneurship activities in

Nigeria. This representation of data is as a result of paucity of time tested comparable data on entrepreneurship activity and also the inability of entrepreneurs to keep accurate statistical data on their various activities in Nigeria. Therefore, the identified data for this study are sourced from the 2010 edition of National MSME Collaborative survey, National Bureau of Statistics. The data however, are subjected to descriptive method of analysis.

4. Results and discussions

Table 1. Sectoral Analysis of Micro, Small and Medium Enterprises in the Economy

SECTOR	10 - 49		50 - 199		TOTAL
	Number	Percentage	Number	Percentage	
Agriculture, Hunting, Forestry and Fishing	696	92.77	54	7.23	750
Mining and Quarrying	134	80.43	33	19.57	167
Manufacturing	5,939	89.28	713	10.72	6,652
Building and Construction	194	81.13	45	18.87	239
Wholesale and Retail Trade; Repair of Motor Vehicles and Household goods	3,916	96.90	125	3.10	4,041
Hotels and Restaurants	2,088	94.52	121	5.48	2,209
Transport, Storage and Communication	680	83.89	131	16.11	811
Financial Intermediation	2,166	93.22	158	6.78	2,323
Real Estate, Renting and Business Activities	908	94.62	52	5.38	960
Education	1,508	93.75	101	6.25	1,608
Health and Social Work	2,542	95.75	113	4.25	2,654
Other Community, Social and Personal Service Activities	495	97.98	10	2.02	505
TOTAL	**21,264**	**92.78**	**1,654**	**7.22**	**22,918**

Source: 2010 National Micro, Small and Medium Enterprise (MSME) Collaborative Survey, National Bureau of Statistics

However, Table 1 reveals the sectoral analysis of micro, small and medium enterprises in the country, with manufacturing sector having the highest number of enterprises followed by Wholesale and Retail Trade, Repairs of motor vehicles and household goods. All sectors in 10-49 employees have above fifty per cent enterprises. While in 50-199 employment size band, only four sectors have ten per cent and above enterprises. Other enterprises have less than ten percent in the employment size band. Meanwhile, the Agriculture, Hunting, Forestry and Fishing also has a very low share of the numbers of SMEs. In the same vein, the manufacturing sector despite its largest share, still record a very low rate in terms of capacity utilization in the economy. This finding could be corroborated by the revelations made by Ayyagari and Kosová (2008, p.21), where they revealed that manufacturing industries do not experience any significant positive spill over from FDI. This suggests a higher entry barrier effect in manufacturing. This could be attributed to the fact that the Nigerian system has been denied the required knowledge spill over to the indigenous entrepreneurs because most of the FDI are into manufacturing and services and the MNEs believe they need to keep behind them the indigenous entrepreneurs who are being seen as potential competitors. This fact could also be corroborated by the conclusion of Adegbite and Ayadi (2010, p.11), where they revealed that the efficacy of FDI-support entrepreneurship in generating the desired growth may be limited by the level of infrastructural development in Nigeria, as well as the work of Imoudu (2012, p.11), where he concluded that Nigeria is yet to fully reap the benefits of FDI, as its impact on growth in the recent time is very little. One conclusion emerging from this fact is that the activities of the MNEs in form of foreign direct investment in Nigeria has not been of any significant impact on the growth and development of entrepreneurship in the country thereby making the Nigerian vision of FDI-driven entrepreneurship a mirage and unrealistic. This could further be attributed to the insincerity of the civilian administration in Nigeria, to adequately harness the positive influence which the inflow of FDI is expected to have on the growth and development of indigenous entrepreneurship through growth driven policies implementation strategy.

In addition to the findings from the descriptive analysis carried out in the study, it was also discovered from the literature that foreign presence can have two opposing effects on domestic entry in form of new entrepreneurs. On one hand, foreign firms can raise the barriers to entry and thus supress the springing up of new domestic firms. On the other hand, foreign firms can generate positive entry spillover effects via bringing new business opportunities for domestic entrepreneurs, thus fostering the emergence of new domestic firms across industries. But as far as this study is concerned, many of the cited authorities in the literature established the fact that the major aim of FDI to develop the various sectors and impacted on indigenous entrepreneurs in Nigeria has not been achieved since the introduction of the structural adjustment programme in Nigeria.

5. Conclusion and recommendations

On a conclusive note, the presence of Multinationals can be in form of impact assessment in the present day Nigeria, where attraction of general Foreign Investments has become more competitive with the adoption of several economic policy documents. The economy would seem to need seriously focused foreign investment attraction policies that have a greater chance leading to spill over, which local entrepreneurs can exploit. This will also require policies that would foster entrepreneurial ideas among those who have the requisite resources and knowledge to take advantage of such knowledge spillovers. The government must come with policies aimed at conscious attempt to attract the investment potentials, to spill over into the domestic economy. Such spillovers can be encouraged by using FDI to encourage and stimulate clusters. This is because Nigeria needs increased level of high-technology or knowledge- intensive entrepreneurship. More so, the immediate and necessary priority of the Nigerian government should be to re-examine policies relating to indigenous entrepreneurial development in the country.

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