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Business Clustering and Emergence of New Businesses in Nigeria

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Abstract:

This work accesses the Business Clustering and Emergences of New Businesses in Nigeria. The sect accessed consisted of 12,104 sellers of building materials Akwa Ibom State and Cross Rivers State. Puposive sampling techniques were used to select 100 respondents out of the population. The instrument used for data collection was questionnaire. The instrument was validated by two experts in Test and Measurement. Data from 100 completed questionnaire forms were subjected to PPMC analysis. Thefindings showed that business clutering has remarkable effect on the emergencies of new businesses in Nigeria.Thus, can lead to amazing formation of new businessesin the region; this is because clustering is capable of generating multiplier effects that can lead to socio-economic transformation of a region positively. Thereby facilitating the transfer of technology and innovation creation which will immensely contributes to the economic welfare and improved standard of living. It was however recommeded that buinsess clustering should be made viable, encouraged and strengthened through government investment in the industrial sector, making the location factors to be liberal, giving of tax holidays to the younger investors, relaxing the laws governing the importation of some raw materials, as this will have positive impact on productions.

Keywords: Business Clustering; Growth; Economic; Activities; Business; Nigeria

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Introduction:

The importance of buinsess cluter cannever be overemphaised seeing to the fact that is generally seen as a concentration of firms that are able to produce synergy because of their geographical proximity and interdependence. In the words of [1], they characterised clustering as networks of producers of strongly interdependent firms linked to each other in a value-adding production chain. In geographical and technological perspective, it's a group of firms in related industries at a particular location for the common of making profit. [2]explained business cluter by defining two main cluster strengths as the agglomeration sizes of similar-firms and related-firms in the region for a particular industry.

Clearly from this myriad of definitions of business cluster, there are unique elements which are worthy of note. That is, a cluster must consist of groups of associated and interconnected firms that are linked vertically and/or horizontally through their commonalities and complementariness in products, services, inputs, technologies or outputs activities. This is proceeded by,busienss clusters are physical proximate groups of interlinked companies which can encourage the formation of, and enhances value creating benefits via their interaction.

The success of entrepreneurial clusters in recent decades, however, has been challenging, and now many policy makers in Nigerian state wants their regions to be the next Silicon Valley. This has led to extensive efforts to seed local entrepreneurship (e.g., [3].

Cluster policies for entrepreneurship and innovation occupy a very distinct place in this development of economic activites of a developed and developing nations like Nigeria. They are narrowly place-specific, favoring a very specific locale, such as Computer village in Lagos, Automobile in Aba etc. This geographic concentration is justified both as a tool for generating positive externalities and. They are also oriented towards either specific industrial sectors (ICT, atomobile spare parts, textile etc.) or more generally towards business start-ups. They are not usually firm-specific, largely because business start-ups are too small to be addressed on a firm-by-firm basis, but also because the proponents of these policies often share economists' skepticism about the ability to pick winning firms, even though they believe in the ability to pick winning sectors.

Clusters are a striking and common feature in today's economy. Nonetheless, this phenomenon has been the object of attention from a wide variety of social scientists for much of the twentieth century. In the last ten years, this phenomenon has attracted renewed interest from academics and business practitioners [4;5;2;6;7].

Historically, clusters in Nigeria have been found in a wide variety of traditional industries like Yaba (ICT), Nnewi (automotive), Otigba (technology), Onitsha (plastics), and Kano (leather) to mention but few. Clusters, according to [5], are critical masses in one place of unusual economic success in particular fields. He further defined them as 'geographic concentration of interconnected companies, specialised suppliers, service providers, firms in related industries and associated institutions in particular fields that competes but also cooperates' [5].

Entrepreneurs and entrepreneurship has become an important part of every modern society today with the implication that government today actively work to improve the preconditions for entrepreneurship.

A cluster is supposed to increase the competive collaboration which leads to a higher productivity, innovation and finally more new start-up firms. This informed why a cluster offers a high access to employees, suppliers and higher information flow between individuals and firms. Flow of information within clusters gives the entrepreneurs a better insight into market needs which gives the entrepreneurs better possibilities to come up with new innovative ideas to make them quicker than outside a cluster. Important factors are also specialized infrastructure, good access to public goods and institutions and finally closeness to investors[5]. Many of these factors can be found in Ifa Ikot Okpon Timber Market, Itam Timber Market of Akwa Ibom State and Akin Timber Market and Ibesikpo Timber Market of Cross River State.

One basic assumption concerning clusters is that they contribute with more new firms than other geographical areas. This indicates that the entrepreneurial process of identifying and developing business opportunities is easier in a cluster environment. An explanation of this is that a cluster is characterized by high movement of people between organizations; the people working in these areas have access to a lot of information and networks which can lead to more ideas[6].It is believed that informal contacts and knowledge flows between individuals and firms are important for innovation and entrepreneurship. This is in line with other findings which suggest that prior knowledge about market conditions and customer needs, which the entrepreneur learns in other organizations, triggers the entrepreneurial process.[8]. It is further argued that a cluster provides a supportive environment for entrepreneurs as the cluster network provides the entrepreneur with better financial support and access to skilled employees. This is in total supposed to lower the barriers to entry on the market for new individual entrepreneurs that are trying to develop their ideas into new businesses[5].

Purpose of the Study

The major purpose of the study was to examinebusiness clustering and the emergencies of new businesses in Nigeria. Specifically, the study sought to:

To examine the relationship between business clustering and the formation of new business.

Research Questions

The research question guiding the study is:

What is the relationship between business clustering and the formation of new business?

Research Hypotheses

The null hypotheses guiding the study is:

There is no significant relationship between business clustering and the formation of new business.

Literature Review

Concept of Business Cluster

Clusters have long been part of the economic landscape, with geographic concentrations of trades and companies in particular industries dating back for centuries. A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The geographic scope of clusters ranges from a region, a state, or even a single city to span nearby or neighboring countries[9]. The geographic scope of a cluster relates to the distance over which informational, transactional, incentive, and other efficiencies occur[10].

More than single industries, clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services as well as providers of specialized infrastructure. Clusters also often extend downstream to channels or customers and laterally to manufacturers of complementary products or companies related by skills, technologies, or common inputs. Many clusters include governmental and other institutions (e.g., universities, think tanks, vocational training providers, standards-setting agencies, trade associations) that provide specialized training, education, information, research, and technical support. Many clusters include trade associations and other collective bodies involving cluster members. Finally, foreign firms can be and are part of clusters, but only if they make permanent investments in a significant local presence.

Drawing cluster boundaries often is a matter of degree and involves a creative process informed by understanding the linkages and complementarities across industries and institutions that are most important to competition in a particular field. The strength of these "spillovers" and their importance to productivity and innovation often are the ultimate boundary-determining factors.

Clusters occur in many types of industries, in smaller fields, and even in some local industries such as restaurants, car dealers, and antique shops. They are present in large and small economies, in rural and urban areas, and at several geographic levels (e.g., nations, states, metropolitan regions, cities). Clusters occur in both advanced and developing economies, although clusters in advanced economies tend to be far more developed [5].

Cluster boundaries rarely conform to standard industrial classification systems, which fail to capture many important actors in competition and linkages across industries. Because parts of a cluster often are put into different traditional industrial or service categories, significant clusters might be obscured or even unrecognized. In Massachusetts, for example, there proved to be more than 400 companies connected in some way to medical devices, representing at least 39,000 high-paying The appropriate definition of a cluster can differ in different locations, depending on the segments in which the member companies compete and the strategies they employ. The lower Manhattan multimedia cluster, for example, consists primarily of content providers and firms in related industries such as publishing, broadcast media, and graphic and visual arts. The San Francisco Bay area multimedia cluster, by contrast, contains many hardware and software industries that provide enabling technology. Clusters also can be examined at various levels of aggregation (e.g., agriculture cluster, wine cluster), thereby exposing different issues.

The boundaries of clusters continually evolve as new firms and industries emerge, established industries shrink or decline, and local institutions develop and change. Technological and market developments give rise to new industries, create new linkages, or alter served markets. Regulatory changes also contribute to shifting boundaries, for example, as they have in telecommunications and transport.

Business Cluster and New Business Formation

Many, if not most, successful new businesses are formed in existing clusters rather than in isolated locations (here I am referring to headquarters, not branch offices or ancillary facilities). This occurs for a variety of reasons. First, the inducement to entry often is greater within the cluster because there is better information about opportunities. The existence of a cluster signals an opportunity. Individuals working somewhere in or near the cluster more easily perceive new gaps in products, services, or suppliers to fill. Having had these insights, these individuals more readily leave established firms to start new ones aimed at filling the perceived gaps.

The opportunity perceived at a cluster location is pursued there because the barriers to entry are lower than they are elsewhere. Needed assets, skills, inputs, and staff often are readily available at the cluster location and are assembled more easily there. Local financial institutions and investors with industry familiarity might require a lower risk premium on capital. A significant local market also often is present. The entrepreneur has established relationships and often prefers to stay in the same community. Lower entry barriers, the existence of multiple potential local customers, established relationships, and the presence of other local firms that have "made it" can reduce the perceived risks of entry. Note that barriers to exit at a cluster also can be lower due to less need for specialized investment, deeper markets for specialized assets, and other factors [11].

Although local entrepreneurs are likely entrants to a cluster, entrepreneurs based elsewhere frequently relocate sooner or later to a cluster location. The same lower entry barriers attract them, as does the potential to create more economic value from their ideas and skills or to raise the productivity of their emerging companies.

Established companies based in other locations (both foreign and domestic) also are drawn to establish subsidiaries in cluster locations, seeking the productivity benefits and innovation advantages discussed previously. The presence of an established cluster not only lowers the barriers to entry to a location facing outside firms but also reduces the perceived risk (particularly if other "foreign" cluster participants already are present). There also are numerous examples of firms that have relocated entire business units to cluster locations or designated their subsidiaries located there as the regional or world headquarters for lines of business.

The advantages of a cluster in new business formation can play a major role in speeding up the process of cluster innovation. Large companies often face various sorts of constraints and impediments to innovating. Spin-off companies often pick up the slack, sometimes with the blessing of the former companies[12]. It is not uncommon to see larger companies in a cluster develop close relationships with innovative smaller ones, help establish them, and even acquire them if they become successful.

Because of new business formation, the depth and breadth of clusters often grow over time, enhancing cluster advantages. The intense competition within a cluster, together with lower entry and exit barriers, sometimes leads to both more entry and more exit at these locations. However, the net result is that many of the surviving firms in the cluster can gain position vis-a-vis rivals at other locations[13].

METHOD

Research Design

Survey design was adopted in the study. This design was appropriate in the study because according to [14], survey research focuses on people, the vital facts of the people and their beliefs, opinions, attitudes, motivation and behaviour.

Area of the Study

The study was conducted in the Akwa Ibom State and Cross Rivers State of South south geopolitical zone of Nigeria.

Population of the Study

The population of the study comprised all the 12,104sellers of building materials in Akwa Ibom State and Cross Rivers State.

Sample and Sampling Technique

The researcher used a purposive sampling technique to sample 100 businesses from Ifa Ikot Okpon Timber Market, Itam Timber Market of Akwa Ibom State and Akin Timber Market and Ibesikpo Timber Market of Cross River State.

Instrumentation

Researchinstrument was used for data collection. The instrument was a questionnaire titled Emergence of Business Clustering and the Growth of Economic Activities Questionnaire" (EBCGEQ).

Validation of the Instrument

The questionnaire items were subjected to validation by *2* experts in the Department of Statistics, University of Uyo, Uyo.

Reliability of the Instrument:

Pearson Product Moment Correlation was used to determine the reliability coefficient of the instruments. Using the test-retest method, the instruments were administered twice to fifty (50) respondents that were not part of the study with two weeks interval between each administration. The reliability coefficient for the questionnaire and business studies achievement test ranged from 0.73 to 0.91, which showed that the instruments were highly reliable.

Administration of Instrument

The instrument was administered personally by the researcher to the respondents. This personal administration of questionnaire helped to minimise loss of questionnaire. The respondents were given enough time to complete the questionnaire before they were collected for analysis.

Method of Data Analysis

Data collected were processed using the Statistical Package for Social Science (SPSS). a research questions was answered using (mean) descriptive statistics; while one hypothesis was also tested using the PPMC analysis at 0.05.

Results and Discussions

Answer to the only Research Question

Research Question

What is the relationship between business clustering and the News business formation in Nigeria?

Table 1 Descriptive analysis of the relationship between business clustering and News business formation in Nigeria

Variable	N	Arithmetic mean	Expected mean	R	Remarks
business clustering		14.81	12.50		
	100			*95	*strong to perfect Relationship
News business formation		7.47	5.00		

Source: Field Survey, (2019)

Table 1 presents the result of the descriptive analysis of the relationship between business clustering and the News business formation in Nigeria. The two variables were observed to have strong perfect relationship at 95%. The arithmetic mean for business clustering (14.81) was also observed to be higher than the expected mean score of 12.50. In addition to that the arithmetic mean for news business formation (7.47) was observed to be higher than the expected mean score of 5.00. The result therefore means that there is perfection relationship between business clutering and formation of new business.

Testing of hypothesis

Hypothesis One

There is no significant relationship between business clustering and the formation of new business.

TABLE 2

Pearson Product Moment Correlation Analysis of the Relationship between business clustering and the formation of new business

Variable	**∑x**	**$\sum x^2$**	**∑xy**	**r**
	∑y	$\sum y^2$	148485	0.94*
Business clustering(x)	23191	377071		
Formation of new business (y)	9113	58989		

***Significant at 0.025 level; df =100; N =98; critical r–value = 0.086**

Table 2 presents the obtained r-value as (0.94). This value was tested for significance by comparing it with the critical r-value (0.086) at 0.025 levels with 98 degree of freedom. The obtained r-value (0.94) was greater than the critical r-value (0.086). Hence, the result was significant. The result therefore means that there is significant relationship between formation of new business.

Conclusion

From the findings of the study, it was revealed that business clutering has remarkable effect on the growth of economic activities in Nigeria thus, can lead to amazing formation of new businesses within the affect region; this is because clustering is capable of generating multiplier effects that can lead to positve socio-economic transformation of a region positively. Thereby facilitating diffusion and innovation creation which will immensely contributes to the economic welfare and improved standard of living.

Recoomendations

Based on the data analysis of the study, it was concluded that buinsess clustering should be made viable, encouraged and strengthened through government investment in busienss cluster development, giving tax holidays to the younger investors, relaxing the laws governing the importation of some raw materials, as this will have positive impact on productions. Financial aids should be given to cluster players in form of loan, while the collateral securities should be made affordable for the investors. Assistance, in form of subsidy should be given to the investors.

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