

## ECONOMIC RECESSION AND ENTREPRENEURSHIP OPPORTUNITY IN NIGERIA

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**ABSTRACT:** *Economic recessions increase costs, risk, stress, uncertainty, and business failures while decreasing the availability of employment. Individuals who seek to become self-employed in recessionary times, whether out of need or for opportunity reasons, face difficult and unique circumstances. The paper examines the effect of economic recession on entrepreneurship opportunities in Nigeria. The paper use ordinary least square regression to model the effects of economic recession on the probability of individuals engaging in necessity or opportunity entrepreneurial activities both before the recession and during the recession. Key findings indicate that before the recession, entrepreneurs were more likely to engage in opportunity-driven entrepreneurial activities. Positive employment growth rates before the recession also increased the probability entrepreneurs engaging in necessity and opportunity entrepreneurship. The recession marked a shift in the motivation of entrepreneurs to become self-employed and a clear decline in opportunity entrepreneurship and an increase in necessity entrepreneurship. The paper conclude that economic recession has a significant effect on opportunity and necessity entrepreneurs in Nigeria and recommend among others that promoting entrepreneurship should be high in the agenda of governments seeking growth and policy makers should be more precise in their macro and micro policy directions to target their efforts in promoting entrepreneurship as an effective instrument in defeating recession in the country.*

**KEYWORDS:** Economic Recession, Necessity Entrepreneurship, Nigerian Economy, Opportunity Entrepreneurship

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### INTRODUCTION

A Recession is when the economy declines significantly for at least six months. That means there's a drop in the following five economic indicators: real GDP, income, employment, manufacturing, and retail sales. People often say a recession is when the GDP growth rate is negative for two consecutive quarters or more. All over the world both in develop and developing economies, entrepreneurship is increasingly seen as a vital part of economic development. National leaders, policymakers and researchers point to entrepreneurship as a key strategy for short and long-term prosperity of nation. Indeed, for many rural communities, it is the only form of economic development that has any real hope of creating jobs and wealth. In this regard, locally grown entrepreneurship offers unique opportunities for value creation that is resilient especially in times of economic recession as recently experience in Nigeria. The recent economic recession in Nigeria, which officially came to effect in May, 2015, raised questions about what effect it had on entrepreneurial activity and what this means for the future entrepreneurs.

The economic recession, triggered by the drastic fall in oil price from \$170 to less than \$50, deeply affected businesses, economy in general, politics and the personal lives of many. Looking at the Nigerian economy, lots of small businesses went bankrupt, contributed hugely to the fall in oil price and millions of people lost their jobs and houses. The struggling economies around the country still portray that many of these victims are still licking their wounds inflicted upon them by the economic recession due to fall in oil price. The high magnitude of the effect caused by the recent recession is probably down to its depth; it was the worst downturn since the structural adjustment programme in 1986 (Shane, 2011).

A purview of most of the literature suggests that economic recessions do not discourage entrepreneurs from starting new businesses. In fact, there is evidence that some of the more successful public companies, such as Microsoft, Southwest Airlines, Morgan Stanley, and Allstate were founded in a recession (Kedrosky, 2008). The recent economic recession lowered national annual job growth rates to negative numbers between 2015 to early 2017, but this also pushed the reorganization of firms' production processes and the transformation of strategic plans. Indeed, productivity grows in difficult times as entrepreneurs create more competitive firms and jobs and higher value products. That is not to say that entrepreneurship is easy in recessions as they bring higher levels of risk and uncertainty (Egan & Tosanguan, 2009), and often higher costs and scarcer resources.

There is a lot of research on what motivates individuals to become entrepreneurs, but a common distinction introduced in 2001 by the Global Entrepreneurship Monitor (GEM) Consortium is between two main types of entrepreneur (Reynolds 2002). On the one hand are the "opportunity" entrepreneurs who actively seek opportunities to create and grow businesses. They are motivated by pull factors to start an enterprise. On the other hand, are the "necessity" entrepreneurs, who create businesses because there are few other available options to earn a living. A global survey shows that two-thirds of entrepreneurs describe themselves as opportunity-driven, and one-third, necessity driven (Hechavarria & Reynolds, 2009).

Nigeria's economic situation is in its worst possible time, according to Finance Minister Kemi Adeosun. The inflation rate shrank at 17.1%, The GDP had contracted by 2.06%, the economy by 0.36%. The national Bureau of Statistics (NBS) has released a report on Nigeria's economy in the second quarter, including the Gross Domestic product (GDP), Inflation, Employment, and Unemployment, Capital Importation and other key fundamentals. Oil price has crashed to less than \$50 per barrel; Nigeria's production output has tumbled over 400,000 barrels due to militancy activities in Niger Delta region.

Oil production plummeted to 1.69 million barrels per day in the second quarter of 2016, down from 2.11 million barrel per day in the first quarter, with oil – based GDP contracting by 17.5% in quarter two compared to 1.9% in the first quarter. Naira remained at record low of #423 per dollar in the black market, as dollar exchange for 365.25 in the interbank market this month. On Employment; 4.58 million Nigerians have become jobless since last year, adding 2.6 million to unemployment figures of 1.46 million recorded in the third quarter of 2015 and 518.102 in the fourth quarter of 2015.

According to reports during the reference period, the unemployed in the labour force increased by 1,158,700 persons, resulting in an increase in the national unemployment rate to 13.3% in Q2 2016 from 12.1 in 2016, 10.4% in 2015 from 9.9% in Q3 2015 and from 8.2% in Q2 2015. The value of capital imported into Nigeria in the second quarter of 2016 was estimated to be

\$647.1 million, which represents a fall of 75.73% relative to the second quarter 2015. This provision figure would be the lowest level of capital imported into Economy on record, and would also represent the largest year on year decrease. This would be the second consecutive quarter in which these records have been set.

The paper sought to tie these themes together and provide empirical evidence by asking the following questions: Did the recession have any impact on motivations for entrepreneurship and was there any particular impact on entrepreneurship in rural areas? What happens to Necessity vs. Opportunity entrepreneurs' composition in recession relative to normal times?

How are the recession-entrepreneurs different from normal-times-entrepreneur in terms of: a) Risk preference, b) Personal Wealth, c) Education, d) Relevant industry experience e) Motivation?

### **Concept of Entrepreneurship and Economic Recession**

The name entrepreneur comes from the French verb *entreprendre*, which means, "to undertake". Entrepreneurship has been defined in the past, and continues to be in the present, in various ways by different authors. Over the decades, an entrepreneur has been described as a coordinator, risk bearer or innovator (Meece, 2009).

While many researchers agree that innovation is an important part of entrepreneurship process, it is not all. For example, Drucker (1985) described creative imitation as another aspect of entrepreneurship, which probably describes a lot of entrepreneurs coming from places like China or other developing and underdeveloped countries. Creative imitation is the process of taking an innovative product and tailoring it to a particular niche or local market to better serve their needs. These varying definitions of entrepreneur(ship) exist because entrepreneurship has been looked at from various theories.

Gedeon (2010) observes that entrepreneurship has been described in term of dynamic change, new combinations, exploiting opportunities, innovation, price arbitrage, risk, uncertainty, ownership, new-venture formation, non-control of resources, asymmetries of information, superior decision-making, monopoly formation or something else. He then concludes that while these point of views had previously been thought of as contradictory, these actually are complimentary definitions describing different sub-domains of entrepreneurship such as business, social, academic, family business etc. entrepreneurship.

The study of Filion (2011) proposes that any comprehensive definition of entrepreneurship should encompass six main components: 1) innovation, 2) opportunity recognition, 3) risk management, 4) action, 5) use of resources and 6) added value. Filion (2011) defines entrepreneur as an intuitive, resourceful, tenacious actor who is able to recognize and develop risky opportunities with potential for innovation, and who adds value to what already exists by setting up activities that involve a scarce use of resources.

For the purpose of this paper, the following are the definitions of entrepreneur, entrepreneurial activity and entrepreneurship:

- a) Entrepreneurs are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

- b) Entrepreneurial activity is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.
- c) Entrepreneurship is the phenomenon associated with entrepreneurial activity.

### **Concept of Economic Recession**

The National Bureau of Economic Research (2010), which is the official tracker of economic cycles in the United States of America, defines economic recession as a period between a peak and a trough (of a business cycle) during which a significant decline in economic activity spreads across the economy. Most country's economic recessions are characterized by negative real GDP growth and increase in unemployment. Historically, economic recessions have been induced by several factors like the bursting of housing bubble (2008-2009), the bursting of dot-com bubble (2001), the oil price shock (1973 and 2015) etc.

### **LITERATURE REVIEW**

The academic literature from scholars on economic recession and its impact on entrepreneurship contains a number of contradictions. Some stress the inherent locational disadvantages that make entrepreneurship particularly challenging, while others point to the fact that entrepreneurship is the only route to creating diversified and sustainable rural economies, and that in some areas, entrepreneurship is clearly contributing to economic vitality. Nevertheless, given the relationship between prevailing economic conditions and entrepreneurial motivation, it might be expected that entrepreneurs in rural areas may be more driven by necessity than by opportunity.

There are mixed findings in the literature regarding how entrepreneurs react and contribute to economic growth during a recession. Some studies conclude that the primary goal of entrepreneurs during hard economic recession is to take advantage of opportunities, whereas others suggest that it is unemployment or underemployment that really drives individuals to seek self-employment. Moreover, entrepreneurs that are driven by need are seen as creators of lower income firms, whereas opportunity-driven entrepreneurs are identified as producers of high-income firms (Fairlie, 2009). The Kauffman Index of Entrepreneurial Activity published in 2009 provided early evidence that the recession led to an increase in necessity entrepreneurship and a decrease in opportunity entrepreneurship.

### **Recession and Entrepreneurship**

Most of the advanced develop companies such as General Electric (1890), IBM (1896), General Motors (1908), Disney (1923), Burger King (1953), Microsoft (1975) and CNN (1980) were all founded during economic downturns and recessions. In addition, well over half of companies on the 2009 Fortune 500 list began during recession or a bear market (Stangler, 2009). In this regard recession and entrepreneurship have an interesting relationship. One of the many areas that are affected during recession is entrepreneurship (Shane, 2011). Different aspects of recession act in opposing directions with regards to entrepreneurship leaving the net effect of those forces decide the fate of entrepreneurship. Farlie (2011) study argues that on the one hand, economic recessions decrease potential

business income and wealth, but on the other hand economic recessions restrict opportunities in the wage/salary sector leaving the net effect on entrepreneurship uncertain.

Furthermore, there is also the interesting dynamic between the reduced supply of finance and increased supply of labour (through increased unemployment), with these forces acting in opposing directions. The issue of financial constraints during economic recession, which, one can imagine, would demotivate entrepreneurs to start a business. On the other hand, the rising unemployment can give rise to necessity entrepreneurs or cheap labours that opportunity entrepreneurs can exploit, thus increasing the odds of entrepreneurship. Shane (2011) study found that economic recession had a negative impact on U.S. entrepreneurship citing the fact, among others, that firm formation in 2009 declined by 17.3% compared to 2007.

Similar to Schumpeterian sense, the entrepreneurs are the agents of change and economic development who anticipate and maybe even trigger economic booms. These authors find that entrepreneurship granger causes the cycles of world economy and speculate that entrepreneurial behaviour lead to positive productivity shocks during recession by diffusing new technologies and products and by innovating themselves. From the finding, one could perceive entrepreneurship as a way out of recession into growth.

The complicated relationship between economic recession and entrepreneurship does not end there. There is another interesting question about the nature of entrepreneurs involved in firm formations during recessions compared to those in economic growth. The study of Thompson, (2011) show that the proportion of entrepreneurs starting firms out of necessity rather than motivated by opportunity increases during economic recession. Thus, there is a difference in the constitution of entrepreneurs between recession and growth.

The study of Johnson, (2009) provide evidence that a recessionary economy, among other factors, pushes production processes in an economy to be reorganized to better satisfy clients' needs in increasingly competitive global markets. Entrepreneurs find themselves urged to be flexible and to adapt or transform their strategies in order to remain efficient and competitive. Johnson (2009) explains that during an economic recession production declines, the least competitive firms are displaced, low productivity jobs disappear, and lower skilled workers are unemployed first.

Contrary to what one would expect, however, the widespread effects of a recession do not seem to discourage entrepreneurs from starting new businesses. In a study conducted by Stangler (2009) at the Ewing Marion Kauffman Foundation, he finds that more than half of the Fortune 500 companies for 2009 and almost half of the fast growing companies for 2008 started at times when the economy was in recession or experiencing a bear market. Some of the successful public companies that started during a recession are Microsoft, Southwest Airlines, Morgan Stanley, Allstate, among many others (Kedrosky, 2008).

Recessions seem to offer bigger windows of opportunity (i.e., increased availability of human capital that results from higher unemployment in the economy and weaker competition) to start-ups of only a few employees which, in the long run, contribute to increasing the national job growth rate. Furthermore, wages and salaries do not decrease during economic turmoil. In a study of UK business service firms, Bryson (1996) found that most companies do not create new jobs in times of recession, but instead try to keep their current number of employees and wage levels. Keynesian economists claim that wage rigidity in turbulent times is statistically

supported, whereas their neoclassical counterparts suggest wages are still flexible and market-driven.

In a study of the US economy over the last two decades, Johnson (2009) found that productivity growth was highest during recessions and especially during the early stages of recovery. He points out that in 2001-2002 productivity growth during the recession was 4.1%, the highest level during the decade from 1997 to 2006. More recent data indicates that productivity growth during the third quarter of 2009 was a staggering 9.5% (USBLS, 2009).” He attributes this to the creative destruction process led by entrepreneurs as they create more competitive firms and jobs, and to the production of higher valued products.

According to Hopkins, (2004) entrepreneurs historically have led many nations of the world out of hard times including economic recession. Segran (2009) suggests that entrepreneurs identify opportunities during recessions that would otherwise not be so visible. As his research shows, the constrained spending habits of socially responsible enterprises become an asset when the economic conditions constrain the spending of other businesses as well.

Similarly, Kedrosky, (2008) finds that opportunity recognition and development, and job limitations advanced as motivations of founders of market research firms in the UK during the 1990’s recession. Anderson (2009) claims that this opportunistic attitude is also visible in the US, where entrepreneurs take control of their destiny during a crisis and decide not to wait for an outside income source.

In spite of the promising role of entrepreneurship during economic recession, the entrepreneur’s strategic decision-making process must contend with increased risk and uncertainty during an economic recession (Egan & Tosanguan, 2009). The reduced availability of resources and rising costs also increase substantially the stress on entrepreneurs even if entrepreneurs are indifferent to the state of the economy.

In a study of medium and large-size management consulting companies in the UK, Johnson (2009) finds that most of the 71 percent of firms in this category looked for survival more than growth during recession years. In a study of small and medium-size firms in Thailand, Egan and Tosanguan (2009) found that about half of the entrepreneurs surveyed had applied strategies to seek higher revenues, although they were pessimistic about the effects of the recession on their enterprises, expecting an average reduction in their sales of about 53 percent.

### **Necessity and Opportunity Entrepreneurs**

There seems to have been limited work done in the change in composition of necessity vs. opportunity-based entrepreneurs in recessions. Recessions increase the number of necessity entrepreneurs and decrease the number of opportunity entrepreneurs (Thompson, 2011). This is line with findings of Block and Wagner (2006), Robichaud (2006) and Wagner (2005), according to whom; a jobseeker will be positively impacted by his workless status in his decision to start a new venture. It is further reinforced by Thurik (2008). Thus, the composition of entrepreneurs changes in favour of necessity entrepreneurs during recessions.

The boom in the number of small and medium size firms in the 1990’s turned policymakers’ attention toward the entrepreneur such that entrepreneurship is currently one of the most active topics in economic literature (Audretsch, 2007). Individuals who choose to become self-employed over other employment options are recognized today as a key source of economic

growth and development. As a consequence of the increased amount of research on entrepreneurship in the last two decades, academics and policymakers have crafted a variety of definitions of entrepreneurship and have identified several types of entrepreneurs. In this study, we focus on ‘necessity’ and ‘opportunity’ entrepreneurs who are ‘pushed’ or ‘pulled’ into entrepreneurial behavior. Reynolds (2002) identified these two types of entrepreneurs in 2001 while working on the annual report of the Global Entrepreneurship Monitor (GEM).

According to Baron (2006), opportunity entrepreneurs are actively seeking entrepreneurial opportunities. He suggests that these entrepreneurs use prior knowledge and experience to support their search. Hechavarria and Reynolds (2009) describe this type of entrepreneur as someone who becomes self-employed to exploit a promising opportunity, “to improve (not just maintain) their income. As such, opportunity entrepreneurs are those who are motivated by “pull” factors to engage in a new business.

In contrast, necessity entrepreneurs are those who are pushed into self employment by their economic circumstances. They can also be called accidental entrepreneurs, unintended entrepreneurs, forced entrepreneurs or low-ability entrepreneurs (Deli, 2011). Block and Koellinger (2008) and Dabson (2007) identify necessity entrepreneurs as those who seek to become selfemployed because no better opportunities are available or because of persistent unemployment. Several scholars suggest that unsatisfactory sources of employment also push individuals into necessity entrepreneurship (Hechavarria & Reynolds, 2009; Williams, 2009).

Furthermore, Thompson (2011) points out that necessity entrepreneurs generally create less successful businesses than opportunity entrepreneurs. Global survey data shows that 66 percent of entrepreneurs classify themselves as opportunity entrepreneurs, whereas the remaining 33 percent self-report as necessity entrepreneurs (Hechavarria & Reynolds, 2009). Acs (2006) notes that opportunity entrepreneurs voluntarily choose to become self-employed, whereas necessity entrepreneurs believe they have little choice.

Pereira, (2011) argues that both opportunistic and necessity entrepreneurs introduce innovations that create jobs and market opportunities that boost productivity and economic growth in the long run. Yet, several authors have argued that policy should support opportunity entrepreneurs, and not necessity entrepreneurs, to spur growth and economic development (Callard, 2011). In a cross-national study of 11 countries using national GEM data, Acs and Varga (2005) find that opportunity entrepreneurs are positively linked to economic development while necessity entrepreneurs have little or even negative effects on growth. Thompson (2011) finds that necessity entrepreneurs create businesses that “yield lower initial earnings, grow more slowly, and are more likely to fail. Necessity entrepreneurs create jobs for themselves, while opportunity entrepreneurs address market needs and create jobs for others as well (Pereira, 2011).

But, Deli (2011) does not find any robust evidence that necessity entrepreneurship is stimulated by increases in local unemployment rates. The small firm effect has a greater impact on their self-employment transitions than local unemployment effect for low ability workers. But she also finds that opportunity entrepreneurship is stifled by large unemployment. Individuals who have chosen to participate in entrepreneurial activity because all other employment options are either absent or unsatisfactory are considered necessity entrepreneurs. Individuals who have chosen to participate in entrepreneurial activity in order to exploit a perceived business opportunity are considered opportunity entrepreneurs (GEM, 2011).

Regarding the characteristics of entrepreneurs during economic recession, there has been limited studies. Robichaud (2010) has studied the comparison of various personal characteristics of necessity vs. opportunity entrepreneurs and concludes that on average opportunity entrepreneurs are younger, more educated, better equipped vis-à-vis relevant skills, earn more business related income, and sees higher growth prospects compared to necessity entrepreneurs.

Similarly, Bhola and Verheul (2006), Giacomini (2011) have studied the differences between opportunity and necessity entrepreneurs in terms of socio-demographics, attitudes and perception of 'obstacles'. Adana and Lusardi (2008) show that individual characteristics, such as gender, age, and status in the workforce, social networks, self-assessed skills, attitudes toward risk and reputation are important determinants of entrepreneurship. Likewise, Wagner (2005) has studied the difference in characteristics of nascent necessity vs. nascent opportunity entrepreneurs. While these works study the snap shot of entrepreneurship at a point in time, it would be interesting to see if those differences in characteristics of necessity or opportunity driven entrepreneurs would be amplified or dampened during recession compared to normal times.

### **Economic Recession as an Entrepreneurship Opportunity**

Globally, while the recession does affect entrepreneurs, they have certain advantages that other businesses might not. During economic recession the features of the economic environment inevitably worsen and so does the quality of business opportunities. As a result, one should expect the existence of a negative impact on the actual rate of new firms' creation. Klapper and Love (2011) show that with the onset of economic recession, new business creation slowed down, first in developed countries and then in the rest of the world, paralleling the spread of the economic recession. They also find that more developed countries as well as countries that were more severely affected by the crisis have experienced sharper declines in new business registrations during the crisis. The main explanation of the authors is related to the financial constraints imposed by the credit crunch, and the related shrinking of business opportunities. Paulson and Townsend (2005) provide a similar interpretation for the reduced rate of firm creation during the Thai financial crisis of the mid-1990s.

In addition to negative effects, however, periods of economic recession can also boost entrepreneurial opportunities. When unemployment is high and rising, in fact, the choice to become an entrepreneur depends also on the extent to which self-employment is perceived as a viable second best alternative to unemployment. On this issue a relatively rich literature discusses the notions of "opportunity-based" and "necessity-based" entrepreneur and suggests that in contexts of greater economic difficulties the latter tends to be predominant with respect to the former (Reynolds, 2005; Acs, 2006).

To support this view Wennekers (2005) find the existence of a U-shaped relationship between a country's rate of entrepreneurial opportunities and its level of economic development and that in less developed countries many nascent entrepreneurs engage in entrepreneurial activity out of necessity. Using a similar framework Paniagua and Sapena (2015) argue that during an economic recession two main counteractive factors affect entrepreneurship: on one hand the lack of demand coupled with low credit availability reduces the prospects for new businesses; on the other, job losses and the prospect of unemployment may lead many entrepreneurs to undertake new projects.



According to Segran, (2009) enterprises are pretty much use to working on judicious spending and budgets, and have always worked more efficiently and effectively within constraints, such as dependency on external funding, lack of good professional resources and natural stressful conditions. Other opportunities have been identified, e.g., better at managing costs, being creative and innovative, attractive to those firms looking for low cost, innovative partners, increasing interest of volunteerism, and availability of low cost skilled and professional labor (Segran, 2009).

to Anderson, (2009) during economic recession, an entrepreneur leaves the job of working for someone else and creates his/her own income sources that he/she can control. In today's job market, this interdependency may not have been by their choice but that in and of itself is the opportunity, rather than seeking and waiting for the next job. Anderson, (2009) study finds that history has repeatedly demonstrated that new companies and entrepreneurship are the very way to bolster a flagging economy. Nigeria government supports such efforts in that the economic recovery in the present and our prosperity in the future depends upon the success of Nigeria's small business and entrepreneurs. The argument for this being the time and situation is right for entrepreneurship and cite reasons as low cost of skilled labour, less expensive supplies, tax benefits, new web tools, e.g., design templates, blogs, social networks that makes an easier entry into business and those more personal reasons of being your own boss, having freedom, and flexibility to work.

By applying the above arguments to the specific case of Nigeria's entrepreneurial opportunity during economic recession we derive a twofold prediction. At the general level we expect the current economic recession to have a negative impact on entrepreneurial opportunity. The reason is that the economic recession worsens entrepreneurs' expectations concerning the rate of new business opportunities, the level of entry barrier and the profitability of existing businesses. All these effects combined should make the opening of a new business venture less attractive as career option. At the same, once we distinguish between different types of potential entrepreneurs, we expect this effect to be stronger for opportunity-based than for necessity-based potential entrepreneurs, as the former are much more likely than the latter to suffer of the reduced prospects for new businesses opportunities.

### **Theoretical Framework**

My research deals with the characteristics of entrepreneurs, the firms they create and the performance of those firms, with the effect of recession in background. This study can be considered a special case of entrepreneurship study. So the overarching theories governing my study will be resource base theory and knowledge based theory that encompass entrepreneurship.

### **Resource based Theory**

Resource based view is the theory explaining a firm's ability to gain sustainable competitive advantage (SCA) (Foss, 2011). It looks from factor market or resource perspective rather than product market perspective. As Foss (2011) explains, the RBV is characterized by tracing the potential to create and appropriate more value than the competition to the resource endowments of firms, and the characteristics of these resources. To assess what resources can generate SCA for firms, Bosma (2007) suggested that they be subjected to the test where we gauge if the resource in question is valuable, rare, costly to imitate and organizationally embedded. The theory has been fine-tuned by introduction of some other elements such as

resource accumulation within firm, strategic factor markets (where buyers have different expectations about the resources) and bargaining among resource owners.

Foss (2011) study spots multiple connections between RBV and entrepreneurship like diosyncrasy, tacit knowledge, uncertainty, dynamics, resource assembly and changes in resource base.” Despite these apparent connections, Foss notes that research on entrepreneurship has not used RBV significantly but this is changing. A notable change seen is the emergence of strategic entrepreneurship, which tries to combine the opportunity seeking nature of entrepreneurship and advantage seeking nature of strategic management. However, this goes beyond the focus on start-ups and concentrates on established firm as a source of entrepreneurial actions. Thus, this particular approach cannot be taken as a comprehensive way of describing entrepreneurship.

A bigger contribution of RBV in entrepreneurship can stem from its ability to explain superior performance of some firms compared to others based on the differences in type, magnitude and nature of resources available to firms. Having superior resources at the time of founding can give an entrepreneur more flexibility in terms of strategies he can choose and the scale of the firm he can start with. It has been shown in existing literature that the initial strategies (Schaper & Volery, 2007) and scale of the startup size (Gerosky, Mata, & Portugal, 2009) have long lasting impact on performance and survival of the firms. Thus, RBV can be thought of as a more effective theory to explain the performance differences as opposed to the previous theories, which seem to be limited to explaining survival of firms. One must note that, however, merely having superior resources does not guarantee superior performance if they are not translated into capabilities, which then will yield positive performance.

Resource based view has been used to explain the entrepreneurial process/performance by several authors (Farreira 2011). Alvarez and Busenitz (2001) use RBV to “show how entrepreneurship generally involves the founder’s unique awareness of opportunities, the ability to acquire the resources needed to exploit the opportunity, and the organizational ability to recombine homogeneous inputs into heterogeneous outputs. Similarly, Farreira (2011) use entrepreneurial orientation (intangible resource comprising of innovativeness, risk taking and proactiveness as one important dimension of RBV and its impact in growth of small firms. They find that entrepreneur’s resources, entrepreneur’s network and firm resources were significantly related to entrepreneurship opportunity during economic recession.

### **Knowledge based View Theory**

The knowledge-based view (KBV) considers knowledge as the most significant strategic asset in a firm and the heterogeneous knowledge bases and capabilities among firms are the main determinants of sustained competitive advantage and superior corporate performance (Eisenhardt & Santos, 2006). The innovative economic environment, which characterizes most developed economies in the world, necessitate that the firms be viewed as processors of knowledge (Cohendet & Llerena, 2006). Knowledge encompasses various intangible resources present in an organization such as management capabilities and competences, technical knowledge or tacit organizational routines etc.

The Knowledge-based view is an extension of resource-based view of the firm (Curado, 2006). However, unlike the resource-based view, the knowledge-based view maintains that knowledge is qualitatively different input to firm’s activities (Uygur & Marcoux, 2013). The

KBV theorists posit that it is the most strategic resource of a firm while for RBV it is merely another generic resource.

Knowledge based view helps us explain some important aspects of entrepreneurial process. This is particularly true in the modern economies where the economies are characterized by high knowledge intensity as mentioned earlier. It has been found that the proprietary knowledge assets claimed by an entrepreneurial firm is one of the most critical sources of competitive advantage and future profitability (Spender & Grant, 1996). Looking at this issue from the lens of opportunity vs. necessary entrepreneurs during economic recession, one can expect the former to be more likely to possess such knowledge and hence they are able to see the opportunity to exploit such knowledge during economic recession. This paper is anchored on this theory.

The various theories and perspectives have forwarded our understanding of entrepreneurship in different ways. RBV is useful in mitigating that problem and it is useful tool in explaining the differences in performance among the new firms based on the resources possessed by them and their ability to translate them into capabilities. Finally, the KBV, which is seen by many as a natural extension of RBV, is better suited to explain the competitive advantages owed to knowledge assets which is very important in today's economies, western in particular, which are predominantly knowledge-based.

## METHODOLOGY

The purpose of this study is to examine the relationship between economic recession and the opportunity for entrepreneurship in Nigeria. The paper adopts cross-section time-series research design using rare events regression model of entrepreneurs engaging in early-stage necessity or opportunity entrepreneurial activity during economic recession. We select rare events regression models because in our dataset necessity and opportunity entrepreneurs are relatively rare events in Nigeria that is, they produce far fewer observations than non-entrepreneurs.

The paper use early-stage necessity and opportunity entrepreneurial activity as our independent variables and job growth during economic recession as the dependent variable. The GEM consortium defines early-stage entrepreneurial activity as that conducted by individuals on their own or with the help of a sponsor (Reynolds 2005). This definition also includes individuals carrying out businesses that are younger than 42 months. Firms that are older than 42 months are not considered "early-stage", but instead established firms. In our study, necessity and opportunity entrepreneurial activity are variables that equal 1 if the surveyed individual is currently starting a business or is engaged in a new venture that has existed for less than 1.5 years, and 0 if the surveyed individual is not engaged in early-stage entrepreneurial activity. Our main dependent variable is employment growth rate during economic recession. Employment growth rate is a continuous variable that is calculated as the rate of change in employment between two years. A positive value indicates that employment has increased from one year to the next, whereas a negative value indicates the opposite. This regression model is defined in the following equation.

The coefficient of each independent variable is the regression coefficient. This is the slope in a  $Y = a + bX + e$  equation.

The equation for our model is stated below:

$$JG = f\{\text{oppty \& necesty}\}$$

$$JG = \beta_0 + \beta_1\text{oppty} + \beta_2\text{necesty} + \mu_t$$

Where:

JG = job growth during economic recession as a result of entrepreneurial activities

oppty = opportunity entrepreneurs during economic recession

necesty = necessity entrepreneurs during economic recession

$\beta_0$  = constant term/intercept

$\beta_1$ -  $\beta_2$ = coefficient of determination

$\mu_t$  = Stochastic Variable (Error term)

The null hypothesis is rejected if the p-value is less or equal to the critical value at 0.05.

### Presentation and Analysis of Results

#### Descriptive Statistics

	Mean	Std. Deviation	N
Job growth	252022.2727	296376.94240	11
Opportunity entrepreneurship	565696.0000	651936.49480	11
Necessity entrepreneurship	311392.5455	174307.01344	11

The descriptive table above shows the mean and standard deviation parameters for the two variables of entrepreneurship during recession. The descriptive analysis reveals that opportunity entrepreneurship has the highest mean, and standard deviation of 565696.0000 and 651936.49480 respectively. This is followed by necessity entrepreneurship with 311392.5455 and 174307.01344 for mean and standard respectively. The descriptive result indicates that the opportunity entrepreneurship improved during recession followed by necessity entrepreneurship due to job loss and hardship.

#### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.995 <sup>a</sup>	.991	.986	34455.38293	1.614

a. Predictors: (Constant), Necessity entrepreneurship, Opportunity entrepreneurship

b. Dependent Variable: job growth

The model summary table show that there is a significant strong positive correlation between the dependent and independent variable as indicated by a strong R of 0.995. Similarly, the  $R^2$  which is a measure of the strength of association or variance in the dependent variable that can be explained by the independent variable reveals a statically strong significant positive relationship of 0.991. Also the value of  $R^2$  adjusted of 98.6% implies that the variation in job growth, necessity entrepreneurship and opportunity entrepreneurship is explained by the economic recession in the country. However, the D-W statistic of 1.614 falls into the acceptable region and this means that we can conclude there is the presence of auto-correlation among the explanatory variable. Therefore, the estimated result can be used for forecasting because of appropriate correlation among the independent variable.

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	870082705971.010	3	290027568657.003	244.301	.000 <sup>b</sup>
	Residual	8310213891.172	7	1187173413.025		
	Total	878392919862.182	10			

a. Dependent Variable: Job growth

b. Predictors: (Constant), Necessity entrepreneurship, Opportunity entrepreneurship

From the ANOVA table the F value is 244.301 and is highly significant because the significance level is = .000 which is less than  $P \leq 0.05$ . This implies that the overall regression model is statistically significant. The significant regression model implies that all independent variables are significantly positive in explaining that there is a positive and significant relationship with dependent variable.

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-107865.120	22953.883		-4.699	.002
	oppty	.398	.020	.875	19.978	.000
	necesty	.405	.084	.238	4.844	.002

a. Dependent Variable: job growth

The coefficient of determination for opportunity entrepreneurship (oppty) during economic recession is positive (0.398) and is highly significant at 0.000. The significant level of 0.000 is less than the p-value of  $\leq 0.005$ . This implies that 1% increase in economic recession will lead to 39.8% emergence of opportunity entrepreneurs in the economy. Therefore, the alternative hypothesis is accepted that opportunity entrepreneurship significantly improves during and after economic recession. The result confirms the high mean of opportunity entrepreneurship in the descriptive table above.

The coefficient of determination for necessity entrepreneurship (necesty) during economic recession is positive (0.405) and is highly significant at 0.002. The significant level of 0.002 is less than the p-value of  $\leq 0.005$ . This implies that 1% increase in economic recession will lead to 40.5% emergence of necessity entrepreneurs in the economy. Therefore, the alternative hypothesis is accepted that necessity entrepreneurship significantly improves during and after economic recession. The result confirms the high mean of necessity entrepreneurship in the descriptive table above.

### **Discussion of Findings**

This section discusses the findings from the regression models that analyze the rates of necessity and opportunity early-stage entrepreneurial activity before and during the economic recession in the country.

The 0.00 and 0.002 level of significance for both opportunity and necessity entrepreneurs reveals that the years before the recession, individuals were more likely to engage in opportunity driven entrepreneurial activities when compared (p-value < 0.05). Also, employment growth rates were positively related to the probability of individuals engaging in opportunity entrepreneurship. Not having a full time or part time job and living alone negatively influenced individuals' likelihood of seeking business opportunities and starting new ventures. These findings are in tandem to the findings of Anderson, (2009) study that history has repeatedly demonstrated that new companies and entrepreneurship are the very way to bolster a dwindling economy.

In addition, the results that indicate that the recent economic recession in the country indeed marked a clear shift in the entrepreneurial motivations of individuals. A 1 percent increase in economic recession have led to 39.8 and 40.5 percent increase in opportunity and necessity entrepreneurship in the country respectively.

Positive employment growth rates before the recession motivated individuals in the country to identify and exploit entrepreneurial opportunities. During the recession, however, employment growth rates had no significant effect on opportunity-driven entrepreneurial behavior. These results suggest that entrepreneurs are motivated to exploit opportunities when the economy shows sign of positive change but when these changes are negative, entrepreneurs react quite differently. Regarding necessity entrepreneurship, the study of Tozzi (2010) and Macke (2011) argue that most necessity entrepreneurs would take a job if offered one, but may choose to keep their small start-up operating as a side-line. Perhaps this is evidence of a two-dimensional (opportunistic and necessity) entrepreneur (Giacomin 2011).

The finding of the paper has several implications for rural economic development policy. Current national policy is rightfully focused on the short-term stimulation of the economy to reduce unemployment. On the other hand, the long-term strategies for economic development and competitiveness should not be overlooked. As several studies have indicated, recessions create unique opportunities to fundamentally transform economies. The findings of this paper challenge the frequent bias in policy against necessity entrepreneurship in favour of opportunity and growth-oriented entrepreneurship. All types of entrepreneurship offer a partial remedy to short-term unemployment, by increasing self-employment thus reducing the unemployment rate, and long-term economic development by increasing the rate of innovation and creative entrepreneurs.

Relating the finding to current economic recession in the country, the economic recession boosted creativity, adoption, and implementation of new technologies and practices that led to the higher productivity growth observed in the country. Without the stressful socio-economic conditions of the recession years, these innovative techniques would have remained under-exploited. Therefore, we can expect that the higher rates of opportunity and necessity entrepreneurship recently observed during the economic recession may prove transformative in the long run. From both short-term and long-term perspectives, policy must exploit this rare opportunity to bring about improvements in the country's economy.

## **CONCLUSIONS AND RECOMMENDATIONS**

The paper concludes the economic recession has a significant effect on opportunity and necessity entrepreneurs and tended to erase the deficit in entrepreneurship and increased the rate of entrepreneurship in the country.

Increased support for necessity-driven self-employment not only offers a way of improving the job growth rate during recession, but it also provides an opportunity to create more overall entrepreneurial activity following the economic recession. In addition to policies focused on developing opportunity entrepreneurs directly, programs should focus on improving the success rate and growth potential of necessity entrepreneurs.

Thus, in response to our framing questions, we are able to confirm that indeed the recession led to the expected shift in motivations from opportunity driven to necessity-driven entrepreneurship. However, our findings show that entrepreneurial activity before the recession were more opportunity driven than necessity driven and that the shift in motivation during the recession was less pronounced than expected. This raises new research questions as to the nature of opportunity entrepreneurship and how this shows resilience in a time of economic recession.

### **Recommendations**

Based on the findings and conclusions elucidated above, the following recommendations and made for economies undergoing recession and Nigeria in particular:

1. It has been acknowledged from the findings that the relationship between recession and entrepreneurship is of great interest to the policy makers. Thus, it is recommended that promoting entrepreneurship should be high in the agenda of governments seeking growth. To achieve this, the policy makers should be more precise in their macro and micro policy directions to target their efforts in promoting entrepreneurship as an effective instrument in defeating recession in the country.
2. It is also recommended that policy makers should tailor make the entrepreneurship-spurring programs based on the specific requirements of these categories of entrepreneurs during economic recession. For example, if indeed the proportion of necessity entrepreneurs increase during recession and, in general, they lack human capital in comparison to opportunity entrepreneurs, then the government can introduce program that will help them bridge that gap to an extent (alongside the financial assistance which is common) or make the financial support contingent on a certain level of specific human capital.

3. Finally, regarding the industry composition (relative entries rates in different industries), it is recommended that policy makers should focus on industries that attract more opportunity and necessity entrepreneurs during recession in the short term.

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