

# **Effect of Apprenticeship and Social Capital on New Business Creation Process of ‘Immigrant’ Entrepreneurs**

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## ***Abstract***

*This study investigated the effects of apprenticeship and social capital on new business creation process of Igbo entrepreneurs in Wukari Taraba State. The high success rate of apprentice-turned entrepreneurs and increasing attachment of these entrepreneurs to their ethnic based union were the reasons that gave rise to the study. 40 businesses located in Wukari Local Government Area that were established by Igbos were randomly selected and questionnaire method was the mechanism applied in generating responses. Findings revealed that while apprenticeship had significant effects on pre-founding activities- when the business was taking off, social capital became important when the business had been established. Apprenticeship had significant effects on business idea generation, idea modification, business location and financing while social capital served as source of insurance services and access to information. The study recommends that apprenticeship practice should be revived and modernized and also that ethnic based unions should be given legal recognition and restructured to play both social and economic roles*

## **Introduction**

Entrepreneurship among immigrants is on the rise worldwide as more immigrants are deliberately choosing self employment. In the view of Tanaka and Krishnan (2006), they are even more likely to be self-employed than natives. Immigrant entrepreneurs, from ethnics’ entrepreneurship literature, are persons who migrated from their home/region to another region with different set of business culture, customs and language and run their own business ventures there. The growth in the number of immigrant entrepreneurs is viewed as a way for labour market inclusion for the immigrants (Hedberg, 2009)

Immigrant entrepreneurs usually start their business venture in their states of origin and become ‘self employed’ then turn to be ‘immigrant entrepreneurs. Although the number of immigrant entrepreneurs from abroad who develop business ventures in host states is growing, the number of successful ones is few. These entrepreneurs face many difficulties both in registering and in founding activities owing to high entry barriers. The level of entrance barriers may differ between states and even locations within a country because of differences in the business environment. Suwannapisit and Apiratpinyo (2010) opined that the complicated processes and difficulties faced by these entrepreneurs could be the reason why some new entrepreneurs commence business without proper registration. Some of these barrier problems include lack of credibility with customers and investors, spoken and written language barrier, the legitimacy procedure, taxation and employment procedures. Furthermore, legal systems, lack of focus, poor understanding of the market, lack of exit route and the poor understanding of unwritten rules and business culture of the host state are possible challenges facing immigrant entrepreneurs. Moreover, immigrant entrepreneurs’ firms are often smaller in size and less successful than mainstream business (Butler and Greene, 1997) due to lack of financial capital, discrimination, language problem and limited markets, when they remain within the ethnic market (Walton-Roberts and Herbert, 1997).

Many studies conducted in the field of immigrant entrepreneurship revealed that many immigrant entrepreneurs relied on human and social capital in overcoming these entry barriers. Knowing that establishing new venture in another environment is more difficult than starting their business venture at home, these entrepreneurs used social and human capital to cushion the effects of unfamiliar environment. With reference to effectuation theory, entrepreneurs as creative actors usually develop opportunities and markets from the existing resources on hand with major concern on 'who they are, what they know and whom they know' (Saravasthy, 2001). In other words, the major concern of entrepreneurs in overcoming these entry barriers is focused on the human and social capital that they can lay hands on. In the context of immigrant entrepreneurship, social capital is referred to as the set of facilitating network factors that include the use of co-ethnic markets, co-ethnic suppliers and employees, and community sources of information, capital and advice. Social capital can assume different forms such as social skill, charisma, cooperative nature or care for others. It is a productive resource at the interface of individual and collective interest. Deakins et al (2007) posited that social capital is a commitment from partners to reduce uncertainties and facilitate flow of information as well as create opportunities for personal and societal wealth.

Human capital on the other hand refers to possession of skills, work experience, knowledge or other useful characteristics (motivational incentive, leadership style and locus of control). Other human capital factors that affect entrepreneurship include gender, age, ethnicity, relevant industry experience and general management experience (Shepherd et al, 2000; Lee and Chang, 2005). Human capital such as apprenticeship education enables immigrant entrepreneurs to deal with a host of challenges. Some scholars have claimed that success in entrepreneurial venture can be attributed to superior human capital resource and not other external factors. For instance, Sanders and Nee (1997) had proved that human capital resources are positively related to business longevity and profit. They also proved that an immigrant with higher apprenticeship education have greater chances of succeeding in new venture creation.

Since time immemorial, people have transferred skills from one generation to another in some form of apprenticeship. In Nigeria and all over Africa, apprenticeship has been an age long method of training young people in trade and craft, agriculture, business and catering. When youths in olden days achieved the status of skilled worker; they become important members of the society. In Igboland, apprenticeship system was an institution that was generally guarded by customs, lineage and rituals. Every male born into a family was expected to learn his matrilineal craft, and it was easy to identify a young male child as a member of lineage found to be proficient in the lineage craft.

The apprenticeship system was brought to the limelight in Nigeria after the Nigerian-Biafran war. Many parents who were left with nothing after the war were forced to send their children (8-20 years) to survive as traders. This was how Igbo settlers after the war rebuilt Onitsha, Nnewi, Aba and most parts of Lagos. In the apprenticeship system, the 'Oga' and 'Nwaboyi' are in agreement for a period ranging from 4-7 years whereby the apprentice is to serve and learn from the 'Oga'. Usually, the mode of settlement is contained in the agreement.

Apprenticeship as a method of establishing young people, and training the unskilled, has been very beneficial to the Igbos. Many people achieved excellence in their calling because their Oga trained and settled them well. Many notable business moguls in Onitsha attribute their success to what they learnt as apprentice. Admittedly, apprenticeship offers the Nwaboyi the opportunity to acquire business acumen, work attitude, how to deal with suppliers and customers, and interaction with other practitioners. It provides contacts/networks and lessens the burden on the Nwaboyi's parents. In addition, it has helped youths from indigent homes to achieve excellence in what they do.

The increasing number of Igbo entrepreneurs in Wukari and increasing number of people that start new ventures within few years of staying in there, coupled with increase in the number of ethnic based networks and higher success rate of entrepreneurs who started as apprentices, led the researcher into querying how these entrepreneurs develop businesses outside their region especially with the aid of social and human capital. To date, there is a limited number of studies on immigrant entrepreneurship and use of social/human capital. Most of the studies focus on features of immigrant entrepreneurs (Peter De Vries, 2007) but little or no study has been conducted on how entrepreneurs from different backgrounds within a country use apprenticeship and social capital in overcoming these entry barriers and in creating new business ventures.

Therefore the objective of this study was to investigate the extent to which apprenticeship and ethnic based networks have assisted these entrepreneurs in overcoming entry barriers and in creating new businesses.

## **Literature Review**

Suwannapisit and Apiratpinyo (2010) defined immigrant entrepreneur as one who migrated from home to another region and run own business venture there. Bessant and Tedd (2009) x-rayed various reasons for creating new ventures as well as motive types. Hedberg (2009) asserted that the number of immigrant entrepreneurs is increasing worldwide and that entrepreneurial activities are in a high level among immigrants than native people. Kloosterman and Ruth (2004) opined that the involvement of these immigrant entrepreneurs in different industries results from special knowledge or resources which have become competitive edge. He equally observed that these entrepreneurs face many entry difficulties as a result of being in unfamiliar environment. Peter de Vries (2007) while acknowledging the presence of many difficulties for immigrant entrepreneurs highlighted the impacts of immigrant entrepreneurship to the host country. He asserted that it brings novel ideas and culture and positively impact on host's way of life. Butler and Green (1997) reiterated the problems faced by immigrant entrepreneurs and concluded that such problems are the reason why immigrant firms are usually smaller. Walton-Roberts and Herbert (1997) identified lack of financial capital, legitimacy problem, discrimination, language problem and limited markets as major entry barrier facing immigrant entrepreneurs.

Timmons (1994) proposed a successful venture creation model based on the three crucial driving forces of entrepreneurship: the founders, the resources needed to found the firms and recognition of opportunity. Surrounding the process are such things as risk, information asymmetries, resource scarcity and uncertainty, all of which complicates the process. Singh et al (2006)

combining the discussions of Timmons (1994) and Long and McMullan (1984) proposed a model of new ventures creation. In their view, the starting point is business idea, through opportunity recognition and possible new venture creation. They went further to show when/conditions under which new venture idea becomes entrepreneurial opportunity and how long after the recognition of opportunity are new ventures founded. Suwannapisit and Apiratpinyo (2010) following Casson and Guista (2007) identified three stages of business venture creation process: the opportunity seeking stage, the resource acquisition stage and the market organization stage.

Long and McMullan (1984) described the opportunity identification process as being at least partially under the control of the entrepreneur. They suggest that in order to realize the potentials of an opportunity, a significant amount of preparation is required. And indeed, it is this preparation that shapes and personalizes the opportunity, making it inaccessible to other people. Clausen (2006) studied what type of knowledge, resources and competences individuals need to detect opportunities and start a firm. He concluded that individuals with higher specific human capital and social networks succeed more than those who possess them in a lesser degree. This finding is in line with earlier finding by Christensen and Petersen (1990) that in addition to profound market and technological knowledge, social networks are a great source of successful venture creation process.

Apiratpinyo and Suwannapisit (2010) observed that more successful immigrant entrepreneurs make less use of social capital; and Hjerem (2004) collaborating the statement, added that immigrant entrepreneurs because they tend to have smaller firms depended so much on social capital. Both De Carolis and Saporito (2006) and Anderson and Jack (2002) extolled the importance and contributions of social capital in facilitating business creation. In fact, Kalninis and Chung (2006) who studied the Gujarat immigrants in the US observed that they depended on social capital to develop and sustain their businesses.

On the other hand, researchers such as Lee and Chang (2005) and Shepherd et al (2000) have underscored the relevance and contributions of human capital especially apprenticeship in overcoming entry barriers and in eventual business creation. Sanders and Nee (1996) even proved that human capital resources are positively related to business longevity.

### **3.0 Research Methods**

This was a study of entrepreneurs of Igbo extraction living and running businesses in Wukari. The study was quantitative in nature and the research design was descriptive survey. The area of study was Wukari Local government Area in Taraba State, Northeastern Nigeria. Wukari was a commercial town with large number of businesses most of which were owned by Igbos. The population of the area according to the 2008 population census figure was 241,082. The target population consists of all Igbo entrepreneurs who have businesses in the area. The researchers used snowball sampling and criterion-based sampling technique. In this arrangement, first respondent was located and he in turn identified and recommended others. This enabled the researcher to compile a list of probable respondents from which 40 respondents (those who meet selection requirements) were randomly selected. Likert scale structured questionnaires were used to generate responses from the selected sample and the data were analyzed using percentages and

mean scores Data analysis was done by using percentages and mean scores. Percentages were used for analyzing the background information of respondents while mean scores were used to analyze the remaining research questions. In this regard a mean value of 3.50 and above was accepted while value below 3.50 was rejected. The questionnaire items were made of five- (5) point scale type of responses as follows: Strongly agree (SA) 5, Agree (A) 4, Undecided (UD) 3, Disagree (D) 2, Strongly Disagree (SD) 1.

## Data Analysis and Discussion of Findings

**Table 1 Description of Entrepreneurs Studied**

<b>Membership of Igbo Union</b>	<b>Option</b>	<b>Percentage</b>
Member	40	100%
Non member	0	0%
<b>Type of business training undergone</b>		
Apprenticeship	38	95%
Other trainings apart from apprenticeship	2	5%
<b>Years of operation</b>		
Less than 2 years	12	30%
Between 2 and 5 years	17	43%
Above 5 years	11	27%
<b>Type of business</b>		
Trading	26	65%
Manufacturing	7	17.5%
Services	7	17.5%

*Source: Field Survey, 2012*

Analysis of data presented in Table 1 revealed that all entrepreneurs belonged to Igbo Union which served as their social capital. 95% of the respondents passed through the tutelage of business mentors (masters) as apprenticeship before creating their own business venture. Furthermore, it was revealed that majority of the businesses were young as greater percent (73%) had not existed for more than 5 years. As expected, greater number of the respondents was into buying and selling as opposed to those in manufacturing and service sector.

**Table 2: Mean Response on the effects of social capital on new business creation process.**

	<b>Items</b>	<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>	<b>Mean</b>	<b>Remark</b>
1	Belonging to Igbo Union had significant effect on my business idea generation	4	6	10	15	5	2.7	Rejected
2	Belonging to Igbo Union had significant effect on modification of my business idea	7	15	10	8	0	3.4	Rejected
3	Belonging to Igbo Union had	5	12	11	10	2	3.2	Rejected

	significant effect on where I located my business							
4	Belonging to Igbo Union had contributed to my business financing	6	15	3	16	2	3.1	Rejected
5	Belonging to Igbo Union had significant effect on my customer management and pricing decisions	4	8	17	7	4	3.0	Rejected
6	Belonging to Igbo Union assisted me in getting and maintaining suppliers	8	18	2	10	2	3.5	Accepted
7	Belonging to Igbo Union is a source of advertisement for my business	31	7	0	2	0	4.7	Accepted
8	Belonging to Igbo Union had provided me with wide range of insurance services	27	8	3	2	0	4.5	Accepted

9	Igbo Union had assisted my business in making distribution channels decision	11	6	1	15	7	2.9	Rejected
10	Igbo Union had contributed significantly to increase access to new markets	8	7	16	8	1	3.3	Rejected
11	Igbo Union Provides my business with access to information	23	11	5	1	0	4.4	Accepted
12	Igbo Union had contributed significantly to overcoming legal and cultural hurdles in my business	19	16	3	1	1	4.3	Accepted

*Source: Field Survey, 2012*

Findings from Table 2 showed that social capital (Igbo Union) had significant effect on stabilizing and running the business but not in kick-starting the business. The Table revealed that social capital had significant effects on getting and maintaining suppliers, on making distribution channels decisions and as source of advertisement. While social capital has not contributed much in pre-founding activities, it had contributed significantly in providing wide range of insurance services, access to information and in overcoming legal and cultural hurdles confronting business success.

**Table 3: Mean Response on the Effects of Apprenticeship on new business creation process.**

	Items	SA	A	UD	D	SD	Mean	Remark
1	Apprenticeship had significant effect on my business idea generation	11	24	3	2	0	3.9	Accepted
2	Apprenticeship had	8	19	3	9	1	3.6	Accepted

	significant effect on modification of my business idea							
3	Apprenticeship was major determinant of my business location	26	13	1	0	0	4.6	Accepted
4	Apprenticeship had contributed significantly to my business financing	14	15	0	5	6	3.7	Accepted
5	Apprenticeship had significant effect on my customer management and pricing decisions	7	22	4	5	2	3.6	Accepted
6	Apprenticeship had assisted me significantly in getting and maintaining suppliers	17	9	2	7	5	3.7	Accepted
7	Apprenticeship was a source of advertisement for my business	2	7	5	17	9	2.4	Rejected
8	Apprenticeship had provided me with wide range of insurance services	6	10	1	14	9	2.8	Rejected
9	Apprenticeship had assisted my business in making distribution channels decision	3	11	5	18	3	2.8	Rejected
10	Apprenticeship had contributed significantly to access to new markets	7	13	2	10	8	3.0	Rejected

11	Apprenticeship had Provided my business with access to information	4	9	2	18	7	2.6	Rejected
12	Apprenticeship had contributed significantly to overcoming legal and cultural hurdles in my business	8	21	0	7	4	3.6	Accepted

*Source: Field Survey, 2012*

Analyses of data in Table 3 showed that unlike social capital, apprenticeship had significant effects on pre-founding activities and in new business take-off but not on the day-to-day running of the business. It was revealed that apprenticeship had significant effects on business idea generation, idea modification, business location, new business financing and selection of suppliers. Apprenticeship had also contributed positively to customer management and price-setting decisions.

### **Conclusion**

This study has succeeded in bringing to the limelight the different roles apprenticeship and social capital play in business development as well as the stages when they are needed. It shows that social capital and apprenticeship are not substitutes as some scholars believed; rather, they are complementary. The study has also show-cased the indispensable role of apprenticeship in entrepreneurship development. Indeed, apprenticeship does not only provide training for the apprentices; it equally provides mentoring services and serves as nursery for any entrepreneurial ambition.

### **Recommendation**

Having discovered the critical role of apprenticeship in new business development, effort should be made to revive the practice. Admittedly, the system has been abused by the stakeholders but abuse does not remove use. Modern forms of apprenticeship as seen in Singapore and Malaysia where graduates are attached to established entrepreneurs for some period of tutelage should be adopted. Secondly, since the role of ethnic based networks such as Igbo Union has significant effects on business sustainability, they should be given legal recognition and strengthened as platform for capacity building, technology transfer and as disciplinary force to regulate members' behaviour. Finally, ethnic based groups such as Igbo Union in this case should see themselves not only as social groups but also as economic forces that can own businesses, negotiate business terms on behalf of their members and also provide public goods which members would not find viable to provide individually.

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