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Challenges faced by Entrepreneurs in a Developing Economy: A Study in the Retail Sector

Summary

The concept of entrepreneurship is not new. As a concept it remains elusive, diverse, and multi-faceted. Although there is an extensive body of research within the field, there is little consensus on what underpins entrepreneurship, and whether it should remain a distinct domain of study.

This paper contributes to the literature on entrepreneurship in developing economies. The study seeks to uncover the challenges facing entrepreneurs in a developing economy using the formal retail sector in Nigeria as a case.

Entrepreneurship in the retail sector of a developing economy has not been given significant attention by researchers despite its uniqueness and dynamism. By adopting a qualitative approach, the lived experiences of these entrepreneurs will be understood. Given the challenges such entrepreneurs face in a developing economy, this study will make a practical contribution, as the challenges such retail entrepreneurs face in this context will be identified.

Track: African Studies

Entrepreneurship in a developing economy

Entrepreneurs have been a dominant image in both the developed and developing economies (Clark and Harrison, 2019; Harrison et al., 2016; Inyang and Enuoh, 2009; Smith, 2006). The resulting interest in entrepreneurship may be due, by some large measure, to the link between entrepreneurial activity and economic growth or performance. Studies have shown that increased entrepreneurial activity can lead to improved economic performance (Berkowitz and DeJong, 2005; Carree and Thurik, 2010; Robbins et al., 2000). According to Yusof et al. (2007, p. 3), "It has a more critical role for economies of developing countries since entrepreneurship is seen as an engine of economic progress, job creation and social adjustment."

The impact of entrepreneurship on a developing economy cannot be fully appreciated if there is no description of what constitutes a developing economy. According to the World Bank Development Data Group (2015), a developing economy is one with a low or middle level of income. A low level of income refers to a gross national income per capita of US$1,005, while a middle level is between US$1,005 and US$12,275. Therefore, in a developing economy the majority of the people have access to less money and poorer public infrastructure, in contrast with developed countries.

Entrepreneurial firms have been shown to provide a great number of benefits in developing economies. The creation of jobs is arguably the most important of such benefits (McMillan and Woodruff, 2002). Haltiwanger and Vodopivec (2000) showed in their study of Estonia that entrepreneurship is pivotal to job creation. As well as the creation of new jobs, entrepreneurs are instrumental in providing other important benefits to developing economies such as supplying consumer goods, limiting the market power of government-owned firms, and enhancing reform momentum (McMillan and Woodruff, 2002). Although it is widely agreed by many researchers that entrepreneurial activity is positively related to economic and financial development (e.g. Berkowitz and DeJong, 2005; Klapper et al., 2010; Robbins et al., 2000), some scholars have produced contrary findings. Acs (2006) argues that in developing economies, entrepreneurial activity is inversely related to economic development since most people are trying to move from being self-employed to more stable, salaried employment; whereas in developed economies, entrepreneurial activity may be positively related to economic development as more people migrate from working in salaried jobs to becoming entrepreneurs. Van Stel et al. (2005) suggest that entrepreneurship has a negative impact on gross domestic product growth in developing countries. From his empirical findings, Michael (2008) suggests that entrepreneurship in certain regions may lead to an increase in unemployment rather than an increase in the availability of jobs for the populace.

Whether or not entrepreneurship is the missing link for economic growth, one thing is certain – any debate about entrepreneurship in developing countries will be better informed if it is underpinned by empirical evidence. The focus of this paper is on a country that is attempting to make the transition from a developing to a developed economy. Developing nations are different from the more developed nations in terms of gross national product, level of poverty, education, income, and other growth parameters.

Based on this, Nigeria as a developing economy provides an appropriate context for this study.

Nigeria’s retail sector

In order to understand the context within which this study is set, it is useful to provide an introduction to the retail sector in Nigeria. Preliminary analysis suggests that its relatively lower requirements in terms of investment, human resources, knowledge, and capital are reasons why entrepreneurs in developing countries focus on the retail sector (Klapper et al., 2010). In developing countries, the retail trade is more favourable in terms of cost and time barriers (Adegbite et al., 2007). In Nigeria, the retail sector continues to grow especially the formal retail sector. As stated by Euromonitor International (2013, p. 1), “The Nigerian retail environment achieved considerable growth over the review period. This can mainly be attributed to the growing Nigerian population, which is generating increasing demand for retailers in the country.”

The retail sector provides a relevant context in which to conduct empirical research. Global Retail Development Index (GRDI), published by A.T. Kearny ranks developing economies for retail investment, identifying not just the most attractive market today, but also those that offer the most potential in the future and Nigeria is ranked 27th. In recent years we have seen the expansion of foreign retailers into Nigeria, especially from South Africa, and there are still more waiting to come. Nigeria's retail industry needs all the support required to take it to the next level (Olutuyi, 2018)

Potential obstacles to retail entrepreneurs in Nigeria

Entrepreneurship is important for the economic development of Nigeria. Therefore, it is pertinent to identify the obstacles that the retail entrepreneurs in this country encounter. Inadequate capital and infrastructural facilities, and political instability and corruption (which form the bulk of the entrepreneurial problems faced in developing economies) are considered.

Inadequate capital

Previous studies have shown that inadequate capital is a major inhibitor of the growth of small businesses (Gray et al., 1997; Harrison et al., 2016; Kiggundu, 1988; Mambula, 2002; Okpara and Wynn, 2007; Okpara, 2011; Trulsson, 1997). However some researchers have disagreed on the extent to which small business is affected by capital (Okpara, 2011). Kallon (1990) argues based on his findings that the amount of capital needed to start a business is negatively related to the growth rate of the business. On the other hand, many researchers have argued against this proposition, stating that many small businesses in Africa are under-capitalised (Okpara, 2011). Keyser et al. (2000) puts forward that in Zambia, a lack of starting capital was the major issue impeding entrepreneurship, while Mcgee et al. (2007) goes further to study entrepreneurs in Ghana and also discovered that the inability to obtain capital was a major factor impeding business success.

Inadequate infrastructural facilities

Infrastructural facilities such as electricity, transport, security and access to technology are fundamental to a country’s development and are positively linked to small business and economic growth (Harrison et al., 2016; Okpara, 2011). However, in many developing countries such as Nigeria, these infrastructural facilities are either lacking, or are in an inadequate state of provision and repair (Harrison et al., 2016). Studies have shown that poor infrastructural facilities negatively affect small business development and the economy (Mambula, 2002; Tushabomwe-kazooba, 2006).

Research has shown that the inability to use or acquire technology inhibits small business development in Africa (Okpara and Wynn, 2007; Okpara, 2011).With the growing impact of globalisation, new technologies and the appropriate skills to take advantage for business benefit has become essential. However, Galloway (2007) argues that efforts to roll out technology to developing regions may not provide results desired or expected. The businesses in these regions tend to lack propensity for growth and diversification (Galloway, 2007).

Political instability and corruption

The political environment in Nigeria is marked by instability. Changes in government, especially in the form of military coups and transitions in civilian administrations, usually lead to changes in policies. Such an environment is not conducive for entrepreneurship and may also affect the effectiveness of the legal system (Harrison et al., 2016; Okpara, 2011). Kiggundu (2002) identified corruption as a major challenge facing African entrepreneurs, and this remains a major issue in Nigeria. As a result, it is not surprising that Transparency International (2019) has identified Nigeria as one of the most corrupt nations of the world. Indeed, studies have shown that corruption has a negative impact on business performance (Okpara, 2011).

During the course of the literature review, limited studies on the challenges confronting retail entrepreneurs in the Nigerian economy were found. Most relevant studies only highlight the challenges that Nigerian entrepreneurs (Ehinmowo et al., 2020; Nkechi et al., 2012; Okpara, 2011), or retail pharmacy entrepreneurial leaders face (Harrison et al., 2016). In addition, mixed findings were observed about the challenges faced by entrepreneurs in a developing economy. Therefore, more research is required to authenticate the different assumptions by researchers.

Methodology

An interpretivist-constructionist approach will be adopted for this study. The research builds theory on entrepreneurship in developing economies by the subjective experience of various retail entrepreneurs and their employees in a developing economy context. Since the study is related to understanding rather than measuring, it is judged necessary to adopt an approach that gives "voice" (Bluhm et al., 2011, p. 1871) to the individual entrepreneurs and enables them to talk about their perceptions and the processes involved (Gartner et al., 1992; Smircich and Stubbart, 1985). This suggests a qualitative and idiographic methodology, an approach confirmed by the exploratory nature of the study (Harrison et al, 2016; Harrison et al., 2018; Omeihe et al., 2020; Paul and Whittam, 2010; Yin, 2003). The vehicle for data generation will be in-depth interviews. Such an approach facilitates subsequent analysis in which patterns in the data can be examined (Taylor and Bogdan, 1998; Paul et al., 2007) and from which rich contextual evidence and meanings in an area that has not been previously explored in depth can be obtained (Howorth et al., 2004).

Therefore, face-to-face interviews with respondents (entrepreneurs and employees) will be performed. The research questions, aims, and objectives - along with the literature review will guide the development of the interview protocol. Thematic analysis of the data obtained from the interview will be performed with the aid of the software package NVivo. The challenges that the retail entrepreneurs face in a developing economy will be identified.

Plan for the development of the paper

This research is currently within its early stages, however there is a clear plan for development. Prior to the presentation at the conference, the empirical data should have been collected. This will serve as the foundation for writing the full paper which will examine entrepreneurship in the retail sector in Nigeria. In addition, the challenges faced by these retail entrepreneurs would have been identified before the conference.

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