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**IMPACT OF FOREIGN DIRECT INVESTMENT ON STOCK MARKET DEVELOPMENT
IN NIGERIA**

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Abstract

Foreign direct investment (FDI) is expected to serve as a means of complementing a nation's domestic resources in order to ensure development and improve the overall standard of living. Several economic, political and social policies have been deliberately initiated in Nigeria, all aimed at attracting the requisite foreign direct investment. However, the much anticipated surge of FDI into the Nigeria economy has not yet occurred. This is particularly worrisome, as Nigeria possesses quite a number of attributes of a good FDI destination, some of which includes; size of market, availability of natural resources, low labour cost, high productivity, incentives, high level of human capital development and major markets proximity, hence the need for the present study to investigate the linkage between foreign direct investment inflows and capital market development in Nigeria. By means of time series data for the period 1981 to 2015, the Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration is deployed. The Bounds testing approach to co-integration revealed existence of long-run equilibrium relationship between the dependent variable and the regressors. Further, analysis of the short run dynamics revealed that about 73% of the resulting disequilibrium is captured each period indicating very high speed of adjustment from short run oscillation to long run equilibrium. All the variables were correctly signed in the short-run. The empirical results indicate a positive relationship between FDI and market capitalization both in the short-run and long-run. This infers the complementary role of FDI to the stock market development in Nigeria. Real gross domestic product, inflation and exchange rate showed a strong positive relationship with the stock market development in the short-run. However, inflation and exchange rate were observed to be negatively related to capital market development in the long-run. Since the empirical evidence revealed complementary role of FDI to the stock market development in Nigeria, it is therefore recommended that government should attract FDI by taking various steps such as: maintaining both political and macroeconomic stability in the country, adequate provision of infrastructures and minimize the volatility of foreign exchange and the rate of interest through appropriate and effective monetary policy.

Keywords: Capital Market, Development, Economic Growth, FDI, Market Capitalization.

1. INTRODUCTION

The rate of growth in developing countries which has often times been described as slow is traceable to inadequate resources required to speed up requisite economic growth and development. Savings in developing economies is usually less than the investment needs. Most economies have resorted to foreign borrowings while others tend towards attracting foreign investments to stimulate the needed development.

Within the purview the Nigerian economy, foreign direct investment is expected to serve as a means of complementing the nation's domestic resources in order to ensure development and improve the

overall standard of living. Thus, the core purpose of foreign investments is to complement indigenous efforts geared at even development in any given society. Foreign direct investment can equally have a direct relationship and exerts some level of influence on capital market development, as most of the investible funds coming into any country are usually channelled through the financial market. Over the years, several economic, political and social policies have been deliberately initiated in Nigeria, which are aimed at attracting foreign direct investment. This is because Nigeria, like other African countries, recognizes the contribution of FDI to economic development and integration into the world economy. Nigeria as a nation has been making considerable efforts to improve its investment climate since the pre-independence era till date, most especially through liberation, deregulation, privatization and enabling laws and incentives. Some of these laudable policies put in place over the years among several others include: The Aid to Pioneer Industries Ordinance and the Income Tax (Amendment) Ordinance Act of 1952, Nigerian Enterprises Promotion (Issues of Non-voting Shares) Act 1987, The Nigerian Enterprises Promotion Act No. 54 1989 and Nigerian Investment Promotion Commission amongst other policies.

However, the much anticipated surge of FDI into the Nigeria economy has not yet occurred (Isiaq & Sunday, 2011). This is particularly worrisome, as Nigeria possesses quite a number of attributes of a good FDI destination, some of which includes; size of market, availability of natural resources, low labour cost and high productivity, incentives, high level of human capital development, major markets proximity, etc. In recent times, policymakers in Nigeria have come to the conclusion that attracting foreign direct investment (FDI) inflows, is critical to the Nigerian capital development, and FDI itself is needed to boost the growth and development of the economy, especially given the prevailing economic recession. Experts posit that FDI can create employment increase technological development in the host country and improve the socio-economic condition of the country in general (Sarumi, 2006). The reality however is that inspite of the recent improvements in the political orientation on economic management, investment policies and reforms; the business environment in Nigeria (as it relates to FDI inflows, as well as capital market development), is still a far cry in terms of competitiveness when compared to the economies that are contemporaries to the nation.

According to the World Bank ease of doing business index released in 2016, Nigeria is perceived as a difficult place to do business. The country was graded 169 out of 189 countries in 2016 overall ease of doing business; 139 out of 169 in ease of starting new business, 182 out of 189 in accessing electricity, 59 out of 189 in getting credit, 143 out of 189 in implementing contract agreements. Based on these realities, which are affecting growth of investment within the country, the need to review all policies of government restraining the flow of foreign capital into the country becomes crucial. More so, the needed attention must be given to capital market development, if the ease of doing business index in Nigeria must be improved upon. In spite of the foregoing however, it is important to note that there are recent positive government policies in Nigeria aimed at encouraging foreign capital inflows into the economy. Some of these include policies such as the abolition of import licensing system, review of import duties and tariffs, privatization of most state owned enterprises and the deregulation of the exchange rate regime. According to the Central Bank of Nigeria (2014), Nigeria ranks high in Africa along with South Africa and Egypt as major recipients of foreign direct investment. However,

the influence of this receipt on the development of the Nigerian capital market, the Nigeria economy, and other economic indicators has remained a subject of intense discourse.

Theoretical assumptions regarding the characteristics of FDI emphasize the stability, long-term motivation and resilience of this type of capital investment, even during financial crises (Lipsey, 2001). On the other hand, stock market and portfolio investments are characterized as short-term, speculative and, thus, prone to quick disinvestment and capital flight. In spite of these significant differences between the two types of capital flow, previous empirical research (Errunza, 1983; Soumare & TchanaTchana; 2011) has proven the existence of a connection between capital market growth and FDI inflow. However, the underlying inter-linkages still remain insufficiently clarified as consensus has hardly been reached as to whether FDI inflows can promote how capital market development in the host country. The reasons behind this position can be explained by a number of issues that are related to the investigation process (Reyadh & Khalifa, 2009). Some of issues relating to the investigative processes include sample selection (for example developed versus less developed countries), the choice of the time period, the estimation methodology (such as time series versus cross-section), the choice of the estimation techniques (ranging among OLS, Granger Causality, Co-integration, Error correction models) among several others. It is therefore germane to employ appropriate estimators in order to overcome this problem. In the present study, the Autoregressive Distributed Lag (ARDL) bounds test developed by Pesaran, Shin and Smith (2001) which is robust in dealing with small sample observations, to establish the existence of a long-run relationship between variables was adopted. Thus, this study added to the literature by varying on the period covered, methodology adopted, variables used, and frequency of data among other factors to examine the empirical linkage between foreign direct investment inflows and capital market development in Nigeria and through that assess whether FDI spurs capital market development for a period of 35 years from 1981-2015. This helps to validate past findings or bring forth new issues on the subject for further research.

2. LITERATURE REVIEW

2.1 Conceptual Issues in Foreign Direct Investment and Capital Market Development

Foreign direct investment basically relates to investment which allows investors to enjoy a perpetual interest in an enterprise in a country other than their own country and it takes the form of building a factory, purchase of equipment or establishment of plants etc. In a more restricted and technical sense, foreign direct investment may be defined as a situation in which the concern of the investing countries is to exercise control over the assets created in the capital importing countries by means of that investment (Adaramola & Obisesan, 2015). Divine (2016) put it more succinctly by defining foreign direct investment as those investment from one country into another, usually undertaken by firms rather than central governments, which involves establishing operations, acquiring tangible assets, acquiring stakes in other businesses, and purchase or establishment of income-generating assets in a foreign country, usually encompassing some level of control of operations or the entire organization.

However, the World Bank (1996) on its part conceptualized foreign direct investment as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investor. The Capital market or equity market on the

other hand, is a private or public market for the trading of company stock and derivatives of company stock at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. In other words, a stock market or exchange is the centre of a network of transactions where securities buyers meet sellers at a certain price.

2.2 Empirical Discussion

Adaramola and Obisesan (2015) examined the impact of foreign direct investment on the Nigerian capital market development. The study employed ADF unit root test and Johansen co-integration test and Ordinary Least Squares regression analysis to analyse the data. The absence of co-integration between foreign direct investment and market capitalization informed the resort to OLS regression result which showed that foreign direct investment impact positively and significantly on market capitalization. However given the lack of co-integration and low beta weight in their analysis, they suggested that emphasis on foreign direct investment as a way of stimulating long run growth in the developing country like Nigeria is not worth the while.

Odo, Anoke, Nwachukwu, and Agbi (2016) examined the impact of foreign direct investment on the growth of the Nigeria stock market using Co-integration, Vector Error Correction Model (VECM) and Pair Wise Granger Causality econometric process in the estimation of the variables specified in the regression model. The results of the test revealed a long run equilibrium relationship between the dependent and explanatory variables as supported by the existence of four (4) co integration vectors. The findings from the VECM indicated that FDI and export has negative relationship with stock market growth both in the long and short run while import (IMP) and gross capital formation (GCF) was found to have a positive relationship with stock market growth both in the short and long run periods. The result of the Pair Wise Granger Causality indicated no causality between FDI and stock market growth. A unidirectional causality however was found running from market capitalization (MCAP) to GCF, IMP to MCAP and FDI to GCF. Based on the above results, the study concluded that foreign direct investment has no significant impact on stock market growth in Nigeria and recommend that government should by conscious policy ensure that foreign investors sourcing for investment funds in Nigeria are encouraged to go through the Nigeria stock market in raising their funds, in addition to the active participation of all multinational companies operating in Nigeria in the activities of the Nigeria stock market.

Isiaq and Sunday (2011) investigated the impact of foreign direct investment on stock market development in Nigeria between 1980 and 2009. Their study employed the econometric techniques of unit root test, Co-integration and Error Correction Mechanism. The results showed that both foreign direct investment, its lagged and lagged stock market development have small, and a statistically significant effect on economic growth. The results seem to support the argument that extractive FDI and stock market development were growth enhancing. The Co-integration analysis also revealed existence of long-run relationship among FDI, stock market development and economic growth. The study recommended the need for policy makers need to devise strategies to increase the FDI stock (retain FDI) and offer incentive for long investing and listing on the stock market so that the main objective of the government to stimulate growth will be fulfilled.

James and Jiangyan (2010) examined the determinants of foreign direct investment, through a sectorial and institutional approach. Using a dataset which breaks down FDI flows into primary, secondary and tertiary sector investments and a Generalized Method of Moment (GMM) dynamic approach to address concerns about endogeneity, they analysed various macroeconomic, developmental, and institutional and qualitative determinants of FDI in a sample of emerging market and developed economies. The results showed that that primary sector FDI has no strong linkages to either macroeconomic stability, level of development, or institutional quality, though like other forms of FDI, clustering effects appear important, with larger stocks attracting greater additional inflows. They concluded that FDI naturally flows into countries with relatively stable economic conditions and strong institutions, and that investors would normally be concerned about political instability, inflexible regulations, and poor development indicators among prospective workers.

Anfofum, Joshua and Tauhid (2013) assessed the impact of foreign direct investment on economic growth in Nigeria. Variables used included infrastructural development, exchange rate, total export and gross domestic product and through the instrumentality of Ordinary Least Squares regression analysis. The study found positive impact of FDI on investment, exchange rate, exports and gross domestic product while a negative outcome was found between foreign direct investment and infrastructure. Their study recommended improvements in infrastructural developments as a pre-requisite for increased flow of foreign direct investment.

Musa and Mohammed (2014) examined stock market development, foreign direct investment and macroeconomic stability with evidence from Nigeria. The Johansen Co-integration and Error Correction Mechanism techniques were used as analytical tools for the research. The study showed evidence of an existing long-run relationship between the variables. It also revealed that foreign direct investment has an insignificant impact on stock market development; exchange rate was also found to have significant negative impact the while effect of inflation on stock market is insignificant and negative. Study recommended policies that would encourage foreign firms operating in the oil and gas including the telecommunication sectors to be listed since it would go a long way in attracting more FDI, leading to stock market development. They suggested that this should be complemented with policies that ensure stable macroeconomic environment.

2.3 Theoretical Framework

Although, there have been substantial research efforts devoted by different scholars in determining what seems to be an optimal impact of foreign direct investment, yet there is no universally accepted theory throughout the literatures explaining the FDI and stock market relationship. But in the last decades, several theories have emerged explaining FDI structure and the resultant effects on market values. Similarly a number of contemporary theories have equally been put forward by the researchers to explain foreign direct investment. However, no single theory fits the different types of direct investment or the investment made by a particular multinational corporation or country in any region. The applicability of the theory differs with the type and origin of investment. Nevertheless, all these theories are unanimous in their view that a firm moves abroad to reap the benefits of the advantages in the form of location, firm-specific or internationalization of markets.

Fundamentally, the theories of stock market and portfolio investment formed the basis in explaining the emergence of foreign direct investment, considering that earlier direct investment was seen as international capital transfer alone (Odo, Anoke, Nwachukwu, and Agbi; 2016) 2016). Foreign direct investment was initially considered as part of portfolio investment and differences in rates of interest assumed as the main cause of capital inflows. It was believed that by influence of interest rate, capital moves to any economy with expected higher return. However, Hymer (1976) argued that this view failed to explain the place of control in organizational management. Different theorists have given diverse explanations on reasons of foreign direct investment ranging from market imperfections, oligopolistic and monopolistic considerations, absolute and comparative trade advantage, as well as even religious and political reasons (Shivangi, 2016). However, this study considers FDI theories based on the modern portfolio theory, which assumes that all investors are rational and always seek to maximize returns and minimize cost; the perfect market theory of FDI, which suggests that FDI stems from perfect market theory of free trade that uses market equilibrium tools; the imperfect market theory of FDI, which conversely suggests that foreign direct investment is an alternative option to exporting if the hurdles to a firm exporting its products and services abroad are too costly to make profit.

Other theoretical perspectives in this study are predicated on foreign exchange rate theory (which is an FDI theory based on strength of currency), the Uppsala model of FDI (which describes how multinational companies and firms gradually accelerate their business activities by first gaining experience from the domestic market before they move to foreign markets); the industrial organisational theory (which assumes that fund flow across boundaries and the major tasks faced by the investors for venturing in other countries is the competition from the local entities). Closely related is the eclectic theory otherwise called the OLI paradigm (which emphasizes the ownership, localization and internalization as core values of FDI); the dependency theory (an orientation which insists that FDI impacts rather negatively on local economy and may enhance the sustenance of dependency relationship between the advanced economy and the developing country); the endogenous growth or new growth theory (which posits that that improvements in productivity as driven by FDI has significant impact on the long-run growth rate of an economy and can be linked to a faster pace of innovation and investment in human capital). Consequently, the monopolistic power theory of FDI; the internationalisation theory; the marginal efficiency hypothesis; and the capital asset pricing model (CAPM), equally have theoretical leanings to the issue in question.

3. METHODOLOGY

3.1 Data Analysis Model Specification

The main objective of this study is to examine the linkage between foreign direct investment inflows and capital market development in Nigeria and as such provide an insight as to whether FDI spurs capital market development. For this purpose the model adapted for this study is predicated on the theoretical framework above and a modified model of Shahbaz, Lean and Kalim (2013). The preferred model is represented in the equation below:

$$InMCAP = \beta_0 + \beta_1 InFDI + \beta_2 InRGDP + \beta_3 InINFR + \beta_4 InEXR + \mu \quad (1)$$

Where: MCAP = market capitalization as share of GDP as proxy for stock market development, FDI = foreign direct investment as share of GDP, RGDP = real gross domestic product as proxy for economic growth, INFR = inflation rate proxy for macroeconomic stability, EXR = official exchange rate and μ = Error term (or stochastic term). $\ln$ = Natural logarithm, β_0 = the intercept or autonomous parameter estimate, β_1 to β_4 = Parameter estimate representing the coefficient of FDI, RGDP, INFR and EXR respectively. The a’priori’ expectations are determined by the principles of economic theory and refer to the expected relationship between the explained variable and the explanatory variable(s). It is expected that β_1 to $\beta_4 > 0$. To guarantee the necessity of uniformed scale of measurement and consistent interpretation of results, all variables were transformed to natural logarithms, which allow for the interpretation of the coefficients as elasticities.

The study depends on secondary data that were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin various issues, National Bureau of Statistics and World Development Indicators for Nigeria (WDI). It covers the period from 1981 to 2015 representing 35 years.

3.2 Justification of the Variables in the Model

Market capitalization: Stock market development is usually measured by stock market's size, liquidity, volatility, concentration, and integration with world capital markets. Market capitalization is defined as the total market value of all listed shares. Following Adam and Tweneboah (2009), market capitalization as a proportion of GDP is used as a proxy for stock market development. Garcia and Liu (1999) argued that this measure is less arbitrary than other measures of stock market development.

FDI: The relationship between FDI and stock market development has been widely discussed in the literature (Errunza, 1983; Gracia & Liu, 1999; Yartey & Adajasi, 2007, Adam & Tweneboah, 2009). FDI may either complement or substitute the development of stock market.

RGDP: Numerous studies have suggested that economic growth and stock market development are positively related to each other (Spears, 1991; Atje & Jovanovic, 1993; Garcia & Liu, 1999; Luintel & Khan, 1999). In this paper, it is hypothesized that economic growth promotes stock market development.

Inflation: Inflation refers to the annual percentage changes in consumer prices has been employed in past studies on stock market (Naceur, Ghazouani, & Omran; 2007). Thus, empirical studies show that inflation plays a significant role in stock market development and the higher the volatility within the economy (that is changes in inflation), the lesser the incentives companies and investors would have to invest in the stock market and vice versa. Garcia and Liu (1990), as well as Naceur, Samir and Omran (2007) used inflation rate as a proxy for macroeconomic stability in their empirical studies and found a positive relationship between the economic stability and stock market development.

Exchange Rate: The relationship between exchange rate and stock prices is important, because changes in exchange rate may lead to changes in stock prices. Also, weak currency discourages FDI. An overvalued exchange rate or highly distorted foreign exchange rate will discourage exports and negatively affect foreign direct investment (Omankhanlen, 2011).

3.3 Estimation Technique and Procedure

In order to investigate the relationship that exists between the dependent variable and explanatory variables, this study adopted the Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration proposed by Pesaran, Shin and Smith (2001). This technique has a number of advantages over Johansen co-integration techniques.

First, whereas the Johansen techniques require large data sample, a luxury that most developing economies do not have, the ARDL model is the most useful method of determining the existence of co-integration in small samples (Ghatak & Siddiki, 2001). The second advantage of ARDL approach is that while other co-integration techniques require all of the regressors to be of the same order, the ARDL approach can be applied whether the variables in the regression are purely of I(1) and/or purely I(0) or a mixture of both. This implies that the ARDL approach avoids the pre-testing problem associated with standard co-integration, which requires that the variables be already classified into I(1) (Pesaran, Shin., & Smith, 2001). Thirdly, the ARDL approach to co-integration is superior to Johansen approach because it avoids the problem of too many choices that are to be made in Johansen method. These include the treatment of deterministic elements, the order of VAR and the optimal lag length to be used. Finally, in the ARDL approach variables could have different lag length, whereas in the Johansen method this is not permissible.

The augmented ARDL model provided by Pesaran, Shin and Smith (2001) is given as:

$$\Delta Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \alpha_2 X_{t-1} + \sum_{i=1}^i \beta_{1i} \Delta Y_{t-i} + \sum_{i=0}^j \beta_{2i} \Delta X_{t-i} + \varepsilon_t \text{-----} (2)$$

Incorporating policy variables model into the ARDL model framework, we have

$$\begin{aligned} \Delta \ln MCAP_t = & \alpha_0 + \sum_{i=1}^m \alpha_{1i} \ln MCAP_{t-i} + \sum_{j=0}^n \alpha_{2j} \Delta \ln FDI_{t-j} + \sum_{k=0}^o \alpha_{3k} \Delta \ln RGDP_{t-k} + \sum_{l=0}^p \alpha_{4l} \Delta \ln INFR_{t-l} + \sum_{m=0}^q \alpha_{5m} \Delta \ln EXR_{t-m} \\ & + \alpha_6 \ln MCAP_{t-1} + \alpha_7 \ln FDI_{t-1} + \alpha_8 \ln RGDP_{t-1} + \alpha_9 \ln INFR_{t-1} + \alpha_{10} \ln EXR_{t-1} + \mu_t \text{-----} (3) \end{aligned}$$

The first section of Equations 3 (that is: $\alpha_1, \alpha_2, \alpha_3, \alpha_4$ and α_5) examines the short-run dynamic relationship while the second section (that is: $\alpha_6, \alpha_7, \alpha_8, \alpha_9$, and α_{10}) investigates the long-run relationship between industrial productivity growth rate and exchange rate.

To test for the co-integration relationship using the ARDL approach based on the F-statistic or Wald statistic, the study state null hypotheses of no co-integration against the alternative hypothesis of co-integration among the variables in the model as follows:

$$H_0: \alpha_6 = \alpha_7 = \alpha_8 = \alpha_9 = \alpha_{10} = 0 . H_1: \alpha_6 = \alpha_7 = \alpha_8 = \alpha_9 = \alpha_{10} \neq 0$$

The acceptance or rejection of the hypothesis is based on comparison between the calculated F-statistic and the F-statistic tabulated by Pesaran, Shin and Smith (2001) and for small samples by Narayan (2005). The tabulated F-statistic has both upper and lower bounds critical values and if the calculated F-statistic is higher than the upper bounds, the null hypothesis is rejected and the alternative hypothesis is accepted that there is co-integration relationship between the variables. But if the calculated F-statistic is lower than the lower bound critical value, the null hypothesis is accepted and the alternative

hypothesis is rejected, meaning that there is no co-integration relationship between the variables. However, the test is inconclusive if the calculated F-statistic lies between the lower and upper bound critical values. Once a co-integration relationship is established between the variables, the study proceeds to examine the long-run effect and the short-run dynamics using ECT equation given as follows:

$$\Delta \ln MCAP_t = \alpha_0 + \sum_{i=1}^m \alpha_{1i} \Delta \ln MCAP_{t-i} + \sum_{j=0}^n \alpha_{2j} \Delta \ln FDI_{t-j} + \sum_{k=0}^o \alpha_{3i} \Delta \ln RGDP_{t-k} + \sum_{l=0}^p \alpha_{4i} \Delta \ln INFR_{t-l} + \sum_{m=0}^q \alpha_{5i} \Delta \ln EXR_{t-m} + ECT_{t-1} + \varepsilon_t \text{----- (4)}$$

Where; ECT_{t-1} = lagged Error correction term. The ECT captures the output evolution process by which agents adjust for prediction errors made in the last period.

4. RESULTS AND FINDINGS

In order to have glimpse of the data used in the study, a first pass at the data in form of descriptive statistics was carried out. This gives us a good idea of the patterns in the data and the nature of the estimations and diagnostics to be carried out. The summary statistics is presented below.

Table 1: Summary of Descriptive Statistics

	MCAP	FDI	RGDP	INFR	EXR
Mean	2823.378	291.2448	11518534	18.93486	78.89029
Std. Dev.	5044.387	1697.874	18919802	6.763458	64.12750
Skewness	1.816717	5.659434	2.434572	0.404029	-0.016775
Kurtosis	5.199592	33.02927	9.688466	2.669185	1.461429
Jarque-Bera	26.30841	1501.900	99.81438	1.111828	3.453811
Probability	0.000002	0.000000	0.000000	0.573548	0.177834
Observations	35	35	35	35	35

Source: Researcher's computations (2017).

Table 1 shows the summary of descriptive statistics of the variables included in the model. It shows the existence of wide variations in the variables as depicted by the mean values during the 1981 to 2015 study period. The analysis was also fortified by the value of the skewness and kurtosis of all the variables involved in the model. All the distributions are positively skewed with the exception of exchange rate that is negatively skewed. Variables with value of kurtosis less than three are called platykurtic (fat or short-tailed) and INFR and EXR variables qualified for this during the study period. On the other hand, variables whose kurtosis value is greater than three are called leptokurtic (slim or long tailed) and MCAP, FDI & RGDP variables qualified for this during the study period. Jarque-Bera test shows that the residuals are not normally distributed but with the exception of INFR and EXR with probability values exceeding 5%. In summary, the descriptive statistics revealed that most of the data sets are not normally distributed. This is so because the probability values of the variables do not exceed 5%.

4.1 Time Series Properties of the Variables

Econometric studies have shown that most financial and macro-economic time series variables are non-stationary and using non-stationary variables leads to spurious regression (Engel & Granger, 1987). Thus, the variables were investigated for their stochastic properties, using two traditional unit roots tests. The traditional tests deployed are the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP). The two tests were used to test for consistency and where conflicts exist, to decide on the most appropriate option (see Hamilton, 1994). The results of unit root tests are presented in Table 2 below:

Table 2: Traditional Unit Root Test Results (Trend and Intercept)

Variables	ADF	Critical Values	Order of Integration	PP	Critical Values	Order of Integration
MCAP	-4.701	-4.324*	I(0)	-6.598	-4.263*	I(1)
FDI	-5.743	-4.253*	I(0)	-33.340	-4.263*	I(1)
RGDP	-2.924	-2.647*	I(0)	-14.726	-4.263*	I(1)
INFR	-7.025	-4.273*	I(1)	-9.101	-4.263*	I(1)
EXR	-5.519	-4.263*	I(1)	-5.499	-4.263*	I(1)

Note: * Indicates stationary at the 1% level. **Source: Researcher's Computations Using E-views 9.5**

From Table 2, the traditional tests of the ADF and PP indicates that all the variables tend to be stationary in first difference except MCAP, FDI & RGDP which tends to be stationary at level in ADF test. These stationary variables were then used for the linear regression analysis. The purpose of testing for the stationarity properties of the variables in bounds approach to co-integration is because the (ARDL) bounds testing approach becomes applicable only in the presence of I(1) and I(0) variables or a mixture of both. This means that the assumption of bounds testing will collapse in the presence of I(2) variable. Both the ADF and PP unit root results presented in table 2, implies that the bounds testing approach is applicable in this study, as all the variables are a mixture of I(1) and I(0).

4.2 Co-integration Test

The next task of the study, having established the order of integration, is to establish long run relationship among the variables. Thereafter, the ADRL-bounds testing approach is used to determine whether a long-run co-integration relationship exists between monetary policy and economic growth. The result of the co-integration test is presented in Table 3.

Table 3: Result of ARDL Bounds Test for Co-integration

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	Value	K
F-Statistic	5.153823	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound
5%	2.86	4.01

Source: Researcher's Computations.

The co-integration test result shows that the F-statistic is greater than the lower and upper bound critical value at the 5% significance level. Thus the null hypothesis of no long-run relationship is rejected at the 5% significance level. It can therefore be inferred that the variables are co-integrated.

4.3 Estimated Error Correction and Long-run Models

In view of the co-integration relationship between the dependent variable and the regressors, the study proceeds to estimate the error correction and long-run models. The results of the estimations are presented in Table 4 below.

Table 4: Results of Estimation of Error Correction and Long-run Models

Dependent Variable: LOG(MCAP)			
Selected Model: ARDL(2, 0, 0, 2, 1)			
Cointegrating Form (ECM)			
Variable	Coefficient	T-Statistic	Prob
DLOG(MCAP(-1))	0.851***	8.889	0.00
DLOG(FDI)	0.038	1.056	0.30
DLOG(RGDP)	1.187***	22.649	0.00
DLOG(INFR)	0.064	0.224	0.82
DLOG(INFR(-1))	0.696**	2.097	0.04
DLOG(EXR)	0.357*	1.688	0.10
ECM(-1)	-0.730***	-9.379	0.00
Long Run Coefficients			
LOG(FDI)	0.052	1.077	0.29
LOG(RGDP)	1.625***	10.344	0.00
LOG(INFR)	-0.185	-0.409	0.69
LOG(EXR)	-0.343*	-1.817	0.08
C	-16.825***	-6.108	0.00

Note: *, **, *** indicate significance at 10, 5 and 1 percent respectively. p-values are reported in square brackets.

Source: Researcher's Computations.

As expected, the lagged error correction term is negative and statistically significant at 1 percent level. Since, the coefficient of the lagged error correction term is negative and significant; the coefficient reveals the speed at which the entire system adjusts towards long-run equilibrium. The coefficient of ECM is (-0.73) which shows speed of adjustment from short run fluctuations to long run equilibrium (73% discrepancy is corrected each year) approximately to 73 percent of disequilibrium from the previous year's shock convergence back to the long run equilibrium in the current year.

All the variables are correctly signed in the short-run. It is found that foreign direct investment (FDI) had a positive effect on capital market development in the short-run meaning that foreign direct investment is contributing towards capital market development in Nigeria. Specifically, a percentage

change in foreign direct investment will led to 0.038 increases in capital market development in the short run. This finding is in line with theoretical prediction and empirical findings of Errunza (1983), Gracia and Liu (1999), Yartey and Adajasi (2007), as well as Adam and Tweneboah (2009), which suggests that FDI may either complement or substitute the development of stock market. This confirms that the relationship between FDI and stock market development is complementary.

Economic growth Proxied as real gross domestic product (RGDP) is linked positively with the development of stock markets in Nigeria. This implies that a percentage increase in RGDP will lead to an increase in development of stock markets by 1.187% in the short run. This finding is in line with theoretical prediction that economic growth promotes stock market development and empirical findings of Spears (1991), Atje and Jovanovic (1993), Garcia and Liu (1999), Luintel and Khan (1999).

The impact of inflation on stock market development is positive but minimal. Specifically, a percentage change in inflation will led to 0.064 increases in capital market development. The positive association between inflation and stock market development supports that Nigeria's stock markets are hedge against inflation. In other words, stock market is an alternative place for investors to hedge their risk against inflation in Nigeria. Similarly, an increase in one period lagged measure of inflation by one percent led to an increase in stock market development by 0.696% in the short run in Nigeria. Also, the coefficient of exchange rate (EXR) shows a positive relationship with stock market development. This implies that a percentage increase in EXR will lead to an increase in stock market development by 0.357% in the short run. This implies that depreciation of the currency in Nigeria does stimulate stock market development. From Table 4, the long-run effect of foreign direct investment (FDI) on capital market development is positive; meaning that foreign direct investment is contributing towards capital market development in Nigeria.

Also, the long run effect of the coefficient of RGDP on capital market development is positive and statistically. This long-run result is in agreement with the short-run result and in line with theoretical prediction that economic growth promotes stock market development. Inflation and exchange rate are observed to be negatively related to capital market development in the long-run. This long-run result is not in agreement with the short-run result and theoretical prediction.

5. CONCLUSION AND RECOMMENDATIONS

The study investigates examined the linkage between foreign direct investment inflows and capital market development in Nigeria and through that assess whether FDI spurs capital market development for the period 1981 to 2015. The Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration was deployed.

A long-run equilibrium relationship was found among the variables used, namely market capitalization, foreign direct investment, real gross domestic product, inflation rate and exchange rate. The empirical results indicate a positive relationship between FDI and market capitalization both in the short-run and long-run. This infers the complementary role of FDI to the stock market development in Nigeria. Real gross domestic product also shows a strong significant positive relationship with the stock market development both in the short-run and in the long-run. Impact of RGDP implies that

economic growth is imperative for the development of stock market in Nigeria. The impact of inflation on stock market development is positive but minimal; while exchange rate had a positive relationship with stock market development in the short run. However, inflation and exchange rate were observed to be negatively related to capital market development in the long-run. This long-run result is not in agreement with the short-run result and theoretical prediction.

The capital market is a key element of the modern and market-based economic system because it serves as the main channel to collect funds from depositors to borrowers. Since the empirical evidence revealed complementary role of FDI to the stock market development in Nigeria, it is therefore recommended that government should attract FDI by taking various definitive steps such as:

- Maintaining both political and macroeconomic stability in the country.
- Ensuring the provision of adequate and requisite infrastructures that can drive investment.
- Minimize the volatility of foreign exchange and the rate of interest through appropriate and effective monetary policy.

In addition to the above, the government should as a matter of priority take appropriate steps to improve the efficiency and transparency of the primary market. This will not only strengthen the government securities in the stock market but also improve efficiency and development of secondary market. It is equally important for policy makers and regulatory authorities to encourage FDI inflows through robust policy frameworks that can promote and enhance competition within the Nigerian capital market, as well as creation of new job opportunities through the transferring new technology and skill into the economy.

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Appendix I: Data set used for Research Analysis

Year	MCAP (=N=)	RINTR (%)	EXR (=N=/\$)	BMS (%) GDP)	INFR (%)
1981	5.0	20.9	0.63	15.62463	10
1982	5.0	7.7	0.67	17.91817	11.75
1983	5.7	23.2	0.72	17.0042	11.5
1984	5.5	39.6	0.76	16.1559	13
1985	5.5	5.5	0.89	15.42587	11.75
1986	7.1	5.4	3.76	20.03492	12
1987	8.3	10.2	4.08	14.4364	19.2
1988	10.1	38.3	4.59	12.94116	17.6
1989	14.1	40.9	7.39	9.243889	24.6
1990	22.2	7.5	8.04	8.70966	27.7
1991	33.9	13	9.91	9.397857	20.8
1992	47.9	44.5	17.45	13.43194	31
1993	66.8	54.2	22.41	12.31741	36.09
1994	95.4	57	22	15.03483	21
1995	220.4	72.8	81.2	10.04625	20.79
1996	302.6	29.3	81.2	9.013525	20.86
1997	278.7	8.5	82	10.68804	23.32
1998	256.9	10	83.8	12.99978	21.34
1999	294.1	6.6	94	13.52085	27.19
2000	466.1	6.9	101.7	12.35032	21.55
2001	648.4	18.9	111.98	16.57256	21.34
2002	748.7	12.9	120.97	13.04419	30.19
2003	1,324.9	14	129.36	13.81568	22.88
2004	1,925.9	15	133.5	13.13731	20.82
2005	2,523.5	17.9	132.15	13.2359	19.49
2006	4,227.1	8.2	128.27	13.18334	18.41
2007	10,180.3	5.4	117.97	25.24882	18.36
2008	6,957.5	15.1	132.56	33.7511	18.8
2009	4,989.4	12.1	149.58	38.38656	23.5
2010	7,913.8	17.59	150.66	15.42156	13.72

2011	6,532.6	16.02	153.86	12.47631	10.8
2012	8,974.4	12	157.49	11.80391	12.2
2013	13,226.0	10.25	157.31	12.59411	10.67
2014	11,477.7	11.35	165.86	14.54293	9.5
2015	9,850.6	13.59	192.44	14.21804	9.0

Source: CBN Statistical Bulletin 2015

**NEXUS BETWEEN CREDIT RISK AND BANKS' PROFITABILITY IN NIGERIA:
EVIDENCE FROM PANEL DATA ANALYSIS**

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Abstract

The study examined the nexus between credit risk and profitability of commercial banks in Nigeria as measured by return on average asset (ROAA), return on average equity (ROAE) and net interest margin (NIM). The study uses the ratios of non-performing loan to gross loan (NPLGL), loan loss reserve to gross loan (LLRGL) and loan loss reserve to non-performing loan (LLRNPL) as indicators of credit risk. In achieving this, OLS random effect model was used to establish the nexus between credit risk and banks' profitability in Nigeria. The panel data of 50 observations from 5 top commercial banks in Nigeria from 2006 – 2015 was used. From the results, the indicators of credit risk have generated negative correlation. The results show a robust significant negative relationship between the ratios of NPLGL and LLRGL and all profitability indicators of commercial banks in Nigeria. A further result shows a mixed relationship between the ratio of LLRNPL and all profitability indicators of commercial banks in Nigeria. From the OLS random effect results, the study recommended that commercial banks in Nigeria should increase its credit risk management techniques, the need for the primary regulator (Central Bank of Nigeria) to make banks' credit policy more stringent and closely monitor it to ensure compliance.

Keywords: Credit risk, Commercial Banks, Profitability, OLS random effect.

INTRODUCTION

Commercial banks in Nigeria occupy prominent and key position for economic development and prosperity. In view of their financial intermediation roles and services they provide to corporate, businesses and individuals, they also promote and further economic growth and overall well-being of the citizenry. Equally, their credit facilities role increase and facilitate expansion and exploration of key productive investments and sectors of our national life. Therefore, the need to institute measures to mitigate credit risk cannot be overemphasized. Credit risk is the risk that a receiver of credit facilities may not repay the credit facilities and the giver of the facilities may lose both the principal and interest there from. Credit risk arises when an obligor fails to perform its obligations under a trading or loan contract or when its ability to perform such obligations is impaired resulting in an economic loss to the bank (CBN, 2000).

Banks are being faced with many risks, but credit risk occupies a central place on banks' profitability in view of the fact that large sums of banks' revenue accrues from interest received as a result of credit facilities granted. It is important we stress that interest rate risk is directly related to credit risk. The Central Bank of Nigeria had recently increased the Monetary Policy Rate (MPR) by 200 basis points. The implication of this is that, since MPR is the anchor rate, an increase in interest rates increases possibilities of loans default, thereby resulting to credit risk. Due to the increasing spate of non-performing loans, the Basel II Accord emphasized on credit risk management practices. Compliance with the Accord means a sound approach to tackling credit risk has been taken and this ultimately improves bank performance.

The Nigerian banking industry has been strained by the deteriorating quality of its credit assets as a result of the significant dip in equity market indices, global oil prices and sudden depreciation of the naira against global currencies (BGL Banking Report, 2010). The poor quality of the banks' loan assets hindered banks to extend more credit to the domestic economy, thereby adversely affecting economic performance. This prompted the Federal Government of Nigeria through the instrumentality of an Act of the National Assembly to establish the Asset Management Corporation of Nigeria (AMCON) in July, 2010 to provide a lasting solution to the recurring problems of non-performing loans that bedeviled Nigerian banks. It is therefore, important to mention that in spite of the establishment of AMCON, the issue of non-performing loans is still one of the major challenges that pose threat to banks' profitability in Nigeria. The aim of this paper is to assess the nexus between credit risk and profitability of commercial banks in Nigeria over a period of ten (10) years (2006 – 2015). This study is prompted by the recent Financial Stability Report as released by the Central Bank of Nigeria for the second half of 2015. The report revealed that non-performing loans (NPLs) in the Nigerian banking system had risen by 78.8 percent year-on-year. The CBN said NPLs rose to N649.63 billion as of December 31, 2015 compared with N363.31 billion recorded at the end of December 2014. The CBN attributed the rise in NPLs to the fall in oil prices, which resulted in huge impairments in oil and gas loans in the second half of 2015.

Credit risk is associated with the bank's major business of lending, it is therefore a serious threat/danger to commercial bank's profitability. In this regard various researchers have examined the impact/relationship of credit risk with diverse variables/aspects of banks. This part of the paper provides related empirical findings on the subject matter. Various empirical findings, both from developed and developing has recorded mixed results. A number of researches have noted a negative quantitative relationship between either credit risk or credit risk management and profitability/performance in commercial banks. While some found positive relationship between the variables, some authors found negative relationship. Olawale, F.K., Tomola, M.O., James, A.O. & Felix, A.A. (2015) investigated the impact of credit risk on banks' performance in Nigeria. A panel estimation of six banks from 2000 to 2013 was done using the random effect model framework. They found that credit risk was negatively and significantly related to bank performance, measured by return on assets (ROA).

Abu, H.N., Sajeda, P., Mustafa, H.C. & Hasanul, B. (2015) examined the effect of credit risk on profitability of the banking sectors of Bangladesh. The study used an unbalanced panel data and 172 observations from 18 private commercial banks from 2003 to 2013 and found a robust negative and

significant effect of NPLGL, LLRGL on all profitability indicators. The analysis also found out a negative and significant effect of CAR on ROAE. Boahen, et al (2012) found a positive relationship between credit risk and profitability in Ghanaian commercial banks. The result is consistent to that of Afriyie and Okotey (2010), who found a significant positive relationship between non performing loans with profitability of rural and community banks in Ghana. The study by Achou and Tegnuh (2008); indicated that effective credit risk management leads to better bank performance. Kolapo, T.F., Ayeni, R.K and Oke, M.O. in 2012 examined the relationship between credit risk and commercial banks' performance in Nigeria. Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance measured by the Return on Assets of banks is cross-sectional invariant.

Ahmed and Ariff (2007) examined the key determinants of credit risk of commercial banks on emerging economy banking systems compared with the developed economies. The study highlighted that credit risk in emerging economy banks is higher than that in developed economies. Studies carried out previously on the subject matter use different proxies for measuring credit risk or lending decision quality of the banks. For example, (Berger & DeYoung, 1997; Rajan & Dhal, 2003; Samad, 2004; Kolapo et al., 2012) adopted the ratio of non-performing loan to gross loan (NPLGL) as credit risk indicators for banks. The NPLGL assesses the percentage of total loans that are non-performing in banks' loan portfolio. This ratio is seen as one of the key and important indicators of credit risk and loan quality of banks. A higher ratio is indicative of bad asset quality and higher non-performing loan, therefore, higher credit risk. Other authors such as Samad (2004); Boahene et al. (2012); Kolapo et al. (2012); use loan loss reserve ratio (LLRGL) as credit risk indicator. This ratio assesses the percentage of total loan which has earmarked but not yet charged off. A lower ratio is indicative of strong loan portfolio management and low credit risk. Loan loss reserve to non performing loan ratio (LLRNPL) also uses as a measure of banks asset quality and prudent credit risk management which is evident from the findings of Boahene et al. (2012); Kolapo et al. (2012); Samad (2004). It measures the percentage of the reserve held against the non performing loan or impaired loan. Higher the ratio is the indication of the better asset management quality and low credit risk.

Similarly, several studies have been carried focusing on determinants of profitability. Some authors such as Athanasoglou et al. (2008); Francis (2013); Heffernan and Fu (2008); S. Perera et al. (2013) use Return on Average Assets (ROAA) as a proxy for profitability. ROAA is the ratio of net profit to average assets. It is also a good indicator of a bank's financial performance and managerial efficiency. The ratio is expressed as a percentage of total average assets. This ratio displays how efficiently a company is utilizing its assets. Other authors like Masood & Ashraf (2012) use Return on Average Equity (ROAE) as a proxy for profitability. ROAE which is the ratio of net profit to share holders average equity. Additionally, other researchers use Net Interest Margin (NIM) as their proxies for profitability, such as Heffernan and Fu (2008); Chortareas et al. (2012); Nguyen (2012); & Lee et al. (2014). Net Interest Margin (NIM) as the indicator of profitability of the bank which is the ratio of the net interest to the amount of the earning assets.

It is manifest from empirical literature that, the results of studies on credit risk and profitability is still mixed and only limited number has been conducted in African commercial banks especially in Nigeria. From the literatures reviewed, there have not been recent studies in the subject matter. This

study hopes to close the knowledge gap and expand existing frontier of knowledge in the subject areas. This study uses Non-performing Loan to Gross Loan (NPLGL), Loan Loss Reserve to Gross Loan (LLRGL) and Loan Loss Reserve to Non-performing Loan (LLRNPL) and Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Net Interest Margin (NIM) as proxies for banks' profitability. The use of combination of these indicators is a clear departure of proxies used by other researchers in the subject area in Nigeria. The remaining part of this paper is outlined in the following manner- Section two reviews related literature on credit risk and banks profitability, section three discusses the research methodology, section four focuses on data analysis and interpretation of research findings and section five presents the conclusions and recommendations for policy implications.

LITERATURE REVIEW

Granting of credit facilities by commercial banks which is the primary function as pointed out earlier, expose them to credit risk. Credit risk is the risk of default by counterparty to a loan transaction and is different from market risk (Srivastava, 2010:507). Credit risk is by far the most significant risk faced by banks and the performance, survival and sustainability of their business depends on accurate measurement, sound and effective management of this risk relative to any other risks (Afriye and Akotey, 2010; Oke, et al 2012). Credit risk is perhaps most significant of all risks in terms of size of potential losses and can be divided into; default risk, exposure risk and recovery risk (Hosna, et al 2009). According to Basel Accord (2006); Credit risk is the risk of loss due to an obligator's non-payment of an obligation in terms of a loan or other lines of credit. Chen and Pan (2012), define credit risk as the degree of value fluctuations in debt instruments and derivatives due to changes in the underlying credit quality of borrowers and counterparties. It is losses from the refusal or inability of credit customers to pay what is owed in full and on time (Coyle 2000). It is a possible loss to a commercial bank due to failures on the part of bank borrowers (counterparties) to repay the loaned amount on time, or the amount becomes completely irrecoverable. It is failure of borrowers to meet their financial commitments with banks in accordance to agreed terms and conditions (Indiael, K. & Dickson, P. 2013).

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (as per entity's risk appetite) which is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organisation. Due to the increasing spate of non-performing loans (Oke, et al, 2012); the Basel II Accord emphasized on credit risk management practices; compliance with which ensures sound approach to mitigating credit risk consequently achieving improved commercial banks profitability.

SOURCES AND DETERMINANTS OF CREDIT RISK

The likelihood that the borrowed amount (principal & interest) will not be repaid as per underlying agreements entail credit risk which is dependent on, among others the bank's loan portfolio and the behavior of the customers/borrowers (Indiael, K. & Dickson, P. 2013). As pointed out earlier on, the largest and most obvious and critical source of credit risk for most commercial banks are loans and advances. However, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the Statement of Financial Position

(Indiael, K. & Dickson, P. 2013). Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions (Indiael, K. & Dickson, P. 2013).

According to Indiael, K. & Dickson, P. (2013), credit risk is also linked with other risks likely to affect the activities of the banks (for example, fluctuating interest rates and other possibly related variables). Credit risk, however, can be a function of other factors such as insufficient knowledge on financial risks and especially credit risk at institution level; lack of appropriate and effectively implantable credit policies, inadequate capital level and unstable liquidity status, laxity in credit assessment, and poor lending practices and procedures. Furthermore, Kithinji (2010), points out government interference and inadequate supervision by the central bank and direct lending as other sources of credit risk. Persisting credit risk gradually impacts liquidity and solvency of banks and may consequently lead to a total failure.

Abhiman and Saibal (2007), Gabriel et al (2006); Samad (2012) and Ahmad and Ariff (2007); in their academic works, pointed out a number of determinants of credit risk in banks; First, inefficient banks performing poor screening and monitoring of borrowers will tend to have inferior portfolio, Second; Collateralized loans have a high possibility of default because banks tend to trust the borrowers with secured loans and hence less incentives to undertake adequate screening and credit assessment; third; Rapid loan growth or credit expansion (over extension of credit) and extended passage of time for profit maximization leads to poor loan quality. Fourth, economic down turn (recession) as external factor affects the ability of individuals, institutions and other borrowers' ability to repay their debts thence high possibility of failure to fulfill their financial commitments (Indiael, K. & Dickson, P. 2013).

DATA AND METHODOLOGY

This paper uses a panel data analysis that gives careful attention to the impact of credit risk level on the commercial bank's profitability in Nigeria. The study intends to use a robust sample and the findings would serve as the basis to provide policy measures to the various stakeholders on how to tackle the effect of credit risk in order to enhance the quality of banks' risk assets in Nigeria. A total of fifteen (15) commercial banks have been listed on the floor of the Nigerian Stock Exchange (NSE). From this, a sample of five (5) banks was drawn. These banks include First Bank of Nigeria Plc, Zenith Bank Plc, Guaranty Trust Bank Plc, Access Bank Plc and United Bank for Africa Plc. This selection was based on the recent World Bank ratings of 2016 top 1000 banks in the world. This was published on www.vangaurdngr.com of July 01, 2016.

This study employs the use of financial ratios with a view to determining the nexus between credit risk and profitability of commercial banks in Nigeria. The adoption of ratio in assessing credit risk and profitability is common in the literatures of finance and accounting practices. For example, Athanasoglou et al. (2008); Heffernan & Fu (2008); Francis (2013); S. Perera et al. (2013) among others employed the use of ratio. This study uses Non-performing Loan to Gross Loan (NPLGL), Loan Loss Reserve to Gross Loan (LLRGL) and Loan Loss Reserve to Non-performing Loan (LLRNPL) as proxies for credit risk and Return on Average Assets (ROAA), Return on Average

Equity (ROAE) and Net Interest Margin (NIM) as proxies for banks' profitability.

Casual research design was employed as the study tried to establish the nexus between the variables (credit risk and profitability). Data were sourced from the Annual Reports and Accounts of the banks in the sample. The data include time-series and cross-sectional data, therefore pooled into a panel data set and estimated using Panel Data regression. With a view to determining the nexus between credit risk and profitability of commercial banks in Nigeria, we employ the following basic panel linear regression model:

$$Y_{it} = c + \sum \beta_i X_{it} + \alpha_i + \varepsilon_{it} \text{-----} (1)$$

Where subscript *i* indicates individual bank and *t* indicates time period. The dependent variable *Y* indicates profitability of the banks. We consider three profit proxies as stated above which are ROAA, ROAE and NIM. Moreover, the explanatory variable *X* is used for indicating credit risk where we also consider three proxies for credit risk which are NPLGL, LLRGL and LLRNPL based on acknowledged previous literatures. Additionally, *c* is constant, β and α are coefficient of the regressors. Finally, ε is the disturbance or error term, which expresses the effect of all other variables except for the independent variables on the dependent variable that we use in the function. The ordinary least square (OLS) is primarily used in the study for identifying the nexus between the dependent and independent variables. Panel data involves two models which are OLS fixed effect and random effect. Where, Fixed effect model is used to control omitted variables that differ between cases but are constant over time; random effect is used where some omitted variables may be constant over time but vary between cases, others may be fixed between cases but vary over time.

RESULTS AND DISCUSSION

Table 1 below gives the descriptive statistics of the dependent (profitability) variables, and independent (credit risk) variables. The table presents three (3) credit risk indicators. These are ratios Non-performing loan to gross or total loan, loan loss reserve to gross loan and loan loss reserve to non-performing loan. The table also contains three (3) indicators for banks' profitability in Nigeria. The ratios are return on average assets, return on average equity and net interest margin.

Table 1: Descriptive statistics for credit risk and banks' profitability

Variable	Observation	Mean	Std. Deviation	Min.	Max.
NPLGL	50	11.34	14.18	0.47	60.01
LLRGL	50	3.64	2.82	0.72	11.23
LLRNPL	50	96.79	79.84	1.71	317.89
NIM	50	5.17	1.46	0.58	7.75
ROAA	50	2.70	1.34	-2.25	6.18
ROAE	50	18.09	9.59	-21.93	34.95

Source: Author's computation from E-views

From the table above, it is possible that every commercial bank in Nigeria follows strictly the regulatory requirements of the Central Bank of Nigeria regarding loans and advances. However, high standard deviation for credit risk indicators (NPLGL- 14.18, LLRGL- 2.82 and LLRNPL- 79.84) indicates that commercial banks in Nigeria have different credit risk management quality.

Also from the table above, the non-performing loan ratios differed from 0.47% to 60.01% for commercial banks in Nigeria with the mean and standard deviation of 11.34 and 14.18 respectively. This is indicative of high volatility among the banks' credit risk management ability. There is also high variation in loan loss reserve ratios among commercial banks in Nigeria. This is evident from the standard deviation of 79.84% in the ratio of loan loss reserve to non-performing loans in Nigeria's commercial banks.

Similarly, the mean of NIM, ROAA and ROAE are 5.17, 2.70 and 18.09 respectively. The mean figures indicate that commercial banks in Nigeria compete among one another to make profit. However, their profit making ability differs from each other as shown in the standard deviation. With a view to ensuring that results are not biased, there is need we look at the correlation coefficient of the independent variables to see whether there is multicollinearity between two independent variables. A Pearson correlation matrix is depicted in table 2 below for different credit risk indicators to check for multicollinearity.

Table 2: Pearson Correlation Matrix for Credit Risk Indicators

	NPLGL	LLRGL	LLRNPL
NPLGL	1		
LLRGL	0.14*	1	
LLRNPL	-0.66*	-0.09	1

Source: Author's computation from reviews

**indicate that the coefficient is significant at 5%. The variables pinpoint credit risk indicators where NPLGL stands for ratio of non-performing loan to gross loan, LLRGL is ratio of loan loss reserve to gross loan while LLRNPL stands for ratio of loan loss reserve to non-performing loan.*

The table 2 above shows that the independent variables (credit risk indicators) are not highly correlated. Their correlation coefficients are less than 0.7.

Table 3: OLS showing the relationship between credit risk and banks' profitability

Model	OLS – Random effect	
Dep. Variables	ROAA	ROAE
Constant	2.890	48.210
NPLGL	-0.080	-0.940
LLRGL	-0.230	-2.630
LLRNPL	0.008	-0.010
NIM	0.200	-0.890
R ²	0.227	0.195
Observations	50	50

Source: Author's computation from reviews

As stated in the methodology, this study uses the OLS to establish the nexus between credit risk and banks' profitability in Nigeria. The Hausman test was used with a view to determining whether to use OLS fixed effect or OLS random effect. The null hypothesis was that the use of random effect is

appropriate. From the Hausman test statistics, Probability value is 11.04% which is more than 5%. We therefore, accept null hypothesis. This means that the OLS random effect is the model to use to establish the nexus between credit risk and banks' profitability.

From the above, table, we found that the relationship between non-performing loan ratio and profitability to be negative and significant. This indicates that as non-performing loan goes up profit reduces. The result also showed that for banks to have increased profit, sound credit risk management is germane. The results further revealed that one unit increase in non-performing loan will lead to decreases of 0.08 and 0.94 units on average return on asset and return on average equity respectively.

Also, the relationship between loan loss reserve and profitability is negative. This implies that banks' profit will decrease as they make provision for loan losses. Therefore, sound credit management is critical with a view to reducing loan loss reserve thereby increasing profitability of commercial banks in Nigeria. The beta coefficients of the ratio of loan loss reserve to gross loan indicate that a one unit increase in the ratio will decrease returns on assets and equity by 0.23 and 2.63 respectively keeping other variables constant. Mixed findings resulted on the nexus between the ratio of loan loss reserve to non-performing loan and profitability. The study also found a positive relationship between the ratio of loan loss reserve to non-performing loan and return on assets while the relationship between the ratio of loan loss reserve to non-performing loan and return on equity was negative. A one unit increase in the ratio increases return on assets by 0.008 and reduces return on equity by 0.89.

CONCLUSION AND RECOMMENDATIONS

Commercial banks in Nigeria occupy prominent and key position for economic development and prosperity. Credit risk is associated with the bank's major business of lending, it is therefore a serious threat/danger to commercial bank's profitability. Our study aims to investigate the nexus between credit risk and banks' profitability in Nigeria. We use panel data of 50 observations from 5 top commercial banks in Nigeria from 2006 – 2015. We use ratios of non-performing loan to gross loan, loan loss reserve to gross loan and loan loss reserve to non-performing loan as proxies for credit risk (independent variables). Whilst return on average assets, return on average equity and net interest margin were used as proxies for banks' profitability (dependent variables). To investigate the nexus between credit risk and banks' profitability in Nigeria, we use OLS random effect model. This was based on the results of Hausman test where the null hypothesis was accepted. The results show a robust significant negative relationship between the ratios of non-performing loan to gross loan and loan loss reserve to gross loan and all profitability indicators of commercial banks in Nigeria. A further result shows a mixed relationship between the ratio of loan loss reserve to non-performing loan and all profitability indicators of commercial banks in Nigeria.

The study recommends that commercial banks in Nigeria should increase its credit risk management techniques; this will reduce credit risk thereby increasing the overall banks' profitability in Nigeria. There is the need for the primary regulator (Central Bank of Nigeria) to make banks' credit policy more stringent and closely monitor it to ensure compliance.

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**EFFECT OF EARNINGS MANAGEMENT ON FINANCIAL PERFORMANCE OF
DEPOSIT MONEY BANKS IN NIGERIA**

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Abstract

This study examined the effect of earnings management on the financial performance of quoted deposit money banks in Nigeria. Data was extracted from the annual report and accounts of 10 sampled deposit money banks for the period 2006-2015. The study adopted ex-post facto research design. Discretionary accrual DCA was used as a proxy for earnings management while return on assets (ROA), return on equity (ROE), earnings per share was used as proxy for banks financial performance. The study employed panel ordinary regression for data analysis. Findings from the study revealed that earnings management has a positive relationship with financial performance of deposit money banks in Nigeria. However, the study could not establish any statistical significant effect of earnings management on ROA, ROE and EPS. It is therefore, recommended that standard setters should continuously improve accounting standards as new techniques of earnings management emerge, and sees earnings management as a drive to the creation and improvement of International Accounting Standards. This will help in decreasing the possible effects of earnings management in financial statements.

Keywords: Earnings management, Financial performance, Deposit money banks.

Introduction

External auditors are statutorily expected to conduct audit exercises on organizations and give an independent opinion on their financial statements. Such opinion gives the users of the financial statements some level of confidence that the accounts give a true and fair view of the financial position

of the firm. In spite of the unqualified audit opinion, corporate failures have been on the increase in Nigeria in recent years, also gross material misstatements have been discovered after audit. The defunct Lever Brothers Nigeria Plc and Cadbury Nigeria Plc overstated their earnings, through the cooking of accounts, and were appropriately sanctioned by the Securities and Exchange Commission (SEC). Cadbury and Lever Brothers' auditors had consistently asserted that the financial statements of these firms gave a true and fair view but investigations revealed that these firms had consistently manipulated their accounts. In the United States, failure of corporations such as Enron Corp., WorldCom Inc., and Waste Management Inc. was also traced to the practice of Creative Accounting through the use of book entries which often go unnoticed by the auditors during their audit.

In 2013, the House of Representatives Committee on Finance accused commercial banks in the country of sundry sharp practices, including tax evasion, non-remittance of government revenue and outright falsification of their accounts. In a report released on the 25th of August 2013, the committee said it had uncovered a lot of discrepancies in the data submitted to it by the banks including the outright refusal to present documentary evidence of revenue remittances, blank violations of existing laws, self-exemption from existing rules, false declaration and manipulation of financial information (Ijeoma, 2014).

Preliminary findings showed that the published audited accounts of some banks were at variance with the figures the banks submitted to the committee during investigation. It was then revealed that many banks blatantly engage in the creative accounting technique of inflating their operating costs to reduce exposure to taxes. In other words, over the years, the Nigerian government lost billions of naira in fraudulent and under hand dealings corruptly designed by some banks to evade taxes. The effect of this large scale corruption on the nation's economy is unquantifiable. Furthermore, Ahmad (2011) asserted that some banks also created exemption rules for themselves in total disregard for the provisions of extant tax laws, particular violations of the stamp duty, withholding tax and value added tax (VAT) laws. There are also many cases of late remittances or outright failure to remit money collected on behalf of government. It against this back drop that this study examined the effect of earnings management on financial performance of deposit money banks in Nigeria. The objective of this study is to determine the effect of earnings management on deposit money banks in Nigeria. The specific objectives are to:

- i. Examine the effect of discretionary accrual on return on asset of deposit money banks Nigeria.
- ii. Evaluate the effect discretionary accrual on return on equity of deposit money banks in Nigeria
- iii. Determine the effect of discretionary accrual on earnings per share of deposit money banks in Nigeria.

The following research questions were also formulated to guide the study

- i. What is the effect of discretionary accrual on return on asset of deposit money banks Nigeria?
- ii. What is the effect discretionary accrual on return on equity of deposit money banks in Nigeria?
- iii. What is the effect of discretionary accrual on earnings per share of deposit money banks in Nigeria?

The following hypotheses are formulated in line with the research objectives and questions:

H₀₁: Discretionary accrual has no significant effect on return on asset of deposit money banks Nigeria.

H₀₂: Discretionary accrual has no significant effect on return on equity of deposit money banks in Nigeria.

H₀₃: Discretionary accrual has no significant effect on earnings per share of deposit money banks in Nigeria.

The study intends to examine the effect of earnings management on financial performance of deposit money banks in Nigeria for a period of 10 years from 2006-2015

Literature Review

The Concept of Earnings Management

Creative accounting first become popular as a term, among financial and economic journalists in United Kingdom media. Griffiths (1986), was the one who first brought the term creative accounting which is also known as earnings management to the public notice by his seminal book. By this book he made the public become aware of the fact that the flexibility in the accounts could be used for creative accounting. According to Griffiths (1986) creative accounting represents the means by which is achieved a deviation between accounts which are anything other than approximation which have their bases in the transactions and events of the year under review and the original starting point. In academic sense, Naser (1993) defined it as the process of transforming financial accounting numbers to the figures desired by the preparers from what they actually are by taking advantage of the existing rules and/or ignoring some or all of them. According to Jutimala and Ashit (2016) Earnings management also referred to as income smoothing, creative accounting, earnings smoothing, financial engineering and cosmetic accounting, window dressing, innovative accounting is one of the emerging issues in financial reporting. The preferred term in most of the literature on the subject is ‘earnings management’, but in Europe the preferred term is creative accounting. Stolowy (2000), sees earnings management as ‘an assembly of procedures in order to change the profit, by increasing or decreasing, or to misrepresent the financial statements, or both of them

Empirical literature

Akenbor and Ibanichuka (2002) evaluated the impact of earnings management on the return on equity of manufacturing companies in Nigeria from 1999-2001. Secondary source of data was used. Operational risk was used as earnings management proxy. The findings show that earnings management does not significantly affect the return on equity of manufacturing companies. Furthermore, Bakre (2007), Ajibolade (2008), and Okike (2009), have cited evidences of earnings management in the banking sector. The researchers highlight practical ways insiders perpetuates earnings management in order to present a false picture of firm performance, which is good. The findings of the studies highlighted an important link between investor protection and the quality of accounting earnings reported to market participants, and complement both financial research that treat the quality of corporate reporting as exogenous.

Accordingly Gunny, (2010) examined the future operating performance of firms that use earnings management to just meet earnings benchmarks. After controlling for size, performance growth opportunities, and industry, the study found that earnings management practices were positively associated with firms just meeting earnings benchmarks. Uwuigbe, Fagbemi and Anusiem (2012) investigate the practice of earnings management, its nature, techniques, and prevention. The findings of the study showed that the current GAAP in Nigeria created a gap that can permit the practice of

earnings management, and also revealed that the new International Financial Reporting Standard will go a long way to reduce the practice, since it covers more areas than the former practice.

A study by Isenmila and Elijah (2012) examined the relationship between earnings management and auditor reporting for firms listed on the Athens Stock Exchange (ASE) for the post-IFRS period 2005–2009. According to the findings of the study, auditors, either Big 4 or non-Big 4, had weak incentives to prevent earnings management, and the audit opinion qualification was not issued in response to management's opportunistic behaviour. However, the study by Osazevbaru (2012) investigates the effect of earnings management on firm value in Nigeria using loan loss provision (LLP) as earnings management proxy and ROCE as firm value proxy. The study used regression and findings revealed that earnings management positively affects firm's value. Ijeoma (2014) carried out a study to examine the effect of Earnings management in the Nigerian banking industry. Primary source of data collection was employed in this study and statistical tools used to analyze the data were the Kruskal-Wallis test and the multiple bar chart analysis. The result of this study revealed that the major reason for Earnings management practices in the Nigerian banking industry was to inflate the operating costs to reduce exposure to taxes and to maintain or boost the share price by reducing the apparent levels of borrowing, making the company appear subject to less risk and of a good profit trend.

Abubakar, Abdu and Abdulmaroop (2014) empirically examine the impact of loan loss provision on earnings of deposit money banks in Nigeria using econometric analysis method on annual data of eight financial institutions over the period of 2006–2011. The results from the study state a positive relationship between provision for loan loss and earnings in Nigerian DMBs. Similarly, Abubakar, Abdu and Abdulmaroop (2014) determine the effect of earnings management on the wealth of shareholders. Secondary source of data was used and analysed through correlation. The findings indicate that earnings management has negative relationship with shareholders wealth. Egbunike and Udeh (2015) examined the effect of earnings management on earnings per share and book value per share of quoted conglomerate companies in Nigeria. The study made use of ex-post facto research design. Earnings management was proxy using discretionary accruals. The findings of the study revealed that firms with discretionary accruals earnings management positively affect earnings per share and book value per share.

Theoretical Consideration

The theory upon which the study rests is the agency theory. From an agency theory viewpoint, earnings management is opportunistic. The dichotomy between owners and managers creates moral hazard and adverse selection challenges. These situations motivate managers to engage in earnings management. Furthermore, agency theory is been selected because it shows the relationship between the managers and the owners (shareholders) and other stakeholders. In an attempt to please the owners and also to show their efficiency in managing the owner's resources they tend to engage in earnings management practices.

Methodology

This study examined the effect of earnings management on the financial performance of quoted Deposit Money Banks in Nigeria. The study adopted ex-post facto research design because the materials used are the published annual reports and accounts of the banks under consideration. The

population comprises of all the fifteen quoted DMB's on the floor of the stock exchange as at 31st December 2015. A total of ten deposit money Banks were selected using simple random sampling on the basis of the following filter: Banks that merged and changed their identity within the period under study were excluded. This is because the bank will have incomplete financial report covering the period under consideration which will invalidate the findings of the study. Secondly banks that had government intervention to salvage them from winding up were also excluded from the study. After the application of the above filter, only banks with data for the period were included in the sample and these comprise the following banks: Access bank Plc, Fidelity Bank Plc, First bank Plc, First City Monument bank Plc, Guaranty Trust bank Plc, Stanbic IBTC, Sterling Bank Plc, United bank for Africa Plc, Unity bank Plc and Zenith Bank Plc.

Data were collected from the annual reports and accounts of the banks covering a ten year period 2006 -2015. Considering the nature of the data which is panel in nature, the study therefore employed panel OLS regression. The modified jones model was employed to determine the effect of earnings management on financial Performance of deposit money banks in Nigeria. (DMBs). The model is stated below:

$$TA_t / A_{t-1} = \beta_1 (1/A_{t-1}) + \beta_2 (\Delta REV_{t-1} + \Delta REC_t / A_{t-1}) + \beta_3 (\Delta PPE / AT-1) + \mu$$

Where: TA = Total accruals = Accounting earnings – cash flow from operating activities

$A_{i, t-1}$ = Total asset in year t-1

$\Delta REV_{i t}$ = difference in operating revenue

$\Delta REC_{i t}$ = difference in accounts receivable

$\Delta PPE_{i t}$ = difference in gross property plant and equipment

The panel data regressions that are used to estimate the relationship are as follows:

$$ROA_{it} = \alpha_0 + \alpha_1 DAC_{it} + \alpha_2 SIZE_{it} + e_{it} \dots\dots\dots 1$$

$$ROE_{it} = \alpha_0 + \alpha_1 DAC_{it} + \alpha_2 SIZE_{it} + e_{it} \dots\dots\dots 2$$

$$EPS_{it} = \alpha_0 + \alpha_1 DAC_{it} + \alpha_2 SIZE_{it} + e_{it} \dots\dots\dots 3$$

Where:

ROA_{it} = Return on Asset

ROE_{it} = Return on Equity

EPS_{it} = Earnings per share

DAC_{it} = Discretionary Accruals

$SIZE_{it}$ = natural logarithm of total assets

α_0 = constant

α_1 - α_2 = co-efficient

as adopted from the work of James (2009) but was modified in this study because of the fact that the sector under consideration is deposit money banks which differ from the sector studied by (James, 2009).

VARIABLE	ROA	ROE	EPS	DCA	SIZE
Mean	1.707267	8.284204	1.134656	-0.56049	7.824016
Median	1.900160	12.31486	0.720000	-0.02785	7.856998
Maximum	4.996714	30.89800	3.830000	0.327334	8.597904
Minimum	-6.42518	-233.114	-0.72	-43.6359	6.644184
Std. Dev.	1.854759	28.82919	1.071221	4.368225	0.439740
Observations	100	100	100	100	100

Source: Computed by the Researchers Using E-View 9.1

Table 1 show that ROA has a mean of 1.707267 with standard deviation of 1.854759, minimum and maximum values of -6.42518 and 4.996714 respectively. It is also evident from the table 1 that ROE has a mean of 8.284204 with s standard deviation of 28.82919 and -233.114 and 30.89800 as minimum and maximum values respectively. Table 1 also revealed that the mean of EPS is 1.134656 with 1.071221 as standard deviation and -0.72 and 3.830000 as minimum and maximum respectively. DCA has a mean value of -0.56049 with standard deviation of 4.368225, the minimum and maximum values stood at -43.6359 and 0.327334 respectively. Finally, the SIZE of the banks has a mean of 7.824016 with 0.439740 as standard deviation and 6.644184 and 8.597904 as minimum and maximum values respectively. From the table it can be seen that DCA has the lowest mean of -0.56049

Table 2: Correlation Matrix of the Variables

	ROA	ROE	EPS	DCA	SIZE
ROA	1.0000			-0.011622	0.132048
ROE	-	1.0000		-0.017251	0.153522
EPS	-	-	1.0000	-0.064579	0.527384
DCA	-0.011622	-0.017251		1.0000	0.098254
SIZE	0.132048	0.153522	0.527384	0.098254	1.0000

Source: Computed by the Researcher Using E-View 9.1

Correlation matrix shows the relationship between explanatory variables and explained variable and also the relationship among the individual variables themselves. The correlation matrix is also an alternative test for multicollinearity. Gujarati (2004) notes that correlation above 0.8 between variables, is a concern as it indicates excessive correlation. From the correlation table, the results reveal no serious or high correlation among the independent variable which indicates that the model performs well. It can be seen from table 2 above that ROA, ROE and EPS has a negative relationship with DCA and a positive relationship with SIZE. The relationship between ROA, ROE and EPS with DCA and

SIZE are (-0.011622) (-0.017251) (-0.064579) and (0.132048) (0.153522) (0.527384) respectively. From the table it can also be deduced that DCA has a positive relationship of (0.098254) with SIZE.

ROA and the explanatory (DCA) variables

To be able to measure the relationship that exists between ROA, ROE, EPS with DCA, and SIZE the study used pooled OLS regression. However, in order to ensure that proper, adequate, reliable and effective regression result is used in this research to determine the effect of earnings management on ROA, ROE, and EPS both fixed effect regression result and random effect regression result were subjected to hausman test. From the hausman test, it was found that the appropriate and consistent regression result to be used in this research for ROA and DCA is random effect regression result, while fixed effect regression is appropriate for ROE and EPS This is because the hausman test shows that the variables are more correlated under random effect, for ROA and fixed effect for ROE and EPS at such random effect regression result is shown in table 3.

Table 3: Hausman Test result for ROA and DCA

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.580835	3	0.4609

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
DCA	0.027287	0.017723	0.000056	0.2005
SIZE	-0.311322	-0.091640	0.033174	0.2278

Source: Computed by the Researcher Using E-View 9.1

H₀₁: Discretionary accrual has no significant effect on return on asset of deposit money banks Nigeria.

Table 4: Random effect regression result

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Date: 07/04/17 Time: 12:25

Sample: 2006 2015

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.922063	3.171755	0.921276	0.3592
DCA	0.017723	0.034791	0.509431	0.6116

SIZE	-0.091640	0.402654	-0.227589	0.8204
Effects Specification				
			S.D.	Rho
Cross-section random			0.779568	0.2285
Idiosyncratic random			1.432413	0.7715
Weighted Statistics				
R-squared	0.250619	Mean dependent var		0.857728
Adjusted R-squared	0.227201	S.D. dependent var		1.625866
S.E. of regression	1.429283	Sum squared resid		196.1135
F-statistic	10.70191	Durbin-Watson stat		2.510113
Prob(F-statistic)	0.000004			
Unweighted Statistics				
R-squared	0.277576	Mean dependent var		1.707267
Sum squared resid	246.0380	Durbin-Watson stat		2.000777

Source: Computed by the Researcher Using E-View 9.1

From table 4 above, the R- squared explained the influence of the explanatory (DCA and SIZE) variables included in the model on the explained variable (ROA) from the results above R- squared of 0.250619 shows that 25% of changes in ROA is explained by DCA and SIZE while the remaining 75% is explained by other variables that are not included in the model. The Prob. (F-statistic) of 0.00004 which is significant at 5% shows that the model is well fitted and therefore provides substantial evidence that return on asset (ROA) can be explained by earnings management (DCA) in DMBs in Nigeria. Table 4 further reveals that there is a positive relationship between DCA and ROA having coefficient of 0.017723 with a t- statistic of 0.509431. This implies that an increase in DCA leads to 0.017723 increase in return on asset. SIZE and ROA exhibit a negative relationship having coefficient of -0.091640 and a t- statistic of -0.227589 which signifies that an increase in the SIZE results in decrease of -0.091640 in ROA. From the results, the positive relationship between earnings management (DCA) and financial Performance (ROA) suggests that banks engage in earnings management to better /increase their financial performance. This result is in line with the findings of Murya (2010). It is therefore concluded in this study that bank managers intend to use earnings management to manipulate their reported performance.

Test of Hypotheses one

Table 4 regression result was used to test the first hypothesis which states that Discretionary accrual has no significant effect on return on asset of deposit money banks in Nigeria. The result shows that DCA with a P value of =0.6116 (61.16%) is greater than 0.05 (5%) the study therefore reject the alternative hypothesis and accept the null hypothesis and conclude that Discretionary accrual has no significant effect on return on asset of deposit money banks in Nigeria. This is supported with the overall R square of 0.250619 (25%) which shown that there are 75% other variables which affect the return on asset of deposit money bank.

Ho₂: Discretionary accrual has no significant effect on return on equity of deposit money banks in Nigeria.

Table 5: Hausman Test result for ROE and DCA

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary			Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random			8.323808	3	0.0398
Cross-section random effects test comparisons:					
Variable	Fixed	Random	Var(Diff.)	Prob.	
DCA	0.129158	-0.055052	0.051176	0.4155	
SIZE	-2.292979	5.282608	25.900491	0.1366	

Source: Computed by the Researcher Using E-View 9.1

ROE and the explanatory (DCA) variables

To determine the effect of Discretionary Accruals on return on equity (ROE) both fixed effect regression result and random effect regression result were subjected to hausman test. From the hausman test, it was found that the appropriate and consistent regression result to be used in this research for ROE and DCA is fixed effect regression result, this is because the hausman test shows that the variables are more correlated under fixed effect. As such fixed effect regression result is shown and interpreted in table 5 below:

Table 6: Hausman Test result for ROE and DCA

Dependent Variable: ROE

Method: Panel Least Squares

Date: 07/04/17 Time: 12:24

Sample: 2006 2015

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	32.08364	60.72410	0.528351	0.5986
DCA	0.129158	0.623621	0.207110	0.8364
SIZE	-2.292979	7.745055	-0.296057	0.7679
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.333665	Mean dependent var	8.284204	
Adjusted R-squared	0.241757	S.D. dependent var	28.82919	
S.E. of regression	25.10365	Akaike info criterion	9.404641	
Sum squared resid	54826.79	Schwarz criterion	9.743313	

Log likelihood	-457.2321	Hannan-Quinn criter.	9.541708
F-statistic	3.630410	Durbin-Watson stat	2.756949
Prob(F-statistic)	0.000203		

Source: Computed by the Researcher Using E-View 9.1

Table 6 above shows the result of the regression analysis of Discretionary accruals DCA and Return on Equity (ROE) from the table the R squared of 0.333665 which is low indicate that there is a strong positive relationship between DCA and ROE, the adjusted R squared of 0.241757 which penalizes the R squared for other variables not captured by our model is also low indicating that if more explanatory variables are added to the model it will have a significant effect on the value of the R squared, more also the F statistics of 3.630410 and probability greater than F of 0.000203 shows that the model is fit

On the other hand return on equity will increase by 0.129158 as indicated by the coefficient of Discretionary accruals for every ₦1 increase in discretionary accruals. Or a unit increase in the value of DCA will lead to a rise of ₦0.129158 in ROE of deposit money banks. More also DCA with a t statistics and p value of (t = 0.207110, and p value of 0.8364), indicate that Discretionary accruals has no significant effect on return on equity. The study therefore reject the alternative hypothesis and accept the null hypothesis that Discretionary accruals has no significant effect on return on equity of deposit money banks in Nigeria. The control variable bank size has an inverse relation with return on equity such that a 1% rise in bank size brings about a -2.292979 fall in return on equity of deposit money banks in Nigeria.

H₀₃: Discretionary accrual has no significant effect on earnings per share of deposit money banks in Nigeria.

Table 7: Hausman Test result for ROE and DCA

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.473801	3	0.0236

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
DCA	0.001966	-0.010199	0.000019	0.0051
SIZE	0.563174	0.875639	0.011106	0.0030

Source: Computed by the Researcher Using E-View 9.1

EPS and the explanatory variables (DCA)

From the hausman test results in table 7 above, it was found that the appropriate and consistent regression result to be used in this research for EPS and DCA is fixed effect regression result, this is because the hausman test shows that the variables are more correlated under fixed effect. As such fixed effect regression result is shown and interpreted in table 8 below:

Table 8: Hausman Test result for ROE and DCA

Dependent Variable: EPS
Method: Panel Least Squares
Date: 07/04/17 Time: 12:36
Sample: 2006 2015
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.234414	1.889535	-1.711751	0.0905
DCA	0.001966	0.019405	0.101327	0.9195
SIZE	0.563174	0.241001	2.336814	0.0217

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.532709	Mean dependent var	1.134656
Adjusted R-squared	0.468255	S.D. dependent var	1.071221
S.E. of regression	0.781143	Akaike info criterion	2.464622
Sum squared resid	53.08609	Schwarz criterion	2.803294
Log likelihood	-110.2311	Hannan-Quinn criter.	2.601688
F-statistic	8.264946	Durbin-Watson stat	1.466760
Prob(F-statistic)	0.000000		

Source: Computed by the Researcher Using E-View 9.1

From table 8 above, the R- squared explained the influence of the explanatory (DCA and SIZE) variables included in the model on the explained variable earnings per share (EPS) from the results above R- squared of 0.532709 shows that 53% of changes in EPS is explained by DCA and SIZE while the remaining 47% is explained by other variables that are not included in the model. The Prob. (F-statistic) of 0.000000 which is significant at 5% shows that the model is well fitted and therefore provides substantial evidence that earnings per share (EPS) can be explained by earnings management (DCA) in deposit money banks in Nigeria. Table 8 further reveals that there is a positive relationship between DCA and EPS having coefficient of 0.001966 with a t- statistic of 0.101327. This implies that an increase in DCA leads to 0.017723 increase in earnings per share. SIZE and earnings per share exhibit a positive relationship having coefficient of 0.563174 and a t- statistic of 2.336814 which signifies that an increase in the SIZE results in decrease of 0.563174 in EPS. From the results, the positive relationship between earnings management (DCA) and financial Performance (EPS) suggests that banks engage in earnings management to better or increase their financial performance. This result is in line with the findings of Murya (2010). It is therefore concluded in this study that bank managers intend to use earnings management to manipulate their reported performance.

Test of Hypotheses three

Based on the above regression results obtained from table 8 hypothesis 3 of this study will be tested. Table 8 regression result was used to test the third hypothesis which states that Discretionary accrual has no significant effect on earnings per share of deposit money banks in Nigeria. The result shows that DCA with a t statistics and P value of (t = 0.101327 and P = 0.9195) is greater than 0.05 the study therefor reject the alternative hypothesis and accept the null hypothesis and conclude that Discretionary accrual has no significant effect on earnings per share of deposit money banks in Nigeria.

Conclusion and Recommendation

This study examined the effect of earnings management on financial performance of deposit money banks in Nigeria. The population of the study consist fifteen deposit money banks quoted on the Nigerian stock exchange as at 31st December 2015 out of which ten banks were selected randomly. In this study, the return on asset, return on equity and earnings per share were used as the explained variable, while earnings management (proxy with discretionary accruals) serves as the explanatory variable. Firm size was used as control variables. The results support the fact that earning management has positive relationship with financial performance of deposit money banks. Earnings management has no significant effect on financial performance of deposit money banks in Nigeria. Based on the findings of this study, the following recommendations are made:

- i. Earnings management starts with the loopholes in the accounting standards therefore the biggest roles is for the standard setters to continuously improved accounting standards as new techniques of earnings management emerge and sees earnings management as a drive to the creation and improvement of International Accounting Standards. This will decrease the possible effects of earnings management in financial statements.
- ii. Secondly the study recommend that uniform rates for provision for depreciation should be given to banks by central bank of Nigeria just as the tax authority have single rate for capital allowance to be used by businesses, this will help in reducing the earnings management practices in deposit money banks.

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**STRATEGIC PARTNERING AND FIRM'S COMPETITIVE PERFORMANCE IN
NASARAWA STATE**

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Abstract

The growing need for strategic partnerships as a strategy to cope with the dynamic business environment and its relationship with organizational performance is important because the outcome informs the direction that such partnerships can take. Thus, strategic alliance allows two or more companies collaborate in specific activities to remain independent. The study thus examines the influence of strategic partnering on the competitive performance of selected firms in Nasarawa state using ex-post facto research design and independent t-test. Findings from the study revealed that strategic partnering helped improves a firm in managing competitive environment over those that do not. Also, the study revealed that strategic partnership has had a significant influence on innovation capability and business performance overtime. The study thus concludes that Strategic partnerships have helped the business firms to leverage on resources of other organizations mainly based on the corporate philosophies and by positioning itself as an innovative organization such that it can provide

solutions for a wide range of sectors. This diversity has provided a platform for expansion of business both in high potential areas as well as areas that might be perceived as risky and less attractive for business.

Keywords: Strategic partnerships, Firm performance, Competitive environment, Innovation

I. Introduction

The challenges of managing businesses in the 21st century require dynamic strategies for businesses to remain competitive and to sustainably generate returns for shareholders. Strategic partnering also referred to as coalitions, collaborations or strategic alliances are among those strategies that organization can adopt for competitive advantage. Porter (1985) describes coalition as a way of broadening scope without broadening the firm and this is done by establishing partnership with an independent firm to perform value activities or teaming up with an independent firm to share activities. Ulijn (2010) stated that strategic alliance is a state where two or more companies collaborate in specific activities but remain independent. Hoxtell (2015) have described partnerships from the context of non-commercial partnership following a definition by UN General Assembly which defines partnerships as voluntary and collaborative relationships between various parties; both public and non-public, in which all participants agree to work together to achieve common purpose or undertake a specific task and as mutually agreed to share risks and responsibilities, resources and benefits. Success of alliances can hence be said to be about capabilities and resources for competitiveness.

According to Teece (1997), dynamic capabilities theory explains two apparently imperatives for a company to be both stable enough to continue to deliver value on one side and resilient and adaptive enough to shift when circumstances demand it. They further explain that dynamic capabilities are unique to a company and are rooted in business models making them difficult to imitate or copy. The term dynamic refers to the capacity to renew competences so as to achieve strategic fit within the environment. Capability on the other hand emphasizes the key role of strategic management in appropriately adapting, integrating and configuring internal and external organizational skills, resources and functional competences to match the requirements of a changing environment (Teece, 1997).

As organizations operate in a dynamic environment whose volatility constrains resources; and as such, resource dependency theory emphasizes organizational adaptation to environmental uncertainty through active organizational management of resource flows and interdependencies (Pfeffer & Salancik, 1978). Resource dependence theory proposes two fundamental strategies for reducing external pressures and uncertainty which are dependency reduction and dependency restructuring. It is under dependency restructuring where organization can use various strategies such as vertical integration, joint venture, merger or partnerships to remain profitable and competitive.

The growing need for strategic partnerships as a strategy to cope with the dynamic business environment and its relationship with organizational performance is important because the outcome informs the direction that such partnerships can take. Stalk (1999) state that in today's dynamic business environment, strategy too must become dynamic. They reveal that competition has become a war of movement in which success depends on anticipation of market trends and quick response to changing customer needs. In such an environment the essence of strategy is not the structure of the

company products and markets but the dynamic of its behaviour that determines the company's survival (Stalk, 1999).

This study sought to establish how the adoption of various strategic partnering has impacted on the performance of various businesses in Nigeria, using selected firms in Nasarawa state. Answers were provided to the following research questions:

- i. To what extent has strategic partnering improved the performance of a firm over those that don't in managing competitive environment?
- ii. What influence does strategic partnering has influence on innovation capability and business performance?

II. Literature Review

2.1 The Concept of Strategic Partnering

The concept of strategic partnering is necessitated by the need for an organization to achieve its goals while leveraging on resources of another organization. Typically, strategic partnership can be viewed as a tool for competitive advantage. However, depending on the circumstances that organizations find themselves, there are various types of partnerships or collaborations that organizations can enter into. As highlighted in this study, there are partnerships between business to business organizations, business with public organizations often referred to as private public partnerships and there are also multi-stakeholder partnerships which may include private company, public organization and development agents or nongovernmental organization (NGO). Public private partnerships and multi-stakeholder partnerships are common in addressing social-economic development challenges (Maurasse, 2013). These type of partnerships sometimes referred to as partnerships for development have been very common since introduction of the UN Millennium Development Goals and the implementation of those goals particularly in developing countries.

The motivation for partnerships vary from one partnership to another but the fundamental reasons for business partnership according to DePamhili (2008) include sharing of risks; gaining access to new markets; globalization; cost reduction; desire to acquire or exit a business and favourable regulatory treatment that partnerships often receive as compared with mergers and acquisition. Nadler and Tushman (1997) argue that at the front and the back of the organization where there are those processes involving customers and basic technologies, there has been increasing interest in reinforcing and expanding the organizations competitive efforts. This can be done through joint ventures and strategic alliances particularly in industries and professional sectors that are going through fundamental changes mainly in telecommunications, health care and financial services where companies are searching for ways to limit their exposure while testing the waters of new markets and technologies (Nadler & Tushman, 1997).

2.2 Critical Success Factors for Strategic Partnering

Due to the complexity of managing strategic partnerships, there are certain factors that need to be put into consideration for a successful alliance. Child et al. (2001) contend that the factor for success include synergy which is usually demonstrated through attributes that complement existing strength or offset significant weaknesses. This strength includes economies of scale, and scope, access to new products or know how and proprietary know how. Cooperation is another factor that entails ability to

agree on matters mainly based on similarities of philosophies, goals, rewards, operational practices and ethics.

Clarity of purpose together with clear roles and responsibilities are important factors because they help in the execution of tasks when everyone is clear about what is expected to be done. Accountability is a factor that has to do with holding those with responsibilities accountable for their actions with clear reward systems for good performance and equal measure for non-performance. A win-win situation is where all partners in the alliance believe they are benefiting from the collaboration by achieving their set objectives within compatible time frames and financial returns. Support from top management is paramount and provides motivation to the teams in the execution. Jonathan and Soldi (2011) have identified trust, commitment, communication, collaboration competence and conflict resolution as key factors that dictate whether a partnership is working or not.

There are many advantages of creating strategic partnerships (Grant, 2008). According to Depamphilis (2008), the motivations for partnerships could be risk sharing or gaining new market. He asserts that to mitigate perceived risks, organizations often enter into alliances to gain access to know how and scarce resources or to reduce the amount of resources they would have to use if they were to do it alone. Sometimes it could also be to share substantial capital outlay or to secure a source of supply. Gaining new market is an expensive venture involving substantial costs requiring a company to partner with another company. This is well explained in the example of Google and eBay where despite being competitors with eBay, Google was able to inexpensively gain access to eBay's non US customers in an alliance with eBay (The Economist August 10, 2006).

Technology is cited to be one of the reasons that firms seek to partner with other organizations. Technological change is happening too often mainly driven by innovations of the present time. Morris (2006) defines innovation as the process of creating new ideas and turning them into new business value. D'Aveni (1994) asserts that technology is one of the dynamics that has changed the competition landscape since companies have to keep innovating to meet the demands for quality and price of goods and services.

Reeves and McKemey (2007) from a context of partnerships for development have defined partnerships as inherently challenging way of getting things done in that by definition, they require at least two actors presumably with different interests and strengths to cooperate in order to identify ways to use unique strengths of each to accomplish a goal that is compatible with the objectives of both organizations. The numerous emerging challenges of present times including climate change, food security, health issues and natural disasters call for innovative ways of developing solutions to the social- economic global development agenda. Strategic partnerships have become the vehicles which various participants combine resources and expertise to solve problems jointly or develop innovations (Maurassee, 2013).

According to Maurassee (2013) cross sector collaborations have proliferated recently where partnerships are forming and evolving in local context and across nations altering approaches to development and spawning innovations while presenting new ways of doing business. This is on the realization that institutions and industries in the public, private and nongovernmental sectors coexist in an ecosystem. Geddes (2005) reveals that PPPs are no longer restricted to governments and private

companies only but today's partnerships include development partners, communities and non-governmental organizations.

2.3 Partnering Strategies and Firms Competitive Advantage

The complexity of the business environment has necessitated a lot of studies to be carried out in the field of strategic partnerships. There is therefore evidence of a body of knowledge that exists and that covers quite a range of factors. As highlighted by Maurrasse (2013), the concept of strategic partnership is evolving at a very high rate and requiring additional knowledge to shape the future of the various forms of collaborations. Technology is particularly changing the way of doing business for institutions and individuals at both public and private level including communities that governments and private organizations serve.

It is on this basis that Stuart (2000) did a study on growth and innovation targeting high technology industry where he tried to establish the advantage of portfolio alliances with findings that firms with large and innovative partners perform better than those without. The study recommended more studies to explore two stage models. Jonathan and Soldi (2011) in an effort to measure success of alliances in the financial services sector found that successful partnerships are those that partners meet their objectives of establishing the partnership on a win-win situation. This study focused on service industry and recommended more research on other industries for a better generalization. On the same breath, Kudate (2014) carried out a study to establish the influence of strategic partnerships between small and large business in a case study of Equity bank and found out that whereas partnership is a good option, small firms need more information before entering partnerships. The researcher recommended more studies on the regulation and operation of agency banking.

Walekhwa (2011) in a study between Equity Bank and her partners on effect of partnerships in decision making recommended more studies in agency banking. These studies suggest that there still exist knowledge gaps that require more studies into the innovations in the way that partnerships are structured and how organizations align themselves to respond to the emerging needs.

2.4. Forming Alliance and Strategic Partnering

Strategy researchers have focused on various characteristics of organizations such as top management teams' characteristics, employing an innovative strategy (Eisenhardt et al., 1996), and the availability of technical and commercial capital (Ahuja & Lampert, 2001) to explain the likelihood of firms to form alliances. They have tried to explain how firms create breakthrough inventions through innovation which is a common practice among firms even today. Another research stream builds on exchange theory (Emerson, 1962) and emphasizes the need for collectively achieving strategic goals through enhanced coordination, reciprocity and mutual support (Oliver, 1990). According to this research, the motivation to form alliances is found in collective goals. Further, research based on institutional theory (DiMaggio & Powell 1993; Tolbert & Zucker, 1983) has highlighted the need for organizational legitimacy as an important motive for forming alliances (Baum & Oliver, 1991). This research argues that firms forms alliances to improve their reputation and image to signal creditworthiness; to gain government approval; to increase their attractiveness as worthy alliance partners or to increase investors' confidence in their business activities (Dacin, et al., 2007).

The other set of factors focus on social opportunities for forming strategic partnerships. Firms may have needs for external resources but may not have many opportunities for accessing the needed resources. Firms may differ in the amount of information they have, about which partners have complementary resources, which potential partners are actually interested in collaborative activity and which firms might be reliable or are valuable partners. Gulati and Gargiulo (1999) observed that firm's awareness of potential partners is a function of their prior alliance experience and their favorable position in the network structure. Ahuja (2000a) and Ahuja (2000b) established that a focal firm is considered an attractive partner when it possesses a high degree of technical or innovative and commercial capital. Previous experience provides information which could be through third party referrals, about the complementarity of the resources held by the potential partners as well as the partners trustworthiness and the likelihood of opportunistic behaviour (Gulati, 1998; Gulati & Gargiulo 1999).

According to Baum and Oliver (1991) from a dynamic analysis perspective, organization that are able to establish linkages, exhibit a significant survival advantage that increases with the intensity of competition. They argue that the effectiveness of institutional linkages in contributing to survival depends on the characteristics of organizations that establish ties and the external legitimacy of those ties (Baum & Oliver, 1991). Firm's ability to persistently outperform rivals depends on the advantageous access to external information and resources that is uniquely held by other market participants (Dyer & Singh 1998). The unprecedented pace of technological change in most industries today (Bettis & Hitt, 1995; D'aveni, 1994) have made collaboration with other firms a necessary condition for sustained success in the market place. This increased collaboration activity; strategically initiated by firms in their efforts to outperform rivals leads to formation of a network of inter-firm relationships in form of strategic partnerships or joint ventures at the system level. Each firm in the partnership network maintains a distinct portfolio of alliances and has a distinct pattern of alliance ties with other network members which in turn provide different potential for gaining access to network resources (Gulati, 1998; Gulati et al., 2000)

As few firms are self-sufficient in specific resources, they seek strategic alliances to complete the package of the resources they require for their operations or expand their market position. Deficiency in one or more strategic resources constitutes the driving force for collaborations and a measured approach to reducing uncertainty and managing the dependency (resource dependency theory and transaction cost economics comprise a broader theory) which implies that companies adapt or react to their environment (Varadarajan & Cunningham, 1995). Firms also form alliances for relationship marketing purposes. The notion of domesticated markets refers to the tendency of firms in industrial markets to form strong relationships with their customers and suppliers in order to deliver superior customer value or service. This type of strategic alliance is perceived as the least risky and most effective means of providing services or products that will enhance the relationship with the customer base (Gomes-Casseres, 1998). Strategic behaviour or competitive advantage theory focuses on the firms behaviour from a managerial rather than a marketing approach explaining that companies are expected to seek cooperative arrangements if they believe those arrangements will improve their ability to meet strategic objectives especially in maximizing profits or in protecting or enlarging market share Gomes – Casseres (2000).

Knowledge-building or competence-based theory is an alternative way of looking at what drives competitive advantage. In this type, one view is that firms are motivated to acquire knowledge as a means to retain or acquire specific competencies which are analogous to resource dependence theory (Teece et al., 1997; Prahalad & Hamel 1990) and thereby maximize their ability to adapt to their environment. The alternative view is that firms acquire knowledge through strategic alliances in order to compete at different levels of the value chain and thereby alter the industry structure in which they operate. Firms adapt to competitive environment by seeking specific knowledge which can be obtained through licensing agreements or by obtaining organizational or technical knowledge that is embedded in key individuals that is tacit knowledge which can be retransferred only by learning alongside the individual (Mollenkopf et al., 1998).

2.5. Theoretical Nexus

For this paper, the theories that best explain strategic partnering and organizational performance are the dynamic capability theory and resource dependence theory.

2.5.1 Dynamic Capability Theory

Dynamic capability theory's propensity is towards the capability of an organization to adapt adequately to changes that can have an impact on its functioning. Teece et al (1997) defined dynamic capability as the firm's ability to integrate, build and reconfigure internal and external competences to address the rapidly changing environment. From this definition, it helps an organization to navigate the turbulent business environment by providing new form of competitive advantage. As further explained by Teece et al (1997), winners in today's business world are those firms that can demonstrate timely responsiveness with rapid and flexible product innovations combined with the management capability to effectively coordinate and redeploy internal and external competences. Focusing on core competences creates unique integrated systems that reinforce fit among firms' diverse production and technology skills. This is a systemic advantage that competitors cannot copy (Prahalad & Gary 1990). However, firms lack the organizational capacity to develop new competences quickly hence posing a challenge to organization's ability to respond to opportunities and compete effectively (Dierickx & Cool, 1989).

2.5.2 Resource Dependence Theory

The central proposition of resource dependence theory is that organizations survival hinges on the ability to procure critical resources from the external environment and that in order to reduce uncertainty in the flow of needed resources, organizations will try to restructure their dependencies with a variety of tactics. Some of the tactics are unilateral in that they pass the source of constraints by reducing the interest in the valued resource, cultivating alternative sources of supply or by forming coalition (Casciaro & Piskorski 2005). This theory recognizes the importance of the environment in which organization acquire resources that it depends on for its survival. Another explanation for alliance formation based on resource dependency theory proponents by Pfeffer and Salancik (1978) suggests that firms strategically form partnerships to effectively manage symbiotic interdependencies. Such interdependencies are between suppliers and buyers or competitive interdependencies such as interdependencies between competitors.

Hillman et al (2009) in review of resource dependence theory highlighted five actions that an organization can adopt to minimize environmental dependence. These include mergers and vertical integration; joint ventures and other inter organizational relationships; board of directors; political actions and executive succession. According to Hillman et al (2009) resource dependence theory is a primary theoretical perspective to understand joint ventures and other inter organizational relationships such as strategic alliances. Further, they have alluded that empirical evidence supports the use of inter organizational relationships to reduce domestic and international environmental complexity and gain resources. Park & Mezias (2005) observed that alliances formed in periods of low environmental munificence have more favourable stock market reaction indicating the magnitude of dependency successfully predicts these forms.

Eisenhardt and Schoonhoven (1996) identified two general sets of factors that affect firm's likelihood to form strategic partnerships as resource need and social opportunities. The first set of factors assumes that firms act strategically to outperform their competitors and earn more profits. Therefore firms form alliances to gain access to resources needed to accomplish certain strategic goals. Firms may for example use alliances to reduce the transaction costs and increase their operational efficiency. According to transaction costs economics, firms purposefully establish collaborations when costs of writing and executing contracts are too high because of small number of bidders, asset specificity and hold up issues, a high degree of uncertainty or significant incentives for partners to act opportunistically and that at the same time, it is inefficient to internalize the production process because firms lack competences (Williamson, 1975).

III. Research Methodology

The research design adopted for this paper is the ex-post facto research design. The ex-post facto research design was used to determine cause-effect relationship between the dependent and independent variables with a view to establishing a causal link between them. It also tests hypotheses concerning cause-and-effect relationships, as well as combining the theoretical consideration with empirical observation. More so, this paper used primary data which were elicited from research questionnaires collected from selected firms operating in Nasarawa state were used; while independent t-statistics was employed to test the hypothesis.

IV. Results and Discussion of Findings

4.1 Statistical Test of Significance

The t-statistics was used to determine the level of significance among the relationships that exist between the variables in the model. The decision rule is that, if the t calculated is greater than 1.96, it implies that the regressor in question is statistically significant at 5% level; otherwise, it is not significant at that level.

4.1.1 Assessing whether strategic partner helped improves a firm over those that don't in managing competitive environment

Table 1: T-Test Result on whether strategic partner helped improves a firm over those that don't in managing competitive environment

Test Value = 0					
t-value	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
2.58	57	0.00163	2.13482	2.0453	2.3993

Source: Field Survey, 2017

The calculated t-value in table 1 is 2.58 and the tabulated value is 1.96 under 95% confidence levels. Since the calculated is less than the tabulated value ($2.58 > 1.96$), we therefore, accept the null hypothesis (H_{01}). We conclude that strategic partner helped improves a firm in managing competitive environment over those that don't.

4.1.2 Examining whether strategic partnering has had a significant influence on innovation capability and business performance

Table 2: T-Test Result on whether strategic partnering has had a significant influence on innovation capability and business performance

Test Value = 0					
t-value	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
2.492	57	0.0003	3.3115	3.6649	3.7710

Source: Field Survey, 2017

From the t- test result in table 2, the calculated t-value is 2.46 and the tabulated value is 1.96. the t-value therefore falls in the rejection region and hence, we may reject the second null hypothesis(H_{02}). The conclusion is that strategic partnerships has had a significant influence on innovation capability and business performance.

4.2 Discussion of findings

The study revealed that strategic partner helped improves a firm in managing competitive environment over those that don't. this is in agreement with Ogega (2010) who carried out a research project on strategic alliance between two companies (Safaricom and Equity Bank in the money transfer services) in trying to find out what factors firms need to consider while entering into strategic alliances. He discovered that strategic partnership is the way to manage a competitive environment since for both partners, it was a win-win situation. Walekhwa (2011) also discovered that strategic alliances combine competencies and capabilities to create synergy and enable the partners to achieve what they could not do at all, or could do at reduced efficiency or greater cost.

More so, the study showed that whether strategic partnerships have had a significant influence on innovation capability and business performance. This is in agreement with Kudate (2014) who carried out a study on the influence of strategic partnerships between small and large businesses in performance; the case of Equity Bank Agency banking. In her findings she established that partnership

is a good option for large and small businesses to enable them gain competitive advantage. Supriyadi (2014) also carried out a research to establish the effect of strategic partnerships on innovation capability and business performance of garment industry in West Java in Indonesia. His findings were that strategic partnership is a variable that is very vital because it can improve business performance both directly and through the ability of innovation.

V. Summary and Conclusion

Strategic partnerships have helped the business firms to leverage on resources of other organizations mainly based on the corporate philosophies and by positioning itself as an innovative organization such that it can provide solutions for a wide range of sectors. This diversity has provided a platform for expansion of business both in high potential areas as well as areas that might be perceived as risky and less attractive for business. The findings indicated that firms have embraced strategic partnerships as a strategy for competitive advantage. As established in this paper, the firms have not only taken up business to business partnerships but also brought in a diversity of partnerships by establishing public private partnerships. This diversity has provided a platform for expansion of business both in high potential areas as well as areas that might be perceived as risky and less attractive for business.

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THE DEMAND FOR HEALTH CARE SERVICES AND ITS IMPACTS OF ECONOMIC GROWTH IN NIGERIA

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Abstract

The focused of this research work is to investigate empirically the demand for health care services and its impacts on economic growth in Nigeria. The study employed multiple linear regression model (MLRM) on macroeconomic variables such as Gross Domestic Product (GDP), Government expenditure on health care, death rate and birth rate. The GDP was used as a proxy to economic growth rate while the other variables are independent variables. Stationary test was carried out on the variable using unit root, Granger - casualty test differencing, co-integration, error correction mechanism among others. The result of this study shows that the variables were made stationary using the above statistical tools. The study concludes that rural development policies should promote the creation of enabling environment to enhance participation in modern health care delivery. Consultation fees, transportation cost and consultation time were found not to be significant in determining facilities choice for the child. The magnitude of infant mortality in Nigeria shows that child healthcare demand has not been significantly addressed by the policy makers, thus necessitating a need for stronger commitment to child healthcare.

Key Words: Demand, Healthcare, Services, Economic growth

1. Introduction

Sound health is a fundamental requirement for living a socially and economically productive life. Poor health inflicts great hardships on households, including debilitation, substantial monetary expenditures, loss of labour and sometimes death. The health status of adults affects their ability to work, and thus underpins the welfare of the household, including the children's development (Asenso-Okyere, 2011). Poor health affects agricultural production. Treatable conditions often go untreated because of lack of access to healthcare. Development in all its forms is only possible when there is access to healthcare service and in turn its effective utilization by individuals. Access to healthcare services is a multidimensional process involving the quality of care, geographical accessibility, availability of the right type of care for those in need, financial accessibility, and acceptability of service (Peters et al., 2013).

Health is a fundamental dimension of well-being and a key component of human capital. Conversely, poor health and the inability to cope with episodes of illness can be considered important dimensions of deprivation. Health outcomes are affected by a wide range of factors, pertaining to the individual, social and environmental context. In addition, preventive and curative health services are direct inputs that affect an individual's health status and ability to cope with ill health (Benefo and Schulz, 2012). However Amponsah (2012) sees child health care as the principal barometer which can be used to assess both social and economic well-being of any country. Also nutritional status of U5 Children is considered as a major indicator of a household's living standard and also determines child survival (Thomas et al, 2012). Nigeria's estimated population of 170 million in 2015 (projected from the 2016 National Population Census) makes it the largest country in Sub-Saharan Africa and the tenth most populated country worldwide. Nigeria's population is largely rural, with 63.7 percent of the population living in rural areas. Currently, about 20 percent (24 million) of Nigeria's total population are under age five (policy project Nigeria, 2002). The huge numbers involved, therefore, required that child healthcare demand be placed in the forefront of the national agenda.

Nigeria is blessed with both human and natural resources, despite this; it is ranked among the 13 poorest countries in the world. The World Bank (2011) reports that majority of Nigerians earns below US \$1 a day and this shows high level of poverty in the country. This extreme poverty serves as a limiting factor to access quality health care especially among the vulnerable group (Children) (World Bank, 2009, UNICEF, 2009). Less than half of the population has access to safe water (40% in rural areas) and only 41% have access to adequate sanitation (32% in rural areas). All these facts have negative implication for the survival of the children).

From the foregoing, it is evident that Child survival in Nigeria is threatened by nutritional deficiencies and illnesses, particularly Malaria, Diarrhoeal diseases, acute respiratory infections (ARI), and Vaccine preventable diseases (VPD) which account for the majority of morbidity and mortality in childhood. Other threats include high maternal morbidity and mortality. It is therefore imperative for governments at all levels to formulate policies that can fully develop Nigerian Children and enhance their quality of life.

Realising the importance of Child health care, health policy makers in Nigeria have been directing policies towards solving impediments to health care access among the children in order to improve their health care problems. However, a vivid examination of government health care policies shows that they are tilted towards addressing supply barriers, while the demand side policies have concentrated on improving staff quality, reduction in waiting time, provision of drugs, building of more hospitals and improving the environment of the health care facilities without adequate provision on how people especially the vulnerable ones can have access to these facilities (Ensor and Copper, 2009). Consequently, there have been a wide range of government efforts to address problems facing the child health care. However, a probe into the literature has shown that supply side of the health care is not enough in addressing health care problems, but it must be mixed with the demand side solutions (Akin et al, 1995). Although, the importance of supply side solutions needs not be relegated to the background, it needs be pointed out that they are not enough in addressing access to health care by patients, especially children in low income countries like Nigeria. It is therefore necessary for policy makers to consider other interventions beyond the supply and reflect on how individuals behave during and the magnitude of the factors affecting their health seeking behaviour, especially the children who are socially vulnerable. The paper is broken down into five subsections; with introduction as one, two dwells on conceptual issues and literature review, three and four focuses on the methodology of the study and presentation and analysis of results respectively, while five is the conclusion and recommendations.

2. Conceptual Issues

Evidence is accumulating on the huge gap between different groups in both developed and developing countries in accessing health care, considerable differences in child survival as a result of income and ethnic groups is well established across Asian, African and South American countries (Ensor and Cooper, 2012). Equally, it has been well documented in the literature that access to health services and the distribution of public subsidies favour richer, urban dwellers over generally poorer rural inhabitants (Demery 2010; Makinen 2010, Waters et al., 2010). According to Ensor and Cooper (2004) investments in public sector health care infrastructure have not primarily benefited the most vulnerable

in the society, especially children. Considering per capital expenditure on health, statistics has shown that most governments in low income countries spend less than US\$4 annually and this has a significant implication for the health care delivery (Jowwet, 2009).

UNICEF (2011) reports that one out of seven Nigerian children die before his or her fifth birthday. NPC (2011) report further confirms that there is thirty percent probability for a baby born in Nigeria to die before attaining five years of age when compared to his or counterpart in developed nations. Statistics show high rates of child mortality in Nigeria and ranked 15th in the world (UNICEF, 2011). It is on record that over one million children die yearly as a result of preventable diseases, this has made Nigeria to be in the fore front of African countries who has not recorded much success in child survival in the last four decades despite their self-acclaimed advances in global immunization and oral re-hydration therapy (ORT).

The study on demand for reproductive Health and child mortality in Nigeria by Adeoti (2009) found an inverse relationship between child immunization and mortality in rural and urban areas, a child who takes all the required immunization has less probability of dying before age five. The level of education of the mother, distance to health care facilities and mother's age were found to affect demand for child immunization especially in the rural areas (Adeoti, 2009). According to the World Health Organisation (2006), about 60% of all deaths occurring among children in developing countries are as a result of Malnutrition. Statistics further shows that about 50.6million under five children are malnourished, while 90% of these children are from developing countries. Growing literature on child mortality and morbidity has reported an inverse relationship between Household Socio-Economic Status (SES) and child mortality in developing countries (Antonovsky and Bernstein 1977, Caldwell 1978, Vanzo 1983, D'souza and Bhuiya 1982, Farah and Preston 1982). However to Mosley and Chen (1984) Socio-Economic Status (SES) affects child mortality through Nutritional in-take, thus, there is a positive relationship between Socio-Economic Status (SES) and child nutritional status. Determinants of child health care according to Bhuiya et al.(2010) includes: adequate food intake and proper health care during and after sickness, household resources, attitude of the decision makers towards the children, household size and type of household that the child belongs. Cadwell and Smith (1983) found a positive relationship between mother's educational background and child health care. Urban poor settlements have also been identified by APHRC (2002) as one of the major factors that pose serious challenges to child health and survival. Majority of the urban residents live in slump settlements that are characterized by poor environmental sanitation and livelihood conditions (Kimawi-Murage and Ngindu, 2007). The macroeconomics and health report emphasized the need to extend essential services and also make structural changes in health services in the poorest countries, especially at the community level in order to overcome most of the important barriers in accessing health care services among the vulnerable groups (Sachs, 2001). Ensor and Cooper (2004) notes that, supply side factor has dominated health care decision and it is only one factor in the decision making processes in the health sector. As they aptly put it" is important that health seekers have knowledge of what providers offer, education about how best to utilize self-and practitioner provided services and cultural norms of treatment".

Health care is the prevention, treatment and management of illness as well as the preservation of mental and physical well-being of man through the services offered by the health workers such as:

medical doctors, nurses, paramedic staff etc. According to the World Health Organisation (2012) health care embraces all the goods and services designed to promote health, including preventive, curative and palliative intervention, whether directed to individuals or to populations. In Public Health Economics, health is treated as a “special good” and its distribution as argued should not be determined by the levels of the people’s income. According to Democrit, writing in the 5th century (Anand, 2012), “without health, nothing is of any use, not money nor anything else”. Some 2000 years later Rene Descartes contended that health is the highest good. In “Discours de la Methode” published in 1637; Decartes noted that “... the preservation of health is ... without doubt the first good and foundation of all the other goods of this life”.

In realization of its obligations to the people, primary health care is now provided at various levels of government and the community for both the mother and the child. Expectant and nursing mothers are given health education at health centres and clinics. Except in extreme emergency cases, child deliveries now take place in clinics, maternity and health centres. Thus has been largely alleviated, many problems of high maternal mortality which for long had been the bane of motherhood in Nigeria. Apart from health education, basic sanitation measures, immunization against known deadly diseases of childhood and Oral Dehydration Therapy (ORT) is administered nationwide. Immunization on an extended scale began in 2005 in a few states with the assistance of UNICEF and it has since covered the whole federation. The service is available free of charge at health centres, selected dispensaries in rural communities, general hospitals and government epidemiological units. The arrangement has since been followed up with house to house campaigns originally designated as Expanded Programme of Immunization (EPI) (Okunola, 2012). The fact still remains that the majority of the people cannot afford the cost of health care services because they live below the poverty line. According to the Central Bank of Nigeria (2012) report, life expectancy is a mere 54 years and infant mortality (77 per 1000) and maternal mortality (704 per 100,000 live births).

Similarly CBN (2013) reported that only about 10% of the population of Nigeria, had access to essential drugs; among children under 5 almost 30% were underweight due to malnutrition and only about half the population had access to safe drinking water (40% in rural areas, 80% in urban areas). In most developed countries of the world, health care is provided to everyone regardless of their ability to pay. This is done to maintain a healthy and virile labour force for efficient productivity. Alternatively, compulsory government funded health insurance scheme with minimal fees are also put in place. Health policies have been formulated in various forms in Nigeria either as part national development plan or specific government decision on health care. For example, the National Health Insurance Scheme of 2006 and the comprehensive Healthcare scheme of 1988 as the key to the attainment of health for all by 2010. This was to address the problem of availability, accessibility, affordability and reliability of health care services particularly at the grassroots. Sadly, these programmes are hardly implemented due to corruption, poor policy formulation, insincerity, mismanagement, bad leadership and inadequate consultation with the people. Given the endemic nature of poverty, the poor is pushed to scavenging the environment for survival leading to the over exploitation of environmental resources. The resultant environmental degradation is in all ramifications against the spirit of sustainable development and the cause of most diseases. According to the CBN (2013) more than 90% of the rural population depended on forests for livelihood and

domestic energy source; rural households spent an average of 1.5 hours a day collecting water and fuel wood and some 29% of the population lived at risk from annual floods. In most cases they live in filthy environments and die of avoidable and curable diseases.

Health is a major component of a nation's socio-economic development. Good health does not only contribute to better quality of life but is also essential for a virile labour force for the creation and maintenance of a nation's wealth. The importance attached to the health of a people and level of economic well-being necessitates the commitment of governments worldwide to health care issues. Poverty has an inverse relationship with health and health care. The two socio-economic phenomena are therefore very crucial determinants of the well-being and survival of man in his ecological niche. Perhaps the best way of appreciating the importance of the problem under investigation, is to place it in the context of the Millennium Development Goals (MDGs) adopted by the United Nations in 2012. According to the United Nations (UN) the "development goals set out in the Millennium Declaration expressed the resolve of the world's political leaders to free their fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to make the right to development a reality for everyone and to free the entire human race from want" (UN, 2013).

According to the Federal Ministry of Health (2008), the total shares of public ownership in 2004 on health facilities were 14,607 while the private sector accounted for 9,029 in Nigeria. Consequently, various Nigerian governments have made numerous great efforts toward the provision of healthcare facilities to its populace. Notable among these efforts were the expansion of medical education, improvement of public health care systems, provision of primary health care (PHC) in many rural areas. However, overt attention has not been paid to equity in the planning and distribution of health care facilities over the years in the country. Public and private health care facilities are sparsely provided in many rural areas within the country. Such regions with difficult terrain and physical environment are often neglected (Onokerhoraye, 1999). This makes the distance between the rural dwellers and the healthcare centre far apart, given the transportation problems experienced in these areas, and its attendant cost. Many rural areas do not have clinics; the sick must be carried on the backs of young men or on bicycles to the nearest clinic. Moreover, clinics in rural areas often lack adequate equipment or trained health personnel, and require payment before providing services. In the absence of health insurance, rural people are often unable to afford healthcare of any kind. Healthcare access and utilization are of major interest to rural development, because they are vital elements of wellbeing and components of human capital (Aghion, 2010). In rural areas, where physical jobs tend to be more abundant, healthcare access and utilization stand to be more important than education in determining labour productivity. Furthermore, every individual sees good health as a need; this makes healthcare utilization an economic good. Good health is a need for all and the choice of a particular healthcare system responds to the laws of demand and supply, the demand for health care is a derived demand. Health care is not demanded for itself but for the advantages that can be derived from being healthy.

Many low-income countries, Nigeria inclusive, have not been able to meet the basic healthcare needs of their people, especially those in the rural areas. In Nigeria, there has been a growing recognition of the challenge of rural people's health issues and the need for it to be addressed (Hamid et al., 2005). There is a huge shortage of qualified practitioners in the rural areas. Accessing health care in rural areas is confounded by problems such as insufficient health infrastructure, the presence of chronic

diseases and disabilities, socioeconomic and physical barriers (Ricketts, 2009). Over the years, Ogun State healthcare services and facilities have not achieved all its objectives of ensuring that everybody has access to adequate health care services at affordable costs. This study will extend prior literature such as: Sanusi and Awe (2009) who studied the level of awareness of National Health Insurance Scheme (NHIS) by health care consumers in the south west of Nigeria using chi-square and descriptive statistics. Ibiwoye and Adeleke (2009) examined the extent to which income of household heads, occupation of household heads, sex of household heads, age group, marital status and family size plays an explanatory role in the slow pace of usage of healthcare service in Lagos State; while Olugbenga-Bello and Adebimpe (2010) examined the knowledge and attitude of civil servants in Osun State towards its healthcare usage.

3. Methodology

The specified multiple regression models will be estimated using the Ordinary Least Squares (OLS) technique. The following econometric and statistical diagnostic tests will be performed in order to ascertain the validity of the regression results; Unit Root Test, Co-integration Test and Granger - casualty test.

3.1 Unit Root Test

It is used to test for the stationarity of the time series data. This involves testing of the order of integration of the individual time series under consideration. These tests are initially performed at levels and then in first difference form. Three different models with varying deterministic components are considered while performing the tests. These are (1) model with an intercept which assumes that there are no linear trends in the data such that the first differenced series has zero mean (2) model with a linear trend which includes a trend stationary variable to take account of unknown exogenous growth and (3) a model which neither includes a trend nor a constant. The most popular ones are Augmented Dickey-Fuller (ADF) test due to Dickey and Fuller (1979, 1981). Augmented Dickey Fuller (ADF) test statistics shall be compared with the critical values at 5% level of significance. A situation whereby the ADF test statistics is greater than the critical values with consideration on absolute values, the data at the tested order will be said to be stationary. Augmented Dickey-Fuller test relies on rejecting a null hypothesis of unit root (the series are non-stationary) in favour of the alternative hypotheses of stationarity. The tests are conducted with and without a deterministic trend (t) for each of the series. The general form of ADF test is estimated by the following regression:

$$\Delta y_t = \alpha_0 + \alpha_1 y_{t-1} + \sum \alpha_i \Delta y_t + e_t \quad 3$$

Where: Y is a time series, t is a linear time trend, Δ is the first difference operator, α_0 is a constant, n is the optimum number of lags in the dependent variable and e is the random error term.

The null hypothesis is that $\alpha_1 = 0$. If the null hypothesis $\alpha_1 = 1$, then we conclude that the series under consideration $\Delta(y_t)$ has unit root and is therefore non-stationary.

If the ADF test fails to reject the test in levels but rejects the test in first differences, then the series contains one unit root and is of integrated order one I(1). If the test fails to reject the test in levels and first differences but rejects the test in second differences, then the series contains two unit roots and is of integrated order two I(2).

3.2 Granger-Causality Test

It is used to test for the long run relationship between the variables. And a long run relationship is found on these variables in which we will study. According to Granger (1969), Y is said to “Granger-cause” X if and only if X is better predicted by using the past values of Y than by not doing so with the past values of X being used in either case. In short, if a scalar Y can help to forecast another scalar X, then we say that Y Granger-causes X. If Y causes X and X does not cause Y, it is said that unidirectional causality exists from Y to X. If Y does not cause X and X does not cause Y, then X and Y are statistically independent. If Y causes X and X causes Y, it is said that feedback exists between X and Y. Essentially, Granger’s definition of causality is framed in terms of predictability.

3.3 Co-integration Test

Engle and Granger (1987) state that if several variables are all I(d) series, their linear combination may be co-integrated, that is, their linear combination may be stationary. This means that the variables exhibit long-run relationship.

Decision rule: Accept H_0 : (there is no significant co-integration relationship) if t-statistic is greater than asymptotic critical - value or if the P-value is less than the level of significance, otherwise accept

H_1 : (there is significant co-integration relationship) if test statistic is less than the asymptotic critical values or if the P-value is greater than the level of significance. Testing sequence terminates if the null hypothesis cannot be rejected for the first time.

4. Presentation and Analysis of Results

The attempt to study the impact of health policy on Nigeria economic growth, led the researcher to subject the data collected to Unit Root, Co-integration, Error Correction, and Granger causality tests. The variables considered in this research work are: Gross Domestic Product (GDP) at current basic prices (dependent variable) and the independent variables include Government expenditure on health care (GEH), death rate (DR), and Birth rate (BR). The empirical results are presented below:

Unit Root Test

In other to test for the presence or absence of unit root in the data used for the empirical analysis, Augmented Dickey-Fuller (ADF) test was employed and the test result is as presented below:

Table1: Augmented Dickey Fuller Unit Root Test (Trend and intercept)

Variables	ADF @ Level	1 st difference	2 ND Difference	Critical value (1%)	Critical value (5%)	Order of integration	Remarks
(GDP)	1.302175	3.344333	6.031445	4.323979	3.580623	I(1)	Stationary
GEH	0.550238	1.985783	3.631741	4.309824	3.574244	I(1)	Stationary

(DR)	3.136518	5.001453	-	4.296729	3.568379	I(1)	Stationary
(BR)	2.177817	6.765960	-	4.296729	3.568379	I(1)	Stationary

Source: Researchers Own Computation

From table 1 above, at 5 percent level of significance, none of the variables intended for this regression was stationary at level since by comparison, their critical values was greater in absolute values than their augmented dickey fuller (ADF) test statistics. However, at first difference, two of the variables (DR, and BR) became stationary, while at second difference also two of the variables are stationary. Thus, two of the series (GDP and GEH) are stationary and integrated of the first order, I(1) while two of the series (DR and BR) are also stationary and integrated of the second order I(1). Since the variables are stationary, the Johansen co-integration was conducted to test for the long-run relationship.

Co-integration Result

Co-integration was used to test for the long run relationship between the variables considered. For this purpose, the Johansen co-integration test was adopted. In Johansen's Method, the eigenvalue statistic is used to determine whether co-integrated variables exist. Co-integration is said to exist if the values of computed statistics are significantly different from zero or if the trace statistics is greater in absolute value than the critical value at 5 percent level of significance. The model with lag 1 was chosen with the linear deterministic test assumption and the result is presented below.

TABLE 2

Series: GDP GEH DR BR				
Lags interval (in first differences): 1 to 1				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.663406	67.89287	47.85613	0.0002
At most 1 *	0.461969	34.13768	29.79707	0.0149
At most 2	0.257079	14.92267	15.49471	0.0608
At most 3 *	0.168239	5.710524	3.841466	0.0169
Trace test indicates 3 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Source: Researchers Own Computation

The results of the co-integration in the table above indicated that the trace statistics is greater than the critical value at 5 percent level of significance in three of the hypothesized equations. This confirms

that there is at least three co-integrated relationship among the various variables used to model the relationship between monetary policy and economic growth in Nigeria for the period under study. Specifically, they are $67.89287 > 47.85613$, $34.13768 > 29.79707$, and $5.71054 > 3.841466$. Also, their p-value are less than 0.05 (0.0002, 0.0149 and 0.0169) respectively. In other words, the null hypothesis of no co-integration among the variables is rejected. Hence, the test result shows the existence of a long-run equilibrium relationship in three co-integrating equations at 5% significance level. The normalized co-integrating coefficients for one co-integrating equation given by the long-run relationship is

$$\text{GDP} = 1600.086\text{GEH} + 65173.02\text{DR} - 177100.7\text{BR}$$

(219.128) (52916.5) (123536.0)

Where GDP is the dependent variable, 1600.086 is the coefficient of (GEH), 65173.02 is the coefficient (DR) and -177100.7 is the coefficient (BR). The values in this relationship were extracted from the Johansen's Co-integration Test under the "Normalized Co-integration Coefficients: 1 Co-integrating Equation" sub-section. They are coefficients showing the direction and strength of the relationship between the explanatory variables and dependent variable in the long-run.

Granger Causality

The granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another reflected by measuring the ability of predicting the future values of a time series using past values of another time series. In order to capture the causal effect, the granger causality was employed and the result is presented below.

TABLE 4

Pairwise Granger Causality Tests

Date: 05/10/17 **Time:** 11:56

Sample: 1981 2013

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GEH does not Granger Cause GDP	30	78.7969	0.0000
GDP does not Granger Cause GEH		0.55822	0.5792

Source: Researchers Own Computation

From the above computed result, the first hypothesis: GEH does not Granger Causes GDP is rejected since the probability value (0.0000) is less than 0.05 showing that (GEH) does granger cause Gross Domestic Product (GDP). But the second hypothesis: GDP does not Granger Causes GEH is accepted since its probability value (0.5792) is greater than 0.05. This means that Gross Domestic Product does not granger causes Government Expenditure on health (GEH) at 5% level of significance.

In conclusion, it therefore means that there is a unidirectional causality between Government Expenditure on health (GEH) and Gross Domestic Product (GDP), where the causality runs from GEH to Gross Domestic Product (GDP).

5. Conclusion and Recommendation

This study has shown that there is unequal distribution of health facilities as well as low level of accessibility of household to medical facilities in the study area. To this end, governments at all tiers should ensure equitable accessibility to health care delivery across the rural areas by deploying more medical and para-medical staffs to the rural areas. Rural development policies should promote the creation of enabling environment to enhance participation in modern health care delivery. Household heads should be encouraged to utilize modern healthcare facilities by organizing a sensitization programme to the people. Furthermore the study shows that female child has a higher probability of seeking healthcare facility ahead of their male counterpart. This suggests that the gender effect is tilted towards the female counterparts and as such there is significant likelihood of female seeking health care ahead of male. However, note should be taken that the healthcare decision of this age group is made by their parents, while the household health educational level is a determinant of healthcare seeking behaviour for the child. Empirical evidence has also revealed that the probability of seeking health care increases with household size. Further, per-capital household expenditure was not found to be significant with respect to the probability of seeking healthcare. This suggests that demand for child healthcare in Nigeria is non-linear. Number of days activities are stopped due to illness of the child increases the probability of seeking healthcare to no care. The specific location that the household is residing was found not to be a significant factor that influences the probability of seeking child healthcare. Consultation fees, transportation cost and consultation time were found not to be significant in determining facilities choice for the child. The magnitude of infant mortality in Nigeria shows that child healthcare demand has not been significantly addressed by the policy makers. Therefore; there is need for stronger commitment to child healthcare. We need to reduce the problems militating against effective performance of the health sector such as; inefficiency, wasteful use of resources, low quality of services, unmotivated workforce and poor enabling environment.

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APPENDIX I

DATA FOR REGRESSION ANALYSIS

YEARS	GDP (₦'Billions)	EXH (₦'Billions)	DR (%)	BR (%)
1981	94.33	14.47	3.5	6
1982	101.01	15.79	1.5	8
1983	110.06	17.69	2.7	8

1984	116.27	20.11	2.1	10
1985	134.59	22.30	2.0	10
1986	134.60	23.81	2.4	10
1987	193.13	27.57	3.5	12.75
1988	263.29	38.36	1.0	12.75
1989	382.26	45.90	2.3	18.5
1990	472.65	52.86	2.3	18.5
1991	545.67	75.40	3.6	14.5
1992	875.34	111.11	4.1	17.5
1993	1,089.68	165.34	2.2	26
1994	1,399.70	230.29	4.5	13.5
1995	2,907.36	289.09	3.1	13.5
1996	4,032.30	345.85	3.1	13.5
1997	4,189.25	413.28	2.2	13.5
1998	3,989.45	488.15	3.8	14.31
1999	4,679.21	628.95	3.0	18
2000	6,713.57	878.46	1.1	13.5
2001	6,895.20	1,269.32	2.9	14.31
2002	7,795.76	1,505.96	2.5	19
2003	9,913.52	1,952.92	1.9	15.75
2004	11,411.07	2,131.82	2.5	15
2005	14,610.88	2,637.91	5.2	13
2006	18,564.59	3,797.91	1.7	12.25
2007	20,657.32	5,127.40	3..8	8.75
2008	24,296.33	8,008.20	4.3	9.81
2009	24,794.24	9,419.92	3.7	7.44
2010	54,204.80	11,034.94	3.4	6.13
2011	63,258.58	12,172.49	2.0	9.19
2012	71,186.53	13,895.39	3.5	12.00
2013	80,222.13	15,158.62	8.25	12.00
2014	980960497	764978590	9.9	13.7
2015	309796770	387609209	9.9	14.7

SOURCE: CBN STATISTICAL BULLETIN. VOL 24, 2016

WHERE: GDP = GROSS DOMESTIC PRODUCT

GEH= GOVERNMENT EXPENDITURE ON HEALTH

DR= DEATH RATE, BR= BIRTH RATE

HUMAN RESOURCE PLANNING STRATEGY AND EMPLOYEE PERFORMANCE IN HEALTH ORGANISATION

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Abstract

Organizations nowadays are looking forward to have a competitive advantage against the threats present in globalization. Due to the high competency requirements, most organization aim to generate the kind of performance that can bring more service efficiency. In order to do that, the employees are required to perform well and improve, and to comply with this, the organization devised means to align employee performance with human resource planning needs. The study thus examined the effects of human resource planning on employee performance in National hospital, Abuja, using Ordinary least square (OLS) regression method. Findings from the study revealed that Training and Development System has positive and significant relationship with job productivity. It shows that, as the levels of Training and Development System increases and employee job effectiveness increases. Furthermore, the results showed that as more compensation system are being carried out with expediency, it enhances job effectiveness thereby leading to proper growth and increase in productivity. The analysis showed that Career Planning System has long run sustainable impact on employee productivity. The more effective Career Planning system are provided and implemented in public service the more their employee productivity grows in the long run. The study thus recommends that various private organizations and the Nigerian government should strive to make coherent HRP policies that fit closely with overall business strategy for increased growth this will go a long way at increasing the sustainability of job efficiency of any firms in the long run.

Keywords: Human Resource, Training and Development, Career Planning, Job Effectiveness.

Introduction

Over the years, Human Resource Planning (HRP) has been asserted to be the understanding and application of the policies and procedures that directly affect the people working within the project team and the overall workforce. It is further opined that, the management of the workforce of a firm is crucial in guaranteeing sufficient staff levels with the right skills, properly rewarded and motivated (Armstrong, 2007). Human Resource Planning (HRP) identifies current and future human resources needs so that an organization may achieve its goals. It is further emphasized that, HRP should serve as

a link between HRM and the overall strategic plan of an organization. According to Reilly (2003), asserted that HRP practices enable a firm to estimate the demand for labour and evaluate the size, nature, and sources of supply which will essentially be required to meet the demand. HRP practices include strategies on employee retention, absence management, flexibility, talent management, and recruitment and selections. HRP also creates an employer's brand.

HR practices also include open management or Management by Objectives (MBO) which encourage participative management and helps with building trust and motivating staff; providing performance incentives for completion of a task in an appreciable manner. Other HR best practices include collecting performance feedback where provision of constructive feedback from all other employees could be employed as a tool to improve individual employee and organizational performance. In order to position the organization for success, the Government of Newfoundland and Labrador (GNL, 2008) asserted that government departments have been engaged in workforce planning. It is further opined that there are three key directions that have been identified to assist government in managing the workforce changes. The directions are building the organization's potential, strengthening its competitiveness, and renewing its workforce. It is averred that, when workforce and strategic objectives are aligned, they guarantee the delivery of quality programs and services to the public since the planning would essentially assist in positioning the public service for the future.

A study on the effect of employee resourcing strategies on the performance of commercial banks in Nigeria established that, employee resourcing strategies have a significant positive effect on performance of the aforementioned banks. In addition, the study findings indicated that, there is a positive relationship between strategic employee resourcing and employee performance in commercial banks in Nigeria. One of Ngui (2014) recommendations was that banks should develop and document strategies for human resource planning so as to enhance employee and organizational performance. More so, Kavoo-Linge and Kiruri (2013) assessed the effect of placement practices on employee performance in Kenya's information technology (IT) sector. According to the study findings, there was a strong association between performance on one hand and job information, training and guidance on the other. It is noted in an examination of relationship between HRP practices and firm's performance that, the study on the same aspect has shifted from delving into individual practices and their influence on organizational performance to studying the entire HRP system and its effect on organizational performance (Mutua, 2012).

Devolution is said to be the statutory granting of powers (decentralization of power) by the central or national government to a government(s) at sub-national levels such as Counties. Essentially, devolved governments have the power to make legislation pertinent to their area of jurisdiction. As exemplified in the Kenya's context, devolved governments have power over almost all the human resources working in the 47 Counties (Constitution of Kenya, 2010). Katua (2014) inferred that, HRP strategies can enhance performance of a firm. According to their findings, the scholars recommended that firms ought to develop and document strategies for HRP with the object of enhancing both employee and organizational performance. The fundamental importance of human resource planning practices to the employee performance has been underscored; yet the same has hardly been studied in the context of Nigeria public service. It was, therefore, essentially important to undertake a study on the role of human resource planning (HRP) practices in performance of selected hospitals' employees in Abuja. The following hypotheses were formulated and also tested for the study:

H₀₁: Training and Development System (TDS) has no significant impact of on employee Job effectiveness

H₀₂: Compensation System has no significant impact on the job efficiency

H₀₃: Career Planning System has no long run sustainable impact on the employee job productivity

Literature Review

Concept of Human Resource Planning

Human resource planning (HRP) is described as the process of identifying current and future needs of the human resource so that an organization may achieve its goals (Reilly, 2003). Human resource planning (HRP) is a crucial process in every organization. It is essential to conduct human resource planning (HRP) since hiring the wrong employees or failure to anticipate fluctuations in hiring needs could be costly in the long run. The process of HRP ensures that, an organization's employees have the requisite skills and competencies an enterprise needs for it to succeed (Ghazala & Habib, 2012). Gupta (2008) adds that, HRP prepares appropriately employees for potential rationalization. It further enables a firm to make adequate preparations for recruitment and strategic hiring.

Human resource information system (HRIS) is a concept that is associated with human resource planning. This concept is necessitated by the dynamic environment. It is employed to facilitate effective planning of human resources. The primary essence of HRIS is to store employee data in a manner that enhances the pace of the ordinarily slow HRP. HRIS is also said to aid human resource managers in their strategic activities of training and development, succession planning, applicant tracking in recruitment and selection, and manpower planning. It can also help in identifying vacant positions and positions that are occupied in an organization (Shikha & Karishma, 2012). The role of HRIS in HRP is further underscored by Bal et al. (2012) who asserted that, HRIS support activities such as identification of potential employees, maintaining complete records on existing employees and creating programs to develop employee talents and skills. Essentially, therefore, the role of human resource planning in any organization cannot be underestimated.

Human resource planning is generally defined as the process that identifies the number of employees a company requires in terms of high quality and quantity, hence it is seen as an ongoing process of regular and structured planning. The main purpose of human resource planning is to make sure that employees have best level of interaction with their jobs. Also, this planning process confirms that employees are in right number as required i.e. there is neither a surplus of manpower nor a shortage. The three fundamental functions of human resource planning include a) labor forecast, b) managing demand for employees and available supply in market and c) keep a balance between labor supply and demand predictions. In order to gain competitive advantage over the competitors, Gould (1984) explained that different advantageous ways are found out using strategic human resource functions, thus showing that these functions play a critical role in making a company competitive. Biles (1980) elaborated that organization's ability to achieve strategic objectives is discriminated by its human resource in following three ways: cost economics, capacity for effective operations, ability to take new enterprise and change the operations. Dwevedi (2012) posits that planning for future balance by comparing the number of employees needed to the number of present employees who can be expected to stay with the organization, a project manager should give more time to the human resources experts

to work on that. Jonathan Rice (2011) stated that Human Resource Planning is a long lasting process organized in a way that properly employs the human resource of the organization. In order to create and maintain the best fit between the job and employee, planning is given special attention. The three key elements of the HR planning process are forecasting labour demand, analyzing present labour supply, and balancing projected labour demand and supply.

Impact of Human Resource Planning Process on Employee Performance

Organizations take steps for employees' training and development to increase their level of skills and productivity. In a discussion about work force planning, Shantz (2009) mentioned that when employees are provided with specific training about their work and job, they can perform better and attentively even if there is no supervision after training takes place. Performance efficiency increases after training. In a study, Marwat (2006) reported seven variables which positively relate with employee performance. Variables include selection, training, performance appraisal, career planning, compensation plans, employee participation and job definition. Sarkodie (2011) has revealed in his thesis study that firms without human resource planning organizations cannot attain their goals. In different organizations, along with employees own different skill sets, abilities and knowledge, organizational resources add to ensure sustained growth and development. Al Ahmadi (2009) emphasized that performance improvement does not result only from good performance of system, rather motivated and committed human resource also plays its part which is possible by successful implementation of human resource strategies.

According to its operational view, human resource planning investigates all the requirements of the organization and associated needs of management programs, policies and the resources that are necessary to fulfill the requirements. Human resource plans set the bases for all human resource activities. It is commonly taken that human resource planning is the prime activity of the human resource management. HR plans are required to be flexible enough so that these are made in accordance with business environment for the long term period, therefore, as far as human resource planning is concerned, it should also be an uninterrupted and continuous process.

Theoretical Model Framework

As mentioned earlier, Human Resource planning has been the topic of many studies over the years. The success of HRP has been related to many factors, of which firm size and HRP formality are the most relevant to this study. According to Dunn, Short and Liang (2008), high performing organization with successful HRP practices focus on employee training, employee compensation and employee staffing. These three variables have also been pointed out by Cardon and Stevens (2004), by stating that these variables contribute most to the success of HRM in small firms. Hence, each of these variables will be further reviewed in this section.

a) Employee Training Formality (ETF)

According to Chandler and McEvoy (2000), regular employee training has a positive effect on an individual worker's productivity. Logically, improvements in individual productivity will result in increased organizational performance (Wright, Gardner, Maynihan & Allen; 2005). Chandler and McEvoy (2000) mentioned that training provides both the socialization and skills needed for a worker

to increase productivity and quality. Looking from an HRM perspective, examples of formal training by large firms are generally provided to employees on a yearly basis and contain personal development opportunities (Wright et al., 2005). On the other hand, providing formal training to employees is a problem for small firms since it is highly costly (Mayson and Barrett, 2006).

Cassell, Nadin, Gray and Clegg (2002) mentioned that teams of employees in small firms are less likely to receive a proper, structured training compared to teams in larger firms. Moreover, organizations have regularly experienced difficulty in terms of recognizing the needs to train employees (Chi et al., 2008). Perhaps this lack of recognition is due to the organizational structure of organizations, as pointed out by Sun, Aryee, and Law (2007), stating that organizations provide less internal promotion opportunities in comparison to large organizations. The possibility to gain an internal promotion leads to employees' motivation to enhance their skills and to managers' opportunity to train their employees (Sun, Aryee, and Law, 2007). Kotey and Folker (2007) highlighted the informality of employee training in Organizations, how it is unplanned, has minimal provision and is short-term oriented. These authors also stated that there is a linear relationship between the size of a firm and the number of structured trainings on offer.

b) Employee Staffing Formality (ESF)

Employee staffing is an often studied HR component in the context of organizations. Although organizations could lack legitimacy as an employer, staffing is a low cost means to improve the quality of employees, in comparison to training (Cardon & Stevens, 2004). Formal staffing as defined by Wright et al. (2005), is conducting structured interviews and formal tests of applicants during the hiring process. Generally, applicants that are selected by large firms have to undergo interviews with professional recruiters, meaning that large firms generally have a more formal hiring process (Dyer & Reda, 2010). Additionally, larger firms have more resources at their disposal and can make use of a wider range of hiring channels (Wilkinson, 1999).

Organizations use recruitment and selection procedures more than any other HR practice (Cassell et al. 2002). Despite that, staffing has been identified as organizations' weakest HRM practice (Barrett & Mayson, 2007). The literature on staffing of organizations is ambiguous, as other scholars found that staffing is the most manageable and productive HR component for organizations (Cardon & Stevens, 2004; Tocher and Rutherford, 2009). Furthermore, organizations have endured problems recruiting capable employees, because they apply less appealing hiring channels, such as newspaper advertisements and walk-ins, in contrast to online advertisements and external recruitment agencies used by large firms (Bacon & Hoque, 2005). In fact, it has been stated that the most frequent staffing method by organizations is word of mouth, as it is a low-cost option of attracting candidates (Barrett and Mayson, 2007). However, it has been stated that cost-effective staffing for organizations requires at least a clear job description (Sun, Aryee & Law, 2007).

Furthermore, Tocher and Rutherford (2009) mentioned that organizations generally take a traditional approach to the recruitment process. The 'traditional' staffing method prioritizes job descriptions, setting tasks, duties and responsibilities for the employee. In summary, the traditional method starts with the recruitment process, making a selection, training employees, followed by a performance appraisal (Tocher & Rutherford, 2009). This study will examine the statement that a more formalized

staffing approach will be more likely to improve a firm's performance. As larger firms have more resources to recruit capable employees, it is stated that formal staffing is more likely to improve firm performance in larger firms.

Methodology

Population and Sample Technique

The population of the study is 1,726 medical and non medical permanent staffs of National Hospital Abuja-Nigeria. The minimum sample size for this study was determined using Yamane (1970) formula as follows

$$n = \frac{N}{1+Ne^2} \quad n = \frac{1726}{1+1726 \times 0.05^2} \quad n = \frac{1726}{1+4.315} \quad n = \frac{1726}{5.315} \quad n = 325$$

Therefore, the sample size for this study was increased to 350 staffs of National Hospital Abuja hence the 325 above is the minimum sample size.

Research Design

Descriptive research design was used in this study. The essence of this was an attempt to investigate the relationship between independent variable "Human Resource Planning (HRP) and the dependent variable "employee performance". The descriptive research design is aimed at discovering the inter-relationship between variables. Qualitative analysis was used for the study because qualitative analysis results provide support for anticipated directions of the association between independent and dependent variables, therefore the study used regression analysis (OLS) to address the three hypotheses of the study since the study is addressing relationship between the various variables.

The model specifications below were formulated to test the three hypotheses.

$$JEV = \beta_0 + \beta_1 TDS + \mu_t \text{-----} 1$$

$$JEF = \beta_0 + \beta_1 CS + \mu_t \text{-----} 2$$

$$JP = \beta_0 + \beta_1 CPS + \mu_t \text{-----} 3$$

Where:

TDS = Training and Development System

CPS = Career Planning System

JEF = Job efficiency

JEV = Job effectiveness

JP = Job productivity

Results and Discussion

Therefore, the model specifications here are formulated to test the three hypotheses and they are as follows:

$$JEV = \beta_0 + \beta_1 TDS + \mu_t \text{-----} 1$$

$$JEF = \beta_0 + \beta_1 CS + \mu_t \text{-----} 2$$

$$JP = \beta_0 + \beta_1 CPS + \mu_t \text{-----} 3$$

Where:

TDS = Training and Development System

CPS = Career Planning System

JEF	=	Job efficiency
JEV	=	Job effectiveness
JP	=	Job productivity

Statistical Test of Hypothesis

The student t-statistics obtained from the regression estimate were used to test each of the observed hypothesis and are discussed below:

Hypotheses One: H_{01} : Training and Development System (TDS) has no significant impact of on employee Job effectiveness

Model one: $JEV = \beta_0 + \beta_i TDS + \mu_i$ -----1

Table 1: Regression Result JEV and TDS

Dependent Variable: JEV

Method: Least Squares

Date: 04/20/17 Time: 20:12

Sample: 346

Included observations: 346

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.224623	1.410652	2.123640	0.0013
TDS	3.855680	1.138145	3.159301	0.0200
R-squared	0.679309	Mean dependent var		13.98708
Adjusted R-squared	0.557493	S.D. dependent var		1.542254
S.E. of regression	1.052251	Akaike info criterion		3.000201
Sum squared resid	33.21694	Schwarz criterion		3.091810
Log likelihood	-46.00322	Hannan-Quinn criter.		3.030567
F-statistic	11.32405	Durbin-Watson stat		2.219083
Prob(F-statistic)	0.000001			

Source: Authors Computation, 2017 (Eview-7.0)

$$JEV = 2.22 + 3.85TDS \text{ ----- } 2$$

$$SEE = 1.41 \quad 1.13$$

$$t^* = 2.12 \quad 3.15$$

$$F^* = 11.32; \text{Prob(F-statistic)} = 0.0002$$

$$R^2 = 0.6793; \text{Adj.}R^2 = 0.5574$$

$$DW = 2.21$$

Test of Hypotheses One: H_{01}

From the regression result in table 1, it was observed that the calculated t-value for TDS is 3.04 and whilst the tabulated value is 1.96. Since the t-calculated is greater than the t-tabulated ($3.15 > 1.96$) it thus falls in the rejection region and hence, we reject the first null hypothesis (**H0₁**). The conclusion here is that **Training and Development System (TDS) has significant impact of on employee job effectiveness**

The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction. The R^2 (R-square) value of 0.6595 shows that the TDS has a very good impact on JEV. It indicates that about 67.93 per cent of the variation in JEV is explained by TDS, while the remaining unaccounted variation of 32.07 percent is captured by the white noise error term.

Hypotheses Two: H_{02} : Compensation System has no significant impact on the job efficiency

Model Two: $JEF = \beta_0 + \beta_i CS + \mu_t$ -----3

Table 2: Regression Result CS and JEF

Dependent Variable: JEF

Method: Least Squares

Date: 04/20/17 Time: 20:15

Sample: 346

Included observations: 346

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.113057	1.146125	3.011463	0.0000
CS	3.208596	0.091929	3.287136	0.0012
R-squared	0.793685	Mean dependent var		13.11850
Adjusted R-squared	0.661395	S.D. dependent var		0.885941
S.E. of regression	0.712952	Akaike info criterion		2.221655
Sum squared resid	15.24900	Schwarz criterion		2.313264
Log likelihood	-33.54649	Hannan-Quinn criter.		2.252021
F-statistic	16.86868	Durbin-Watson stat		2.118137
Prob(F-statistic)	0.000104			

Source: Authors Computation, 2017 (Eview-7.0)

$JEF = 3.11 + 3.20CS$ ----- 4

$SEE = 1.14 \quad 0.09$

$t^* = 3.01 \quad 3.28$

$F^* = 16.86$; Prob(F-statistic)=0.0001

$$R^2 = 0.7936; Adj.R^2 = 0.6613$$

$$DW = 2.11$$

Test of Hypotheses Two: H_{02}

Mores so, from the regression result in table 2 the calculated t-value for CS is 3.12 and the tabulated value is 1.96. Since the t-calculated is greater than the t-tabulated ($3.28 > 1.96$) it also falls in the rejection region and hence, we may reject the second null hypothesis (**H_{02}**). The conclusion here is that **Compensation System has a significant impact on employee job efficiency**

The R^2 (R-square)

Furthermore, the coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is also reasonably fit in prediction. The R^2 (R-square) value of 0.7936 shows that the CS has a very good impact on CS. It indicates that about 79.36 per cent of the variation in JEF is explained by CS, while the remaining unaccounted variation of 20.64 percent is captured by the white noise error term.

Hypotheses Three: H_{03} : Career Planning System has no long run sustainable impact on the employee job productivity

Model three: $JP = \beta_0 + \beta_i CPS + \mu_t$ ----- 5

Table 3: Regression Result CPS and JP

Dependent Variable: JP

Method: Least Squares

Date: 04/20/17 Time: 20:18

Sample: 346

Included observations: 346

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.12581	2.223053	5.211301	0.0000
CPS	4.191668	0.116436	2.231518	0.0011
R-squared	0.725516	Mean dependent var		14.22460
Adjusted R-squared	0.677039	S.D. dependent var		1.493695
S.E. of regression	1.488428	Akaike info criterion		3.702068
Sum squared resid	57.60090	Schwarz criterion		3.797225
Log likelihood	-49.82895	Hannan-Quinn criter.		3.731158
F-statistic	12.201412	Durbin-Watson stat		2.123246
Prob(F-statistic)	0.0001257			

Source: Authors Computation, 2017 (Eview-7.0)

$JP = 11.12 + 4.19CPS$ ----- 6

$SEE = 2.22 \quad 0.11$

$t^* = 5.21 \quad 2.23$

$F^* = 12.20$; Prob(F-statistic)=0.00012

$R^2 = 0.7255$; $Adj.R^2 = 0.6770$

$DW = 2.12$

Test of Hypotheses Three: H_{03}

The calculated t-value for CPS was found to be 2.23 and also by rule of thumb, the tabulated value is ± 1.96 under 95% confidence interval levels. The calculated CPS is found to be greater than the tabulated value (that is; $2.23 > 1.96$), we thus, reject the third null hypotheses (H_{03}). ***In conclusion, Career Planning System has long run sustainable impact on employee productivity***

The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is not reasonably fit in prediction. The R^2 (R-square) value of 0.7255 shows that the CPS has a strong impact on JP. It indicates that about 72.55 per cent of the variation in JP is explained by CPS, while the remaining unaccounted variation of 27.45 percent is captured by the white noise error term

Discussion of Findings

From table 1, it was observed that Training and Development System has positive and significant relationship with JP. It shows that, as the levels of Training and Development System increases and employee job effectiveness increases. This is not surprising as Training and development aimed at developing a career within the firm is predicted to exert positive impacts on productivity when it's being based on the acquisition of technical (positive effect) abilities. The result suggests that the combined use of efficiency and strategically oriented Training and development practices has a magnified impact on JP, a pattern that is also observed with respect to the use of evaluation systems and pay practices (wage setting at the firm and contingent benefits). This is in agreement with Huselid (1995) whose findings showed that training and development programmes increased the firm specificity of employee skills, which, in turn, increases firm productivity and reduces job dissatisfaction that also resulted in employee turnover. More so, his findings revealed that training and developing internal personnel reduces the cost and risk of selecting, hiring, and internalizing people from external labour markets, which again increases employee productivity and reduces turnover. Barringer (2005) compared rapid-growth and slow-growth firms and found that rapid-growth firms depend heavily on the abilities and efforts of their employees to maintain their growth-oriented strategies. The fast-growth firms used training programs to achieve their objectives and emphasized employee development to a significantly greater extent than their slow-growth counterparts. Therefore, training and employee development practices are more common in rapid-growth firms than slow growth ones.

From table 2, it could be observed that Compensation System has positive and significant impact on job efficiency (JEF). It showed that as more compensation system are being carried out with

expediency, it enhances JEF thereby leading to proper growth and increase. This is in-line with Brown (2003); Cardon and Stevens (2004) whose findings showed that performance-based compensation has a positive effect upon employee and productivity (which was used to measure employee performance). Also Singh's (2004) study found a significant relationship between the two HRP practices namely training and compensation and perceived organizational and market performance

Finally, findings from table 3 showed that Career Planning System has long run sustainable impact on employee productivity. The more effective Career Planning system are provided and implemented in health service organisation the more their employee productivity grows in the long run. This finding is in agreement with other studies like Deepak (2003) who identified that relative use of Career Planning System in financial institutions displays stronger association with their employee performance and returns on investments (ROI) and Arthur (2014) found that steel mills that use an HRP Career Planning System ' have higher employee productivity levels than those that do not. Career Planning System has significant positive effects on employee productivity.

Conclusion and Recommendation

It is evident that human resource planning is gaining importance in the business community and public sector organizations because of inflation and weak economic conditions, shrinking of profits low supply of funds. It is imperative to note that effective human resource planning process is considered much important to enhance production without wastage and with minimum staff requirements to save costs.

HRM in concept and practice is about managers standing in the front lines to tackle the challenges to achieve organizational objectives .The study, to this extent, has provided evidence for the value-added by strategic HRP through the integration of HR function within the organization's key strategies and operations. Taking the finding of this study into consideration, HRP are highly important and fundamental to employee performance in health establishment. No doubt, HRP practices identified in this study should play this role creditably well and to act as catalyst. Organizations should consider the benefits of integrating their HRP function with its overall strategies and operations.

The study identified training and development, compensation and Career Planning System as major factors for high financial performance of banks; therefore banks' interest in high performance must focus on these variables as an obligation. Other specific recommendations are:

- i. Training and Development System should not be compromised if constant employee effectiveness is to be attained. The period of training and development should be increased as this will help and enable the prospective employee to be more technically qualified. In service training and development should be approved for staff and sponsored by the employers.
- ii. Staff Compensation system and qualification level should always be addressed in details.
- iii. Various organizations and the Nigerian government should strive to make coherent HRP policies that fit closely with overall operation strategy for increased growth this will go a long way at increasing the sustainability of job efficiency.

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**INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) AND OPERATIONAL
EFFICIENCY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA**

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Abstract

Information Technology has become expedient and vital in banking industry today, and as such it becomes imperative for banks to realize its impact on operational performance in order to justify capital investments. Nigeria deposit money banks experience delay in their operations which causes queues and this results into customers waiting for a long time before services are delivered to them. This study assesses the effect of ICT on operational efficiency of quoted Deposit Money Banks (DMBs) in Nigeria. Ordinary least square method of regression was used to analyse primary data collected basically through structured closed ended questionnaires of 4 point Likert Scale format administered to the respondents across the sampled DMBs in Nigeria. The study found that ICT has a significant effect on the quality of service delivery, time saved in transaction processing and cost reduction of quoted DMBs in Nigeria; while a negative effect of ICT adoption on IT hours spent was found. The study recommended that banks should make more investment in ICT in order to improve its productivity.

Keywords: Information Technology, Productivity, Deposit Money Banks, Service delivery.

1. Introduction

There is no doubt that banks play an important role in the economic development of a nation. The need for efficiency and effectiveness in the running of the banks cannot be overemphasized. Recent advances in the technological world giving birth to the emergence of Information and Communication Technology (ICT) have led to remarkable changes in the ways businesses are run in contemporary times (Jonathan, 2013). Considering the dynamism in the drivers of economies across the globe, it is notable that the world has moved currently to a knowledge-based economy of which the ICT has become one of the principal driving forces (Ovia, 2005). ICT refers to a wide range of computerized technologies that enables communication and the electronic capturing, processing, and transmission of information. These technologies include products and services such as desktop computers, laptops, hand-held devices, wired or wireless intranet, business productivity software, data storage and security, network security etc (Ashrafi & Murtaza, 2008).

With the use of ICT, businesses can interact more efficiently and it enables businesses to be digitally networked (Buhalis, 2003). With the use of ICT, the time constraint, and distance barrier to accessing relevant information is eliminated or drastically reduced hence it improves coordination of activities within organizational boundaries. Considering the nature of its operations and services, the banking

sector is relatively amenable to innovative technologies (Polasik & Wisniewski, 2008). Delgado and Nieto (2004) argued that the development of electronic communication channels has had a profound impact on the banking industry. The electronic distribution of retail banking services for example, emerged with the introduction of automated teller machines (ATMs), a technology pioneered by Barclays Bank in 1967. New Information technology has taken important place in the future development of financial services, especially banking sector, transition are affected more than any other financial provider groups. Increased use of mobile services and use of internet as a new distribution channel for banking transactions and international trading requires more attention towards e-banking security against fraudulent activities (Loudon & Loudon, 2010). The development and the increasing progress that is being experienced in the Information and Communication Technology have brought about a lot of changes in almost all facets of life (Obasan, 2011). In the Banking Industry, it has been in the form of online banking, which is now replacing the traditional banking practice. Online banking has a lot of benefits which add value to customers' satisfaction in terms of better quality of service offerings and at the same time enable the banks gain more competitive advantage over other competitors (Jonathan, 2013).

The application of information and communication technology concepts, techniques, policies and implementation strategies to banking services has become a subject of fundamental importance and concerns to all banks and indeed a prerequisite for local and global competitiveness (Agboola, 2006). Information and Communication Technology (ICT) directly affects how managers decide, how they plan and what products and services are offered in the banking industry (Obasan, 2011). It has continued to change the way banks and their corporate relationships are organized worldwide and the variety of innovative devices available to enhance the speed and quality of service delivery.

On domestic sphere, the banking industry in Nigeria has witnessed tremendous changes linked with the developments in ICT over the years. The quest for survival, global relevance, maintenance of existing market share and sustainable development has made exploitation of the many advantages of ICT through the use of automated devices imperative in the industry (Siam, 2006). The technological innovation that is being witnessed currently in the Nigerian banking sector has capacity of impacting on the banks' mode of transactions especially in their payment systems. The payment systems are made feasible by ICT gadgets such as Automated Teller Machine (ATM), Electronic Fund Transfer (EFT), Clearing House Automated Payments (CHAPs), Electronic Purse (E-PURSE), Automated Cheque Sorter (ACS) and Electronic and Transfer at Point of Sale (EFTPOS), which have made transactions easy and convenient. This phenomenon is capable of bringing about speedy operations and enhanced productivity (Adeoti, 2005; Ovia, 2005). Though there may be little interruptions at times due to network failures, which may make customers unable to carry out transactions at that point in time. This little shortcoming is not in any way comparable to the days when banking halls were characterized by long queues mainly as a result of delays in the traditional banking operations (Ashrafi & Murtaza, 2008).

Effective service delivery in information banking brings about reduced frustration and Improve level of awareness in an organization. Information technology has continued to change the way banks and their corporate relationships are organized (Ndukwe, 2005). Today, banks can provide comprehensive services to their customers through access to their accounts via online services. These instruments have

an edge over the traditional payment instruments because it is safer, more efficient, convenient and cost effective (Lin, 2008). Before the introduction of these ICT services in the banking industry, manual processing of documents were in use. The bankers were made to cope with this onerous task, and the process made business transactions minimal. Besides several hectic procedures, people had to contend with, banks' customers were inevitably made to spend several hours in the congested banking halls in carrying out their transactions (Ovia, 2005). Organizations of all types around the globe are currently utilizing ICT, not only for cutting costs, and improving efficiency, but also for providing better customer service (Ashrafi & Murtaza, 2008). Thus this study intends to examine the effect of ICT on operational efficiency of quoted Deposit Money Banks (DMBs) in Nigeria. Consequently, answers were provided to the following questions:

- i. To what extent does Quality Service Delivery of Quoted DMBs in Nigeria affected by ICT?
- ii. What is the relationship between ICT investment and Time Save in Nigeria DMBs?
- iii. What is the effect of ICT on Hours Spent on project of DMBs in Nigeria?
- iv. What is the relationship between investment in ICT and Cost Reduction in DMBs in Nigeria?

In line with the objectives of the study, the following hypotheses are postulated:

H₀₁: ICT has no significant effect on Quality Service Delivery of Quoted DMBs in Nigeria

H₀₂: There is no significant relationship between investment in ICT and Time Save of Quoted DMBs in Nigeria.

H₀₃: ICT has no significant effect on Hours Spent on project of Quoted DMBs in Nigeria

H₀₄: There is no significant relationship between investment in ICT and Cost Reduction of Quoted DMBs in Nigeria

2. Literature Review

2.1 Concept of Information Communication Technology (ICT)

Information and Communications Technology can be defined as the automation of processes, controls, and information production using computers, telecommunications, software and other gadgets that ensure smooth and efficient running of activities (Adeoti, 2005). ICT is a term that largely covers the coupling of electronic technology for the information needs of a business at all levels. ICT has surpassed the role of support services or only electronic data processing; its fields of applications are slightly global and unlimited. Its devices especially the Internet and modern computer email facilities have further strengthened early modernizations like the telephone and fax. Other ICT devices include data recognition equipment, factory automation hardware and services, telecommuting and teleconferences using observed period and online system.

According to Collin (2009), Information and Communication Technology (ICT) refers to all the technology used to handle telecommunications, broadcast media, intelligent building management systems, audio-visual processing and transmission systems and network-based control and monitoring functions. In the 21st century and with the increasing role played by research and development in the knowledge economy, the world has been inundated by technology products and services of unprecedented proportion (Ugwanyi & Agwanyi, 2013). This development has engulfed the financial sector which consistently strives to plough back the result of such novelty to enhance their performance. Technology has, therefore come to be universally known as a prime factor that boosts

performance and increases profitability, not only in the banking industry but in all other spheres of human productive activities (Ugwanyi & Agwanyi, 2013).

The history of the development of ICT in facilitating business operations can be traced to the late 1950's and throughout the 1960's when business data was processed through punched card equipment and massive main frame computers with far lower capability than today's microcomputers (Adoti, 2005). The 1970's saw the advent of the primitive user networks as terminals got connected to the massive mainframes as a result of the challenges posed by large volumes of business data. This was the foundation era of information system (IT), Management Information System (MIS) and Decision Support System (DSS). The 1980's witnessed the fusion of telecommunications and networking technologies for business deployment. Then was the emergence of data processing, Office Information System (OIS) and Personal Computers (PC). The 1990's till date, advances technology which transforms the way banks do business and how the emerging global information infrastructure has levered to shape and support potential networking technology to enhance corporate performance and competitiveness (Ugwanyi, 2013).

In the words of Obasan (2011) ICT is a concept that is having a remarkable effect on almost the entire aspects of human endeavor. This implies that it involves the application of ICT principles to engage physical components of the computer in achieving an intended goal. The merging of computer and telecommunication after about four decades of applying computers to routine data processing, mainly in information storage and retrieval, has created a new development where information has become the engine of growth around the world (Lin, 2008). ICT development has created catch-up opportunities for developing countries such as Nigeria to attain desired levels of development without necessarily reinventing the wheels of economic growth. This new technology has brought far-reaching revolution in modern societies and this has tremendously transformed most business (banking) scenes.

2.2 Empirical Review

Dewoye (2013) posits that from customer's point of view, only efficient banks can offer better services at reasonable prices and from the stakeholders, only efficient banks ensure reasonable returns. The perspective of bank managers is that in a dynamic and competitive market environment, only efficient banks will survive and maintain their market share, and inefficient ones will eventually be eliminated. The efficient banks are better able to compete because of their lower operational costs and can steal business away from less efficient banks. In sum, the relative efficiency of banks is always a matter of serious interest to the regulators, customers, stakeholders, and managers because efficiency is a broader concept; it involves optimally choosing the levels, and mixes of inputs and outputs (Adebowale, 2013). Ashrafi and Murtaza (2009) stated that ICT use has continued to permeate virtually every organization and is being applied in a wide range of areas. It has provided new ways to store, process, distribute, and exchange information within companies and with customers (Kollberg & Dreyer, 2006).

Udenwa and Uwaleke (2015) posted that banking practices are today undergoing a technological revolution. Computer terminals and high-speed information processing are transforming the industry with emphasis on convenience and speed in handling such routine transactions as making deposits; withdrawing money and paying for purchases of goods and services. This phenomenon has come to

be known as “virtual” banking or e-banking. This broadly speaking denotes the provision of banking and related services through extensive use of information technology without direct recourse to the bank by the customer. Most of the new technology is designed to reduce labor and paper costs, thereby making the banking industry more capital intensive than labor intensive.

In qualitative study conducted in Sony Company by Rios, Toledo, Compos and Alejos (2009) found that the use of ICT has help them in the education of hours spent on project by improving operational efficiency, replacing manual processes and improving management information of customers and suppliers, enabling them to generate additional increase as a result of time save using the internet to sell their products and services and thereby reaching new customers. In a related development, an investigation of factors that have effects on understanding and used of ICT in banking sector, it have been proven that the more the awareness of service, it leads to more used of modern banking and easy to understand and hence helped to shift retail banking (Rechhed & Eagar, 2012).

2.3 Theoretical Review

Innovation Diffusion Theory

According to Shy (1997), diffusion theory posits five characteristics of innovations that affect their diffusion: relative advantage (the extent to which a technology offers improvements over currently available tools), compatibility (its consistency with social practices and norms among its users), complexity (its ease of use or learning), trialability (the opportunity to try an innovation before committing to use it), and observability (the extent to which the technology’s outputs and its gains are clear to see). Diffusion studies have demonstrated that innovations affording advantages, compatibility with existing practices and beliefs, low complexity, potential trialability, and observability, will be more extensively and rapidly diffused than an innovation with the cluster of opposite characteristics (Shy, 1997).

Contingency Theory

This theory suggests that an accounting information system should be designed in a flexible manner so as to consider the environment and organizational structure confronting an organization. Accounting information systems also need to be adapting to the specific decisions being considered. In other words, accounting information systems need to be designed within an adaptive framework. Key theories in Management Information System include; Cognitive theory and Task-Technology theory (Hall, 2010). From the above theories underpinning, the theories that will guide this study are innovation diffusion theory and theory of operational control. In innovation diffusion theory, diffusion studies have demonstrated that innovations affording advantages, compatibility with existing practices and beliefs, low complexity, potential triability, and observability will be more extensively and rapidly diffused as a result of information technology in the banking industry while the theory of planned operational control holds that attitudes, subjective norms, and perceived operational control are direct determined of intentions which in turn influence accounting operation in the Nigerian banking industry.

3. Research Methodology

The study adopted descriptive research design which belongs to the generic family research design type called survey design. The population of the study is the 15 quoted DMBs in Nigeria as at 2015 which includes: Access bank, Diamond Bank, Eco Bank, Fidelity Bank, First City Monument Bank,

Guarantee Trust Bank, Skye Bank, Stanbic IBTC Bank, Sterling Bank, First Bank, Union Bank, United bank of Africa (UBA), Unity Bank, Wema Bank and Zenith Bank

Simple regression was used with the aid of E-Views to determine and analyze the effects of ICT on Operational Efficiency in terms of service quality, time save, cost reduction and IT hours spent on project of quoted DMBs in Nigeria. Thus ICT Investment was regressed against service quality, Time Save, IT hours spent on project and cost reduction.

3.1 Model Specifications

$$\begin{aligned} \text{SERQUA}_i &= \alpha + \beta \text{ICT}_i + \mu_i && \text{-----} && \text{i} \\ \text{TS}_i &= \alpha + \beta \text{ICT}_i + \mu_i && \text{-----} && \text{ii} \\ \text{ITHSP}_i &= \alpha + \beta \text{ICT}_i + \mu_i && \text{-----} && \text{iii} \\ \text{CR}_i &= \alpha + \beta \text{ICT}_i + \mu_i && \text{-----} && \text{iv} \end{aligned}$$

Where:

SERQUA = Service Quality

TS = Time Save

ITHSP = Time Hours Spent on Project

CR = Cost Reduction

ICT = Information and Communication Technology

α = Intercept or Constant

β = Slope of the regression line with respect to the independent variables

i = denotes cross-sectional dimension

t = time series dimension

μ = error term

4. Results and Discussion

ICT and Quality Service Delivery of Quoted DMBs in Nigeria

Table 1: Responses on ICT and Quality Service Delivery

Response	ICT	Quality Service Delivery	Total Frequency
Strongly Agree	63	91	154
Agree	86	54	140
Disagree	7	10	17
Strongly Disagree	4	5	9
Total	160	160	320

Source: Field Survey, 2016

Table 1 presents data with respect to ICT and quality service delivery of quoted DMBs in Nigeria. The total number of respondents that agreed that ICT Adoption has significant effect on quality service delivery is 54 and 91 of them strongly agreed. 10 disagreed and 5 strongly disagreed.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.821 ^a	.674	.672	.42995

a. Predictors: (Constant), ICT

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	60.286	1	60.286	326.121	.000 ^a
	Residual	29.208	158	.185		
	Total	89.494	159			

a. Predictors: (Constant), ICT

b. Dependent Variable: SERQUAL

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.416	.171		2.430	.016
	ICT	.918	.051	.821	18.059	.000

a. Dependent Variable: SERQUAL

The regression line $SERQUAL = 0.416 + 0.918ICT$ indicates that quality of service delivery of quoted DMBs in Nigeria will increase by 0.918 units for every 1 unit increase in Information Communication Technology (ICT). The significant value or P-value of 0.000 is less than the t-value of 0.05. The study, therefore, rejects Null Hypothesis that the effect of ICT on quality of service delivery of quoted DMBs in Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.934 that shows a strong relationship and the coefficient of determination (r^2) of 0.821 which indicates that about 82.1% of variation in the quality service delivery can be explained by ICT or the ability of the regression line to predict the SERQUAL is about 82.1%. In the absence of the ICT, SERQUAL of quoted DMBs in Nigeria will remain 0.416 as indicated by constant (α).

ICT and Time Save of Quoted DMBs in Nigeria

Table 2: Response on ICT and Time Save

Response	ICT	Time Save	Total Frequency
Strongly Agree	63	90	86
Agree	86	55	116
Disagree	7	8	73
Strongly Disagree	4	7	45
Total	160	160	320

Source: Field Survey, 2016

Table 2 presents data with respect to ICT and Time Save of quoted DBMs in Nigeria. The total number of respondents that agreed that ICT Adoption has significant effect on Time Save is 55 and 90 of them strongly agreed. 8 disagreed and 7 strongly disagreed.

Model Summary

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.828 ^a	.685	.528	27.58699

a. Predictors: (Constant), ICT

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3315.916	1	3315.916	4.357	0.00
	Residual	1522.084	2	761.042		
	Total	4838.000	3			

a. Dependent Variable: TS

b. Predictors: (Constant), ICT

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.523	20.793		.362	.752
	ICT	.812	.389	.828	2.087	0.00

a. Dependent Variable: TS

The regression line $TS = 7.523 + 0.812ICT$ indicates that time to resolve a problem of quoted DBMs in Nigeria will increase by 0.812 units for every 1 unit increase in information communication technology (ICT). The significant value or p-value of 0.000 is less than the significance level of 0.05. The study therefore, reject the null hypothesis that the effect of ICT on time save of quoted DBMs in Nigeria is significant. This is corroborate by the correlation coefficient ($r = 0.828$) that shows a strong relationship and coefficient of determination (R^2) of 0.685 which indicates that about 68.5% of variation in time save can be explained by ICT or the ability of regression line to predict time save is about 68.5%. in the absent of the ICT time save of quoted DBMs in Nigeria will remain 7.523 as indicated by constant (α).

ICT and IT Hours Spent on project of Quoted DBMs in Nigeria

Table 3: Responses on ICT and IT Hours Spent

Response	ICT	IT Hours Spent	Total Frequency
Strongly Agree	63	30	93
Agree	86	25	111
Disagree	7	70	77
Strongly Disagree	4	35	39
Total	160	160	320

Source: Field Survey, 2016

Table 3 presents data with respect to ICT and IT hour spent on project of quoted DMBs in Nigeria. The total number of respondents that agreed that ICT Adoption has significant effect on IT hour spent on project is 25 and 30 of them strongly agreed. 70 disagreed and 35 strongly disagreed.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869 ^a	.755	.754	.32277

a. Predictors: (Constant), ICT

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	50.783	1	50.783	487.460	.000 ^a
	Residual	16.460	158	.104		
	Total	67.244	159			

a. Predictors: (Constant), ICT

b. Dependent Variable: IT Hours Spent

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.652	.128		5.077	.000
	ICT	-.842	.038	-.869	-22.078	.000

a. Dependent Variable: IT Hours Spent

The regression line $ITHS = 0.652 - 0.842ICT$ indicates that IT Hours Spent of quoted DMBs in Nigeria will decrease by 0.842 units for every 1 unit increase in Information Communication Technology (ICT). The significant value or P-value of 0.000 is less than the t-value of 0.05. The study, therefore, rejects Null Hypothesis that the effect of ICT on IT Hours Spent of quoted DMBs in Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.869 that shows a strong relationship and the coefficient of determination (R^2) of 0.755 which indicates that about 76% of variation in IT Hours Spent can be explained by ICT or the ability of the regression line to predict IT Hours Spent is about 76%. In the absence of the ICT, IT Hours Spent of quoted DMBs in Nigeria will remain 0.652 as indicated by constant (α).

ICT and Cost Reduction of Quoted DMBs in Nigeria

Table 4: Responses on ICT and Cost Reduction

Response	ICT	Cost Reduction	Total Frequency
Strongly Agree	63	96	159

Agree	86	45	131
Disagree	7	12	19
Strongly Disagree	4	7	11
Total	160	160	320

Source: Field Survey, 2016

Table 4 presents data with respect to ICT and cost reduction of quoted DMBs in Nigeria. The total number of respondents that agreed that ICT Adoption has significant effect on cost reduction is 45 and 96 of them strongly agreed. 12 disagreed and 7 strongly disagreed.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783 ^a	.613	.610	.50812

a. Predictors: (Constant), ICT

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	64.581	1	64.581	250.130	.000 ^a
	Residual	40.794	158	.258		
	Total	105.375	159			

a. Predictors: (Constant), ICT

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.303	.202		1.501	.135
	ICT	.950	.060	.783	15.815	.000

a. Dependent Variable: Cost Reduction

The regression line $CR = 0.303 + 0.950ICT$ indicates that Cost Reduction of quoted DMBs in Nigeria will increase by 0.950 units for every 1 unit increase in Information Communication Technology (ICT). The significant value or P-value of 0.000 is less than the t-value of 0.05. The study, therefore, rejects Null Hypothesis that the effect of ICT on Cost Reduction of quoted DMBs in Nigeria is significant. This is corroborated by the correlation coefficient (r) of 0.783 that shows a strong relationship and the coefficient of determination (R^2) of 0.613 which indicates that about 61.3% of variation in the Cost Reduction can be explained by ICT or the ability of the regression line to predict the Cost Reduction

is about 61.3%. In the absence of the ICT, Cost Reduction of quoted DMBs in Nigeria will remain 0.303 as indicated by constant (α).

4. Discussion of Findings

It is evident from the above results and analyses that, ICT Adoption is positively related to quality service delivery of quoted DMBs in Nigeria with statistical significance. This implies that, the adoption of ICT in the quoted DMBs in Nigeria makes the customers happy as the banks deliver effective and efficient services to them with ease and that makes customers to pay loyalty as they are satisfied with the services. This finding is consistent with the findings in previous study such as Ashrafi and Murtaza (2008) and more recently Cuevas-Vargas et al (2015). Similarly, positive and significant effect of ICT adoption on Time Save and Cost Reduction were revealed. This means that, with the adoption of ICT, quoted DMBs are able to reduce operational cost and task accomplished at a lesser time. This finding is consistent with the findings in previous study such as Adewoye (2013) and Udenwa and Uwaleke (2015). The finding aligns with the theory of Innovation Diffusion. This theory posits five characteristics of innovations that affect their diffusion: relative advantage (the extent to which a technology offers improvements over currently available tools), compatibility (its consistency with social practices and norms among its users), complexity (its ease of use or learning), trial ability (the opportunity to try an innovation before committing to use it), and observability (the extent to which the technology's outputs and its gains are clear to see). Conversely, a negative and significant effect of ICT adoption on IT hours spent on project was found. This accounts for the large number of customers being witness in the banking hall today. This finding is consistent with the findings in previous study such as Rios, Toledo, Compos, and Alejos (2009) and more recently Olanipekun (2013).

5. Conclusion and Recommendations

Based on the findings that, positive and significant effects of ICT Adoption is found on quality of service delivery of quoted DMBs in Nigeria, the study concludes that the use of ICT in the quoted DMBs in Nigeria enhances their operational efficiency and customers' convenience. This implies that, the adoption of ICT in the quoted DMBs in Nigeria increases quality of service delivery. It is equally found that there is positive and significant effect on ICT adoption on Time Save. This means that the adoption of ICT in quoted DMBs in Nigeria increases the time Saved which can be re-channelled to other productive use. The study also concludes in relation to the negative and significant effects of ICT adoption on IT hours spent on project, that adoption of ICT in the quoted DMBs in Nigeria reduces greatly the time spent to accomplish a task. This explains why unnecessary crowd in the banking hall is still found today. Similarly, positive and significant effect of ICT adoption on cost reduction was found, the study concludes that customers can remain at home and transact with their banks at a reduced cost to both customers and the bank.

In view of these conclusions drawn from the findings, the study draws a general conclusion that, ICT adoption in the quoted DMBs in Nigeria enhances operational efficiency. In the light of the findings and conclusions of the study, it is recommended that; Quoted DMBs in Nigeria should intensify efforts toward sustaining ICT in their operations to be able to improve their customers' satisfaction by providing quality services. This is to say that, when customers are given quality services, they tend to pay more loyalty and consequently that enhances the performance of the banks. There should also be

training and retraining of staff and education of customers in ICT utilization as this will enable them perform effectively, that is, doing the right thing at the right time and efficiently, that is, reduction in cost of doing business. In addition to the above, quoted DMBs in Nigeria should invest more in current ICT gadgets and applications in order to have total control of their information system thereby preventing unauthorized access to the data base of the bank and equally make the operation faster. Finally, there should be provisions of extra security layer that can prevent a third party from making use of someone else's ATM card for unauthorized withdrawals as the trend is in the increase of recent.

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IMPACT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF LISTED INSURANCE FIRMS IN NIGERIA

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Abstract

In Nigeria, the insurance sector is as old as the country itself and it is full of several activities of insurance. Most firms are not largely embracing the services of insurance compared to other countries of the world despite the pivotal roles insurance activities play in any country that believes risks is an uncertainty of life, and when the unpleasant occurrences do happen there would be something to fall back on as compensations or indemnities. With such an environment in the background, together with the weak judicial system, the interest of both the minority shareholders and creditors could be compromised. This study evaluates the impact of corporate governance on the performance of listed insurance firms using descriptive method and Person-chi square inferential statistics. Findings from the study revealed that board size have a significant impact on total investments (ROA) of insurance firms in Nigeria. It confirms that there is a positive relationship between corporate governance and performance of an organization. More so, board composition was found to have a significant influence on the reserves of insurance industry in Nigeria; while leverage as corporate governance was also found to have significantly influenced share capital of insurance industry in Nigeria. The study thus recommends that there is the for regulatory institutions to improve on supervision of the nation's insurance industry activities by strengthening its inspection and enforcement divisions. This is necessary to ensure that the code of good corporate governance for insurance industry is strictly adhered to by practitioners and other stakeholders. Compliance with code of good corporate governance would promote safe and sound insurance practice in the insurance industry.

Keywords: Return on assets, Corporate Governance, Insurance firms, Board size, Leverage

1. Introduction

Over the years, insurance has been identified as a risk transfer mechanism used primarily to hedge against an unforeseen contingency. It has been adjudged to be a social scheme which provides financial indemnity for the effects of a misfortune. The indemnity is provided from the pool of accumulated contributions of all members participating in the scheme (Isimoya, 2007). Insurance is concerned with risk, and it offers financial indemnity to those who suffer the effects of loss (Bob-Alli, 2010). In Nigeria, the insurance sector is as old as the country itself and it is full of several activities of insurance. However, most firms are not largely embracing the services of insurance compared to other countries of the world despite the pivotal roles insurance activities play in any country that believes risks is an

uncertainty of life, and when the unpleasant occurrences do happen there would be something to fall back on as compensations or indemnities.

The modern business environment poses a number of challenges that require sound decision making and appropriate corporate governance practices. According to Edwards & Clough (2005) recent failures in corporate governance have led to the proliferation of corporate governance codes which emphasize, in particular, accountability and conformance measures in organizations. The essence of these codes is to determine what entails good corporate governance in an organization. For any organization to succeed in achieving good performance, it must be able to embrace conventional good corporate governance attributes as stipulated in codes such as the Cadbury code in the United Kingdom (UK) (Edwards & Clough, 2005). The weakness of corporate governance is perhaps the most important factor blamed for the Nigerian insurance company's stagnant nature in terms of operation. Other contributory factors include: concentration of ownership and control of few individuals, lack of accountability, differences between the board and management giving rise to board squabbles and most importantly, failure of board and management in their responsibilities. In addition, lack of trust that most Nigerians have on the insurance businesses due to absence of transparency and accountability, couple with insignificant contribution that the insurance company has been making toward economic performance, there exists serious doubt if the code of Corporate Governance reform by the Nigerian Stock Exchange and the insurance regulatory institution in Nigeria, National Insurance Commission (NICOM) can be able to overcome problems facing insurance businesses.

Despite tight regulatory framework, Corporate Governance continues to weaken in Nigeria. According to Muriithi (2009), many companies have been characterized by scandals. Directors have acted illegally or in bad faith towards their shareholders. Indeed, the Insurance Regulatory Authority identified poor Corporate Governance in insurance Companies as one of the threats to achieving its strategic plan 2008-2012. The weakness of corporate governance is perhaps the most important factor blamed for the Nigerian insurance company's stagnant nature in terms of operation. Other contributory factors include: concentration of ownership and control of few individuals, lack of accountability, differences between the board and management giving rise to board squabbles and most importantly, failure of board and management in their responsibilities.

In addition, lack of trust that most Nigerians have on the insurance businesses due to absence of transparency and accountability, couple with insignificant contribution that the insurance company has been making toward gross domestic product, there exists serious doubt if the code of Corporate Governance reform by the Nigerian Stock Exchange and the insurance regulatory institution in Nigeria, National Insurance Commission (NICOM) can be able to overcome problems facing insurance businesses.

With such an environment in the background, together with the weak judicial system, the interest of both the minority shareholders and creditors could be compromised. Consequently, performance of such firms might be compromised. This study sought to bridge this huge gap by investigating the effects of corporate governance on the performance of listed insurance firms in Nigeria. The major objective of this study is to evaluate the impact of corporate governance on the performance of listed insurance firms. Accordingly, answers were provided to the following questions:

- i. To what extent has board size has significantly impacted on total investments (ROA) of insurance firms in Nigeria?
- ii. What influence has board composition on the reserves of insurance industry in Nigeria?
- iii. To what extent has leverage as corporate governance influenced share capital of insurance industry in Nigeria?

Also in line with the research questions, the following hypothesis were tested:

H01: Board size does not have a significant impact on total investments (ROA) of insurance firms in Nigeria.

H02: Board composition has no significant influence on the reserves of insurance industry in Nigeria.

H03: Leverage as corporate governance had not significantly influenced share capital of insurance industry in Nigeria

2. Literature Review

Corporate Governance Concept

Corporate governance has been looked at and defined variedly by different scholars and practitioners. However, they all have pointed to the same end, hence giving more of a consensus in the definition. Corporate Governance is largely concerned with governing the relationship between shareholders and directors. The concept of Corporate Governance is primarily concerned with the process of customs, policies, system, laws and regulations as been applied in organizations (Alo, 2007). In this regard, it is defined as the structure of relationships within the entity for making decisions and implementation. Corporate Governance also refers to how organization is run, that is, how the resources of an organization are employed in pursuance of the set goals of the organization (Chienjien, 2010). Okpanachi, Samuel and Suleiman (2013) stated that, Corporate Governance structure specifies the distribution of rights and responsibilities among different participants such as the shareholders, boards, managers and other stakeholders in the corporation and spells out the rules and procedure for making decisions on corporate affairs.

Corporate Governance includes corporate discipline, transparency, independence, accountability, fairness, social responsibility, timely and accurate disclosure of all material matters relating to a company including the situation of financial performance, ownership and governance arrangements (Hassan, 2010). Good corporate governance regulates the relationship between organizations stakeholders, their boards' members and management team (Hassan 2010). According to Oladejo (2008), Corporate Governance would include the relationship between stakeholders, creditors and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate Governance would also encompass the issue of social responsibility, including such as aspects as the dealings of firms with respect to culture and the environment.

Concept and History of Insurance

Insurance has been defined as a social scheme which provides financial indemnity for the effects of a misfortune. Insurance is concerned with risk, and risk is associated with all human endeavors. Therefore, risk is defined as uncertainty of loss. Bob-Alli (2010) stressed that insurance was designed to eliminate the uncertainty of loss which is with us every day. She went ahead to state that what

insurance does is to offer financial indemnity to those who suffer the effects of loss and peace of mind for the fortunate member of the pool.

Empirical Literature

Board size and Insurance Performance

There is evidence of research on the role of corporate governance in the financial performance of organizations. For instance, Okwee (2011) carried out a study on corporate governance and financial performance of saccos in Lango sub region of Uganda. The study involved a sample size of 63 SACCOs that were drawn from a population of 75 SACCOs in Lango sub region. The study made use of questionnaires that were distributed to each of the SACCOs, through drop and pick method. The findings from the analyzed data revealed that a significant number of SACCOs were found to comply less with corporate governance guidelines, risk was found to be weakly and negatively correlated with corporate governance and financial performance where as corporate governance and financial performance were found to be strongly positively correlated.

The study also outlined a number of corporate governance practices that are likely to impact on the financial performance of organizations. These practices include CEO dualism, board size and the skills of the board members.

Another study was also carried out by Oskar (2012) in Poland. The aim of the study was to establish the relationship between corporate governance and a firm's performance and dividend payouts during the financial crisis in Poland. Corporate Governance was measured using the Corporate Governance Index (CGI). The study also sought to construct a comprehensive measure of the corporate governance for 298 non-financial companies listed on Warsaw Stock Exchange from the year 2006-2010. The findings from the study confirm that there is a positive relationship between corporate governance and performance of an organization. It was also evident that higher corporate governance leads to an increase in cash dividends. The study was also able to establish a link between corporate governance and with return on assets during the global financial meltdown that also affected Poland. The study revealed that during the financial crisis, companies with good corporate governance still managed to pay dividends less generously than firms with lower corporate governance standards.

Board Composition and Insurance Performance

In an attempt to compare the effects of board structure on firm performance between Japanese and Australian firms, Bonn, Yokishawa and Phan (2004) found that board size and performance (measured by market-to-book ratio and return on assets) was negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms the ratios of outside directors and female directors to total board numbers have a positive impact.

Board Composition and Insurance Performance

Staikouras (2007) found that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency. Krivogorsky (2006), Lefort and Urzua (2008) and Limpaphayom and Connelly (2006) also found a positive relationship

between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that Non-Executive Directors is significantly related to firm performance that is measured by ROA. On the other hand, Coles et al. (2001) demonstrated that there is a negative impact of outside directors on firm performance. Erickson et al. (2005) also found a negative relationship between greater board independence and firm value.

Theoretical Framework

Stewardship Theory

Stewardship theory states that managers are motivated by a desire to achieve and gain intrinsic satisfaction by performing challenging tasks; hence, their motivation transcends mere monetary considerations. Stewardship theory recognizes the need for executives to act more autonomously to maximize the shareholders returns. Here, the managers are more concerned with the interest of the shareholders than their own personal interest, hence, eradicating the problem of sub-optimization, because this relationship is based on trust. Consequently, managers require authority and desire recognition from fellow colleagues and superiors to effectively perform their tasks. Hence, shareholders must authorize the appropriate empowering governance structure, tools, authority and information to facilitate managers' dependency, built on trust, to take decisions that would minimize their liability while achieving firm's objectives (Donaldson and Dave, 1991). Unlike agency theory, stewardship theory emphasizes the role of top management as stewards because they are expected to integrate their goals as part of the organization.

Stakeholders Theory

This theory postulates that managers in organizations have a network of relationships to serve; this include employees, shareholders, suppliers, business partners and contractors. The theory was developed by Freeman (1984). This theory is set to protect the interest of stakeholders. Stakeholder theory proposes the representation of various interest groups on the organization's board to ensure consensus building, avoid conflicts, and harmonize efforts to achieve organizational objectives (Donaldson and Preston, 1995). The shareholder model of corporate governance relies on the assumption that shareholders are morally and legally entitled to direct the corporation since their ownership investment is an extension of their natural right to own private property.

Berle and Means (1932) point out that the notion the shareholders govern the corporation is largely a fiction; typically, executives have the greatest power. Etzioni (1998) questions whether executives can and should be made more accountable and responsive to some groups other than themselves, and which groups this should include. Etzioni (1982) supports the stakeholder view. He accepts the moral legitimacy of the claim that shareholders have certain rights and entitlements because of their investment, but he maintains that "the same basic claim should be extended to all those who invest in the corporation." This includes: employees (especially those who worked for a corporation for many years and loyally); the community (to the extent special investments are made that specifically benefit that corporation); creditors (especially large, long-term ones); and, under some conditions, clients. A prominent critic of stakeholder theory is Goodpaster (1991) who argues that a multi-fiduciary stakeholder approach fails to recognize that the "relationship between management and stockholders

is ethically different in kind from the relationship between management and other parties (like employees, suppliers, customers, etc.)” Goodpaster contends that managers have many non-fiduciary duties to various stakeholders but their fiduciary duties are only to shareholders. Boatright (1994) suggests that the shareholder-management relation is not “ethically different” and there is no reason in principle to adopt the distinction between fiduciary and non-fiduciary duties and the distinction between shareholders and other constituencies. He states that: “Many of the fiduciary duties of officers and directors are owed not to shareholders but to the corporation as an entity with interests of its own, which can, on occasion, conflict with those of shareholders.

3. Research Methodology

This paper adopted a descriptive research design. According to Mugenda and Mugenda (2003), descriptive research is a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. A descriptive study determines and reports the way things are. The choice of the descriptive study design was based on the fact that the research was interested on the state of affairs already existing in the field and no variable was manipulated. The target population for this study is insurance firms in Nigeria and the accessible population are selected insurance firms in Abuja, Nigeria for the year 2017. The study adopted a stratified random sampling technique to come up with the required sample since the population was heterogenous. The goal of stratified random sampling is to achieve desired representation from various subgroups in the population (Mugenda and Mugenda, 2003). Subjects are selected in such a way that the existing subgroups in the population are more or less reproduced in the sample. The Smith (1984) formula was used in the determination of the sample size for the study. Out of population of 557 purposively selected populations, a sample of 124 was arrived at.

4. Results and Discussion

Statistical Test of Hypotheses

The three null hypotheses formulated in this study were tested using Pearson-chi square statistics. It is commonly used for testing statistically significant relationship between variables hence, the justification for its application in testing the stated null hypotheses. Pearson Chi-Square is given.

Decision Rule: The Probability Value (PV) will be used to determine the level of significance the relationship. If the PV is < 0.05 , it implies that the regressor in question is statistically significant at 5% level; otherwise, it is not significant at that level.

Hypothesis One: H01: Board size does not have a significant impact on total investments (ROA) of insurance firms in Nigeria.

Table 3: Chi-Square Results for H01

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.098 ^a	2	0.008
Likelihood Ratio	8.036	2	0.018
Linear-by-Linear Association	4.909	1	0.027

N of Valid Cases	124		
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a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 0.29.

Source: Field Survey & Chi-Square Computation using SPSS, 24

In the chi-square result presented above, the Pearson Chi-Square value is 5.098, with an associated significance level of 0.008 (this is presented in the column labelled Asymp. Sig. (2-sided). To be significant the Sig. value needs to be 0.05 or smaller. In this case the value of 0.008 is less than the alpha value of 0.05, so we can conclude that our result is significant. This means that Board size have a significant impact on total investments (ROA) of insurance firms in Nigeria.

Hypothesis Two: H02: Board composition has no significant influence on the reserves of insurance industry in Nigeria

Table 4: Chi-square Results for H02

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	37.494 ^a	2	.000
Likelihood Ratio	44.465	2	.000
Linear-by-Linear Association	31.166	1	.000
N of Valid Cases	124		

a. 1 cells (16.7%) have expected count less than 5. The minimum expected count is 1.42.

Source: Field Survey & Chi-square Computation using SPSS, 24

In the chi-square result presented above table 30, the Pearson Chi-Square value is 37.494, with an associated significance level of 0.000 (this is presented in the column labelled Asymp. Sig. (2-sided). Since the significant value of 0.000 is less than the alpha value of 0.05, so we can conclude that our result is significant. This means that Board composition has a significant influence on the reserves of insurance industry in Nigeria.

Hypothesis Three: H03: Leverage as corporate governance had not significantly influenced share capital of insurance industry in Nigeria.

Table 5: Chi-Square Results for H03

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	15.221 ^a	2	0.002
Likelihood Ratio	9.216	2	0.024
Linear-by-Linear Association	3.889	1	0.031
N of Valid Cases	124		

a. 2 cells (41.4%) have expected count less than 5. The minimum expected count is 0.31.

Source: Field Survey & Chi-Square Computation using SPSS, 24

In the chi-square result presented above, the Pearson Chi-Square value is 15.221, with an associated significance level of 0.002 (this is presented in the column labelled Asymp. Sig. (2-sided). To be significant the Sig. value needs to be 0.05 or smaller. In this case the value of 0.002 is less than the alpha value of 0.05, so we can conclude that our result is significant. This means that Leverage as corporate governance had significantly influenced share capital of insurance industry in Nigeria.

Discussion of Findings

Findings from the study revealed that board size have a significant impact on total investments (ROA) of insurance firms in Nigeria. This is in-line with Okwee (2011) who found that corporate governance and financial performance were strongly positively correlated. Oskar (2012) findings confirm that there is a positive relationship between corporate governance and performance of an organization. It was also evident that higher corporate governance leads to an increase in cash dividends. His study was also able to establish a link between corporate governance and with return on assets during the global financial meltdown that also affected Poland. His study revealed that during the financial crisis, companies with good corporate governance still managed to pay dividends less generously than firms with lower corporate governance standards.

More so, board composition was found to have a significant influence on the reserves of insurance industry in Nigeria. This contradicts Bonn, Yokishawa and Phan (2004) who found that board size and performance (measured by market-to-book ratio and return on assets) was negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. More so, Staikouras et al. (2007) find that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency.

Lastly, leverage as corporate governance had significantly influenced share capital of insurance industry in Nigeria. This is in agreement with Krivogorsky (2006), Lefort and Urzua (2008) and Limpaphayom and Connelly (2006) who also found a positive relationship between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that Non-Executive Directors is significantly related to firm performance that is measured by ROA.

5. Conclusion and Recommendations

Good corporate governance is beneficial to insurance companies because it facilitates accountability, promotes transparency of operations, improves firm's profitability and enhances growth of the insurance industry. Corporate governance helps to protect stakeholders' interest by aligning their interest with that of managers. The study examines challenges and opportunities of corporate governance and insurance company growth. It also explores empirically the relationships between corporate governance and insurance company growth in Nigeria. The findings indicate that code of good corporate governance for the insurance industry can enhance insurance company growth in Nigeria; good corporate governance promotes safe and sound insurance practice; and effective supervision facilitates good corporate governance in Nigeria. The implication for practice suggests that effective corporate governance is necessary for proper functioning of insurance companies to promote growth and secure public confidence. Furthermore, the outcome indicates that insurance companies in Nigeria are well positioned to support the nation's economy. This implies that with good

corporate governance practices, insurance companies in Nigeria would be able to generate resources to create more employment opportunities and support the nation's economy through prompt claims settlement. Likewise, the insurance industry would be able to support the nation's economy through their financial intermediation role by channeling resources to the critical areas of the economy.

Considering the need for insurance companies in Nigeria to positively contribute to the nation's economy; it is necessary that Nigeria insurance companies must adhere to NAICOM guidelines and good corporate governance codes. Consequently, the researcher recommended the following:

- i. NAICOM should improve on supervision of the nation's insurance industry activities by strengthening its inspection and enforcement divisions. This is necessary to ensure that the code of good corporate governance for insurance industry is strictly adhered to by practitioners and other stakeholders. Compliance with code of good corporate governance would promote safe and sound insurance practice in the insurance industry.
- ii. The management staffs have important roles to play in promoting sound internal control system in insurance companies. This would ensure that laid down procedures are reviewed regularly to promote good corporate governance. It is also necessary in order to redeem the image of the insurance industry, and perception of insurance by the public.
- iii. More importantly, is the need for qualified and experience staff to manage insurance companies in Nigeria. This would facilitate better performance and rapid growth of the insurance industry.

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IMPACT OF FINANCIAL SECTOR DEVELOPMENT ON EMPLOYMENT GENERATION IN NIGERIA

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Abstract

The study examines the influence of financial sector development on employment generation in Nigeria between 1999 and 2015 using Ordinary Least Square (OLS) regression method. Findings from the study showed that money supply has a significant relationship with Nigeria's employment levels. It showed that money supply has contributed immensely to the growth of employment levels. However, we found insignificant evidence that bank credit to private sector exerted positively to employments. This means loans from bank to private sector did go into the hands of businessmen who invested these funds into the economy thus the insignificant impact. The direct relationship between stock market capitalization and employment creation shows that an increased activity in the financial sector leads to higher employment levels, other things being equal. This is an indication that the lending activities of the banks have not really impacted on the economic progress of the country. Meanwhile, banks are expected to channel mobilized savings to investors in form of loans and advances. Hence, the pointer is to identify those constraints and bottlenecks that are making it difficult for banks to make loans available to private market participants. Therefore, there is the need for consistent, transparent and fair policy to all the players in the sector, the need to develop viable and responsive financial services for the poor in Nigeria, government should pay off all creditor contractors so that they can pay banks and take new loans and also restore some of them to good financial health.

Keywords: Financial Development, Employment Generation, Money supply, Stock market.

1. Introduction

The financial sector of any economy in the world plays a vital role in the development and growth of the economy. The development of this sector determines how it will be able to effectively and efficiently discharge its major role of mobilizing fund from the surplus sector to the deficit sector of the economy. This sector has helped in facilitating the business transactions and economic development (Aderibigbe 2004). A well-developed financial system performs several critical functions to enhance the efficiency of intermediation by reducing information, transaction and monitoring costs. If a financial system is well developed, it will enhance investment by identifying and funding good business opportunities, mobilizes savings, enables the trading, hedging and diversification of risk and facilitates the exchange of goods and services. All these result in a more efficient allocation of resources, rapid accumulation of physical and human capital, and faster technological progress, which in turn results in economic growth. Development in the real sector, as noted by Ajayi (1995), influences the speed of growth of the financial sector directly, while the growth of the finance, money and financial institutions influence the real economy.

The goal of achieving full employment among other macroeconomic goals is an important one in many developing nations where unemployment and underemployment have been a major cause and consequence of widespread poverty. In spite of the importance of employment, the implementation of policies on employment creation in many developing nations has not yielded much impact as there is a wide gap between the available job opportunities and the actual number of those seeking for jobs in most-poor nations. Employment is one of the most important social and economic issues in every country. As a result, measures of utilization and non-utilization of labour are usually of considerable concern to researchers and policy makers. The stock of unemployment usually attracts smaller attention than the flow; that is, how the rate of unemployment is moving. It is not easy to measure the rate of unemployment because of the conceptual problems of defining who is employed, unemployed or underemployed. Employment refers to the number of people who either work for pay in cash or kind, work on their own account or are unpaid family workers (NBS, 2012).

In Nigeria, Iyoha (1978) opined that employment generation is a significant drive of the growth rate of GDP in Nigeria. However, in the Nigerian economy, most employment is in the informal sector. A large proportion of these people are under self-employment with very low income (Jodie and Ogunrinola, 2011). Individuals and firms were motivated to go into informal economic activities for survival purposes following the economic downturn experienced by the country. Structurally, the country shifted from the agricultural sector to the petroleum industry following the oil boom in 1973. This resulted in unemployment, as persons moved from the agricultural sector in search of opportunities that were none existent in the official sector, thereby increasing the number of shadow economic activities. Thus, most of the time, decent works are very hard to come by in the country. The study thus provides answers to the following questions:

- i.** What relationship exists between money supply and employment generation in Nigeria?
- ii.** To what extent has private sector credit ratio impacted on employment generation in Nigeria?
- iii.** To what extent has stock market capitalization significantly influenced employment generation in Nigeria?

In-line with the research questions, the following hypotheses as shown below were tested:

H0₁: Money supply has not significantly enhanced employment generation in Nigeria

H0₂: Private sector credit has no significant impact on employment generation in Nigeria

H0₃: stock market capitalization has no significant relationship with employment generation in Nigeria

2. Literature Review

2.1 Conceptual Framework

Development finance is defined as the extent to which financial institutions (banks) bring deficit spending units and surplus spending units together. Such a joining of spending units is likely to result in more deepening of the financial sector (Goldsmith 1969, Ghani 1992 Greenwood and Jovanovic 1990). Financial intermediation allows for financial deepening. Shaw (1973) is of the view that financial deepening involves specialization in financial functions and institutions and organized domestic institution and markets. For Nnanna and Dogo (1998) the concept of financial deepening is usually employed to explain a state of an atomized financial system (i.e.) a financial system which is largely free from financial repression. Similarly, Fisher (2001) regards financial deepening as the greater financial resource mobilization in the formal financial sector and the ease in liquidity constraints of banks and enlargement of funds available to finance projects. There are many different ways in which the financial sector can be said to deepen. For example;(a) the efficiency and competitiveness of the sector may improve (b) the range of financial services that are available may increase (c) the diversity of institutions which operate in the financial sector may increase, (d) the amount of money that is intermediated through the financial sector may increase,(e) the extent to which capital is allocated by private sector financial institutions to private sector enterprises responding to market signals may increase,(f) the regulation and stability of the financial sector may improve and (e) particularly important from the welfare perspective, more of the population may gain access to financial services, DFID (2004).

Economic activities in the country can be greatly facilitated by modern banking services. Financial deepening involves the introduction and intensive use of new financial products. In this context, it is aimed at modernizing the banking system in order to avail modern banking and financial services in the Nigerian financial market. Financial deepening cost becomes high when the administrative costs of banks are high. One of the main reasons for such high cost was the use of traditional management structure and technology methods by these banks. In this scenario, financial deepening in Nigeria was also aimed at reducing the administrative cost of the banks. As such, there is no precise definition in the literature of finance.

2.2 Empirical Review

King and Levine (1993) analyzed Schumpeter (1983) theory on the importance of financial development for economic growth. Their results show that better financial development can positively impact on economic growth. More recent studies test the hypothesis using more sophisticated econometric techniques. Levin and Zervos (1996) showed that there is a positive and significant relation between stock market growth and growth in gross domestic product. Levine (1996) argues however that the preponderance of theoretical reasoning and empirical evidence suggests a positive, first-order relationship between financial development and economic growth, which has prompted

many to suggest that the level of financial development is a good predictor of future rates of economic growth, capital accumulation, and technological change. The work equally reviews cross-country, case study, industry-level, and firm-level evidences of how financial development (or the lack thereof) crucially affects the speed and pattern of economic development.

Levine (1996) further explains how the financial system is affected by economic growth; well-developed financial systems reduce information and transaction costs, influence savings rates, investment decisions, technological innovation, and long-run growth rates. Without minimizing the role of institutions, the work advocates a functional approach to understanding the role of financial systems in economic growth. This approach focuses on the ties between growth and the quality of the functions provided by the financial system. This discourages a narrow focus on one financial instrument, such as money, or a particular institution, such as banks. Instead, Levine (1996) addresses the more comprehensive, and difficult question, namely; what is the relationship between financial structure and the functioning of the financial system? Colderon and Liu (2003) identifies three levels in the relationship between financial development and economic growth: first, it broadens the base for economic growth at the early stages of development; second, is a mutual Granger causality between economic growth and financial development; and third, financial development leads again as the society becomes technologically advanced.

Hondroyannis and Lolos (2005) show a mutual Granger causality between financial development and economic growth in Greece. While Nieuwerburgh et al. (2006) show that increase in the market stocks led to economic growth in Belgium, Güryay, safakli and Tüzel (2007) empirically examine the relationship between financial development and economic growth in Northern Cyprus using a model earlier used by Odedokun (1996) for Nigeria. Using the method of Ordinary Least Squares (OLS), the study found that the impact of financial development on economic growth is minimal in Northern Cyprus. Granger causality tests showed that financial development does not cause economic growth, but economic growth causes development. The results showed that there is a negligible positive effect of financial development on economic growth in Northern Cyprus. Although Granger causality test showed that financial development does not cause economic growth, on the other hand, there is evidence of causality from economic growth to the development of financial intermediaries. The key indicators of financial development used by Güryay, Safakli and Tüzel (2007) include the ratio of deposits to GDP (DEP), and the ratio of loans to GDP (LOA) which were considered most appropriate because data on them are widely available. The model adopted by Güryay, Safakli and Tüzel (2007) was actually a modified version of Odedokun (1996) that was re-specified by Rati Ram (1999). The ratio of deposits to GDP (DEP) and the ratio of loan to GDP (LOA) were adopted as the financial development variables in Güryay, Safakli and Tüzel (2007) because they were directly indicative of financial development. The study found that economic growth caused financial development over the period under study.

Oriavwote and Eshenake (2014) observed that financial sector development has not caused remarkable improvement in the private sector because of the statistical irrelevance of credit to the private sector on economic growth. Aliyu and Yusuf (2013) revealed with the aid of Ordinary Least Square (OLS) technique that financial sector development has remarkable impact on real sector growth. However, credit allocated to the private sector wields a significant impact while liquid liabilities and the size of

financial intermediaries exert significant positive influence. Aizenman, Pinto and Sushko (2013) examined how the cycles of financial contraction and expansion influence the economy through their effect on 8 real economic sectors in 28 countries from 1960 to 2005. The study reported that financial contractions have a higher tendency to follow periods of accelerated growth and many of the real sectors are negatively affected by financial contractions but not improved by financial expansions. Gounder (2012) appraised the impact of financial sector development on Fiji economy over the period 1970 – 2005 and put forward that financial sector development does not have substantial impact on economic output.

Udoh and Ogbuagu (2012) using an autoregressive distributed lag (ARDL) approach examined the relationship between financial sector development and industrial production between 1970 and 2009. The study discovered that financial sector development have significant adverse effect on industrial production. Samsi, Yusof and Cheong (2012) investigated how the financial and real sectors interact in Malaysia during the period 1986Q1 to 2011Q4. The findings show that real sector output has strong association with the banking sector and the banking sector is the major contributor to output growth. Onwumere, Ibe, Ozoh and Mounanu (2012) assessed the impact of financial deepening on economic growth in Nigeria between 1992 and 2008. The study found that broad money velocity and stock market liquidity foster economic growth while money stock diversification, economic volatility and market capitalisation failed to promote growth. Dehkordi, Sameti and Dehkordi (2012) found weak evidence in support of supply-leading response in Iran between 1981 and 2010 and suggested that no causality exist between the financial and real sectors.

Monnin and Jokipii (2010) found in a sample of 18 Organisation and Economic Cooperation Development (OECD) countries that there is a positive link between banking sector stability and real output growth. It was also discovered through Fed forecast errors that banking sector stability (instability) results in a significant underestimation (overestimation) of GDP growth in the successive quarters. Odediran and Udeaja (2010) revealed that financial and economic growth relate interdependently with each other. Odhiambo (2008) suggested that the causal link between financial sector development and economic growth is responsive to the choice of financial sector development index and the demand-following response tends to prevail in Kenya. Sendeniz-Yüncü, Akdeniz and Aydoğan (2006) evaluated whether credit-view hypothesis holds in 11 OECD countries from 1987Q1 to 2003Q3. The co-integration tests revealed that the banking sector and real sector are related in the long-run in all countries. The Granger causality tests provide strong evidence of the credit-view hypothesis (i.e. banking sector lead real sector) in some countries while no causality between both sectors in other countries. Calderón and Liu (2002) showed that financial deepening drives growth of 109 economies comprising both developing and industrial via two channels namely rapid capital accumulation rate and productivity growth, with the channel of productivity growth being the strongest.

2.3 Theoretical Framework

Demand-Following and Supply-Leading theory

This theory places emphasis on the demand and supply side of financial development. For demand-following theory, it can also be called “growth-led finance” hypothesis. It states that the growth of the economy generates additional and new demand for financial services, “which bring about a supply

response in the growth of the financial system” (Patrick 1966). This theory suggests a demand – following relationship between financial and economic developments. High economic growth creates the demand for modern financial institutions; their services, their assets and liabilities and arrangements, by investors and savers in the real economy. The financial market in turn responds to such demands. In this case, the evolutionary development of the financial system is a continuing consequence of the pervasive, sweeping process of economic development. The level of demand for financial services depends upon growth of real output, and commercialization and monetization of agriculture and other traditional substance sectors, (Patrick, 1996, Meier, 1984). An accelerated growth rate of real national income stimulates greater demand for external funds by enterprises and this will bring about increase in the level of financial intermediation, as firms find it increasingly difficult to pursue expansion policy from internally generated funds. Moreover, the greater the variance in the growth rates among different sector of the economy, the greater will the responsibility of the financial system to perform the role of financial intermediation by allocating savings to fast growing industries away from slow growing industries and firms. In this way, the system can thus support and sustain the leading sectors in the process of growth.

The demand following financial hypothesis assumes that there is high elasticity in the supply of entrepreneurship in the financial services “relative to growing opportunities for profits from provision of financial services”, in such a way that there is sufficient expansion in the number and diversity of types of financial institutions. It is also assumed that there is in existence favorable legal, institutional and economic environment. Supply leading theory can be described as the finance-lead hypothesis. It postulates that the existence of “financial institutions and the supply of their financial assets, liabilities and related financial services in advance of demand for them. This would provide efficient allocation of resources from surplus units to deficit units, thereby leading the other economic sectors in their growth process” (Patrick, 1996). The supply – leading phenomenon performs two functions: first, it transfers resources from traditional (non-growth) sectors to modern sectors; and second, it promotes and stimulates an entrepreneurial response in the modern sectors. The supply – leading financial intermediation can be likened to the term “innovation financing” (Schumpeter, 1912).

One of the most significant effect of supply – leading approach is that, as entrepreneurs have new access to the supply – leading funds, their expectations increase and new horizons as to possible alternatives are opened, thereby making the entrepreneur to “think big”. A number of studies have argued in favour of finance – led growth approach (see Cameron, 1963, Levine, 1997). It should however be emphasized that the rationale for the supply – leading approach to the development of a country’s financial system and hence overall economic development, lies in its potential benefits to the economy in stimulating real economic development. Otherwise, if the use of resources (especially entrepreneurial talents and managerial skills) in supply – leading finance generate more cost than benefits to the economy, then the objective of the approach is far from being achieved, and the entire supply – leading financial theory results to an exercise in futility. It can also be argued that while the supply – leading finance is not a necessity for launching a country to the path of “self-sustained economic development”, it presents an opportunity to induce real growth by financial means. Its use, analysts believe, is more result oriented at the early level of a country’s development than later. Gerschenkron (1962) observes that “the more backward the economy relative to others in the same time period, the greater the emphasis on supply - leading finance”.

3. Research Methodology

3.1 Research Design

This is the plan and structure of investigating that guides the researchers. It is a logical model of proof that permits the research to draw a reference about the casual relationship between the variables under study, to also define the extent of generalization of the research findings. The research design adopted for this work is the experimental research design. The reason is that experimental research design combines the theoretical consideration with empirical observation.

3.2 Procedure for Data Analysis and Model Specification

For the purpose of this research, the Ordinary Least Square (OLS) multiple regression model was used to estimate the variables. The estimation was conducted using the econometric computer software package, E-Views version 7.0.

3.3 Model Specification

In this paper, an attempt was made to examine the effect of development finance on employment levels in Nigeria. The study adopted supply leading theoretical model framework. This model derives from earlier studies by Gounder (2012) though with some modifications. The model specifications are formulated to test the three hypotheses and they are as follows:

$$EMP = f(MS, PSC, SMC) \text{-----1}$$

Thus, linearizing equation (1), we obtain:

$$EMP = \beta_0 + \beta_1 MS + \beta_2 PSC + \beta_3 SMC + \mu_t \text{-----2}$$

Where;

β_0 = The intercept or autonomous parameter estimate

β_1 to β_3 = are the slope of the coefficients of the independent variables to be determined

MS = Money supply or liquidity liabilities

PSC = ratio of credit to private sector. It represents the level of domestic investment. PSC has been used as a standard measure of financial development in many studies (World Bank, 1989; King and Levine, 1993). This proxy is believed to be superior to other measures of financial development. It represents an accurate indicator of the functioning of financial development because it is a measure of the quantity and quality of investment. Although it excludes bank credits to the public sector, it represents more accurately the role of financial intermediaries in channeling funds to private market participants and this is consistent with the objective of this study to evaluate the contribution of private sector in economic growth in Nigeria.

SMC = Stock Market capitalization. It is a proxy measure of the extent which the stock market allocates capital to investment projects and the opportunities for risk diversification that it provides investors. It also shows the overall size of the stock market as a percentage of GDP at constant price. Market Capitalization equals the value of listed domestic shares on domestic exchanges divided by GDP. The assumption behind this measure is that the overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy-wide basis (Levine, 1996).

EMP = Employment levels

μ_t = Error term (or stochastic term).

We then differentiate partially with respect to of each variable to obtain *apriori* sign expectation of equation (2);

$$\frac{\partial EMP}{\partial MS} = \beta_1 > 0 \text{-----} 3$$

$$\frac{\partial EMP}{\partial PSC} = \beta_2 > 0 \text{-----} 4$$

$$\frac{\partial EMP}{\partial SMC} = \beta_3 > 0 \text{-----} 5$$

4. Results and Discussion

4.1 Pre-Estimation Diagnostics Tests

4.1.1 Normality Statistics (Descriptive Statistics)

The normality statistics for the variables: EMP, MS, PSC and SMC are as shown in Table 1 below. The mean for EMP, MS, PSC and SMC are all different. This indicates that the variables exhibit significant variation in terms of magnitude, suggesting that estimation of the variables in levels will not introduce some bias in the results. The Jarque-Bera statistics for all the variables are significant; hence we reject the null hypothesis and conclude that the series are normally distributed (or have a normal distribution).

Table 1: Basic Descriptive Statistics Relating to the EMP, MS, PSC and SMC

	EMP	MS	PSC	SMC
Mean	6.383019	34327.93	61.43125	0.445000
Median	3.834550	15528.21	62.40000	0.450000
Maximum	21.34000	132351.0	70.00000	0.750000
Minimum	2.303400	1015.700	51.50000	0.090000
Std. Dev.	4.999570	42201.61	6.776796	0.181365
Skewness	1.760434	1.281562	-0.263738	-0.224193
Kurtosis	5.942299	3.322494	1.558291	2.116458
Jarque-Bera	14.03576	4.449068	1.571170	0.654464
Probability	0.000896	0.108118	0.455853	0.720916
Sum	102.1283	549246.9	982.9000	7.120000
Sum Sq. Dev.	374.9355	2.67E+10	688.8744	0.493400
Observations	17	17	17	17

Source: Computed by the Author. (E-views)

4.1.2 Unit Root Test

Unit root test is a test of stationarity or non-stationarity of series data used in the model. This is to find out if the relationship between economic variables is spurious or nonsensical. This test is conducted by adding the lagged values of the dependent variable so that the error term is serially uncorrelated. Thus, the study used or adopted Augmented Dickey-Fuller (ADF) Techniques to test and verify the

unit root property of the series and stationarity of the variables. Therefore, to examine the existence of stochastic non-stationarity in the series, the research establishes the order of integration of individual time series through the unit root tests. The tests of the stationarity of the variables adopted were Augmented Dickey Fuller (ADF) test. The variables tested are: EMP, MS, PSC and SMC are presented in table 2 below:

Table 2: Summary of Unit Root Test Results

Variable	Order of Integration	ADF Test Statistics	Critical ADF Test Statistics
EMP	I(1)	-4.956069	(-4.440739)*
MS	I(1)	-7.426269	(-3.55293)**
PSC	I(0)	-4.315183	(-3.690814)**
SMC	I(1)	-6.344767	(-4.440739)*

Source: Authors Computation, 2017 (Eview-7.0): Note: MacKinnon critical values for the rejection of hypothesis of unit root are in parenthesis in Columns 1 and 2 and the tests include intercept with trend; * significant at 1%; ** significant at 5%;*** significant at 10; Mackinnon critical

From table 2, only one variable PSC was found stationary at level form, and is of an integrated order zero {that is I (0)}. At this order of integration, its ADF test statistics (-4.315183) is greater than the critical test statistics (-3.690814) ** at 5% significant level. However, the other three variables; EMP, MS and SMC were found stationary at first difference, and there are integrated of order one, that is I (1). At this order of integration, its ADF test statistics are greater than their critical test statistics at 1%, 5% and 1% level of significance respectively. These stationary variables were then used for the linear multiple regression analysis.

4.2 Model Estimation and Interpretation

In order to obtain the numerical estimates of the coefficients of the model, the estimation of the model requires the use of various econometric methods, their assumptions and the economic implications of the estimates of the parameters.

In the earlier stated simple linear regression model, we have

$$EMP = \beta_0 + \beta_1 MS + \beta_2 PSC + \beta_3 SMC + \mu_t \text{-----} -7$$

Table 3: Regression Model Result

Dependent Variable:
Method: Least Squares
Date: 05/22/17 Time: 14:29
Sample: 1999 2015
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	77.53480	7.637612	8.374974	0.0000
MS	7.526279	11.28868	2.666710	0.0176
PSC	-5.48E-05	5.20E-05	-1.053999	0.3126
SMC	0.166834	0.376064	2.443632	0.0052

R-squared	0.603622	Mean dependent var	61.43125
Adjusted R-squared	0.504553	S.D. dependent var	6.776796

S.E. of regression	6.469434	Akaike info criterion	6.784372
Sum squared resid	502.2429	Schwarz criterion	6.977519
Log likelihood	-50.27498	Hannan-Quinn criter.	6.794263
F-statistic	41.48635	Durbin-Watson stat	2.193059
Prob(F-statistic)	0.007985		

Source: E-Views 7.0

$$EMP = 77.53 + 7.52MS - 5.48PSC + 0.16SMC - - - - - - - - - - 8$$

$$SEE = (7.63) \quad (11.28) \quad (5.20) \quad (0.37)$$

$$t^* = 8.37 \quad -2.66 \quad -1.05 \quad 2.44$$

$$F^* = 41.48$$

$$\text{Prob(F-statistic)} = 0.007985; R^2 = 0.6036; \overline{R^2} = 0.5045; DW = 2.19$$

4.2.1 Model Evaluation

The F-statistic

The F-statistic examines the overall significance of a regression model including all the K variables. Therefore, by examining the overall fit and significance of the model, it could be observed that the model has better fit. That is, the probability F-statistic value of 0.0079 is less than 0.05.

Serial correlation

Serial LM test: More so, the regression model is free of serial correlation going by the result of the serial LM test.

Table 4: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.763170	Prob. F(2,21)	0.4891
Obs*R-squared	1.829466	Prob. Chi-Square(2)	0.0006

From table 4 the Prob. Chi-square gave 0.4891, and it's greater than 0.05; thus we accept the null hypothesis that there is no serial correlation among the variables used in the model.

Durbin Watson (DW) statistic was also used to test for the presence of serial correlation or autocorrelation among the error terms.

The null hypothesis is:

$H_0 : \rho = 0$ That is, the μ' 's are not autocorrelated with first order scheme. This hypothesis is tested against the alternative hypothesis;

$H_1 : \rho \neq 0$ That is, the μ' 's are autocorrelated with a first-order scheme.

Therefore, if there is no autocorrelation, $\rho = 0$ and $DW \approx 2$.

The model also indicates the alternative hypothesis (H_1) is accepted, indicating that there is autocorrelation among the variables as captured by Durbin Watson (DW) statistic of 2.19. It shows an unbiased estimate and the model could be used for policy decisions.

4.2.2 The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction, that is, 60.36percent change in EMP was due to MS, PSC and SMC collectively, while 39.64percent unaccounted variations was captured by the white noise error term. It showed that MS, PSC and SMC had strong significant impact on the employment generation in Nigeria.

4.3 Statistical Test of Hypothesis

The three hypotheses formulated in this study were tested using student t-statistics. The level of significance for the study is 5%, for a two tailed test. The decision rule is that we shall accept the null hypothesis if the critical/t-value (± 1.96) is greater than the calculated value, otherwise reject the null hypothesis. That is, using the student t-test (t-statistic), we say that a variable is statistically significant if t^* (t-calculated) is greater than the tabulated value of ± 1.96 under 95% (or 5%) confidence levels and it is statistically insignificant if the t^* is less than the tabulated value of ± 1.96 under 95 % (or 5%) confidence levels. Thus;

H₀: $\beta_0 = 0$ (Null hypothesis)

H₁: $\beta_1 \neq 0$ (Alternative hypothesis)

Hypothesis one

H₀₁: Money supply has not significantly enhanced employment generation in Nigeria

From the regression result in table 3, the calculated t-value for MS is 2.66 and also by rule of thumb, the tabulated value is ± 1.96 under 95% confidence interval levels. Since the t-calculated is greater than the t-tabulated ($2.66 > 1.96$) it also falls in the rejection region and hence, we may reject the first null hypothesis (**H₀₁**). The conclusion is that Money supply has significantly enhanced employment generation in Nigeria

Hypothesis two

H₀₂: Private sector credit has no significant impact on employment generation in Nigeria

The regression result in table 3 also showed that the calculated t-value for PSC is -1.05 and it's less than the tabulated value of -1.96; and thus, falls in the acceptance region. Hence, we may accept the null hypothesis. The conclusion is that private sector credit has no significant impact on employment generation in Nigeria

Hypothesis three

H₀₃: stock market capitalization has no significant relationship with employment generation in Nigeria

Finally, the regression result in table 3 further showed that the calculated t-value for SMC is -2.44, while the tabulated value is 1.96. Since the SMC t-calculated is greater than the critical t-value (that

is, $2.44 > 1.96$), it thus falls also in the rejection region and hence, we may reject the third null hypothesis. The conclusion is that stock market capitalization has a significant relationship with employment generation in Nigeria

4.4 Discussion of findings

The money supply was found to have a significant relationship with Nigeria's employment levels. It showed that money supply has contributed immensely to the growth of employment levels. This is in agreement with Adelakun, (2010) whose result showed that financial sector development has a substantial positive effect on economic growth in Nigeria. The results also agree with Odeniran (2010) who researched on the relationship between the financial sector development and economic growth in Nigeria, using time series data for the period of 1960-2009. Using the Granger causality tests using ratio of broad money stock to GDP, growth in net domestic credit to GDP, used to proxy financial development, the results showed a bi-directional causality between financial development and economic growth. Ndebbio (2004) regression results also showed that financial deepening does positively affect per capita growth of output in these selected Sub Saharan African (SSA) countries, even though his parameter estimate of the variable of financial deepening was insignificant in one of his equations and he attributed this to shallow finance and the absence of well-functioning capital market in most SSA countries.

However, we found an insignificant evidence that bank credit to private sector exerted positively to employments. This means loans from bank to private sector did go into the hands of businessmen who invested these funds into the economy thus the insignificant impact. Therefore, government should make policies as well as provide a conducive business environment that would ensure banks provide more credit to private sector (loans) for businesses, who will invest such funds for productive purposes that will yield the desired or required return and this will lead to an improvement in the GDP growth. Fadare (2010) indicates that the banking reforms in the country have improved the lending pattern of banks. From the analysis it is evident that there could be relatively low level of financial deepening process in Nigeria during the period of the study. Many have argued that the process has not been a smooth one and the determinants of financial deepening have not spread well in the country.

The direct relationship between SMC and employment creation shows that an increased activity in the financial sector leads to higher employment levels, other things being equal. This is an indication that the lending activities of the banks have not really impacted on the economic progress of the country. Meanwhile, banks are expected to channel mobilized savings to investors in form of loans. Hence, the pointer is to identify those constraints and bottlenecks that are making it difficult for banks to make loans available to private market participants. Economic implications of the above findings are as follows: With the positive relationship between financial development and employment generation, it follows that financial development indicator promotes and supports economic growth in Nigeria. This result is in consonance with the findings of (Beck and Levine (2004), Levine and Zervos (1998), Nyong (1997), the potentials and prospects for growth in the Nigerian market can be explored further by increasing the degree of trading relative to the size of the economy.

5. Conclusion and Recommendations

It is incontestable that an efficient and effective financial system is essential for building a sustained employment levels. The success from the financial system can only be achieved through the safety, soundness and stability of the sector coupled with the effective and efficient management of the sector. It has also proved that the development of the financial sector will help in facilitating the real sector which will translate into having a virile employment growth. In order to ensure an accelerated employment growth, the following recommendations are suggested;

- i. That there is the need for consistent, transparent and fair policy to all the players in the sector, the need to develop viable and responsive financial services for the poor in Nigeria, government should pay off all creditor contractors so that they can pay banks and borrow new loans and also restore some of them to good financial health, there is the need for a resilient and strong institutional development of the sector, a strong emphasis on fund mobilization in order to bring help to the low income people to increase and stabilize their income and assets, the need to evolve an investment friendly interest rate regime supportive of the growth objective of the government. The lower costs of borrowing would have induced the desire for credit expansion thereby causing investment activities in the country to thrive.
- ii. Also, the security of lives and properties should be seriously attended to, government should continue to intensify its efforts at promoting confidence of the public on this sector through adequate and effective regulation and supervision, the reforms in the financial sector should be sustained so as to be able to channel more resources for investment and productive purposes.
- iii. Government should maintain stable macroeconomic policies by strengthening government institutions with a view to enhancing employment potentials in the economy.

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STRENGTHENING EMPLOYER AND EMPLOYEE RELATIONSHIP IN ORGANIZATIONS

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Abstract

Managing employee relationship is important and valuable to the organizational success and achieving organizational goals. Employees are the heart of any organization because a satisfied

employee creates satisfied customers. The employees must share a good rapport with their employers and each other, striving hard to realize the goal of the organization. This paper therefore examines the process of strengthening employer and employee relationship in an organizations using Bingham University, Karu as a Study. The paper employed descriptive survey research design; and adopted independent sample t-test to test the stated hypothesis. Findings from the study revealed that organizational culture have a significant effect on leadership. More so, direct leadership was found to have a significant impact on employer-employee relationship. The interaction between leaders and employees has influence the leader to change the employee's behavior to be someone who is capable and highly motivated and tries to achieve a high work performance and quality. Leaders change the employees so that organizational goals can be achieved together. The study thus recommends that organization should also formulate polices, which will sustain and encourage leaders to empower employees to be part owner of the organization. In addition, it is extremely important to balance management leadership style to equally reflect much interest in people in its pursuit to enhance employer-employee relationship so as to have competitive advantage.

Keywords: Organizational culture, Employer-employee, Direct leadership

1. Introduction

Employees are the focal point in the success of every organization. If the employees work together and share a good relationship with employers they can achieve their tasks much faster. It is necessary to have a strong relationship between employees and employers that leads to productivity, motivation, and better performance. Managing employee relationship is important and valuable to the organizational success and achieving organizational goals. Employees are the heart of any organisation. This is so because a satisfied employees creates satisfied customers (Tejumaiye, 2002). Employees form the building block of any organization as its due to them that the processes within the organization run smooth & efficient; this fact alone brings out the essence of employees as a valuable asset for the company. The success and failure of any organization is directly proportional to the labour put by each and every employee.

The employees must share a good rapport with their employers and each other, striving hard to realize the goal of the organization. Also, the satisfaction of an employee will be reflected in the increase of productivity, improvement of the products' quality or rendered services and higher number of innovations. Therefore, employer-employee relations should allow more participation of the employee in organisational decisions; this is when employees can influence decisions that are normally reserved for management (Marchington & Wilkinson 2008). Employee relations is characterised by both conflict and cooperation, Marchington & Wilkinson (2008) described the management of employee relations as being vital to the success or failure of an organisation. Satisfied employees form positive reference to the employer and thus increase its attractiveness for potential job seekers and strengthen its competitive position in the market. Every organization needs a leader to commit to a challenge, to foster followers and to be a powerful influence for them to translate that into productivity by sharing a certain vision of the future. Barkdoll (2006) assumed that all leaders attempt to change the culture of the organization to fit their preferences. Thus, you can predict the successfulness of a company when they possess strong leaders that have strong vision to make the organization perform better.

The relationship between the employer and the employee is important, therefore organisations and business owners need to pay attention to this relationship if they want their organisations to grow and succeed (Bhattacharya et al. 2012). There are a number of employee retention strategies that business owners can utilise in order to maintain the good relationship they have with the employees. A good relationship between the employer and employee is necessary for the smooth running of any business. Organizations with a positive and friendly corporate culture are the employers with the low levels of turnover, high loyalty of employees, and they have no issues with the productivity and performance. Only through good relationships combined with strong, sensitive leadership can a cohesive department(s) be built. The quality of relationships constitutes the fabric of an organisation (Pitts, 2008). If employer-employee relationships fall apart, the whole operation is weakened. Managers need to learn to build and maintain these relationships skilfully. Identifying what affect against a health employer- employee relationship and discourse the ways of maintain and enhancing a healthy relationship between the management/employer and their employee/ worker. Consequently, the objective of this study is to:

- i. Determine what extent organisational culture affects leadership
- ii. Determine what extent the direct leadership impacts employer-employee relationship.

The hypothesis to be brought under review includes:

H01: Organisational culture does not have an effect on leadership

H02: Direct leadership has no significant impact on employer-employee relationship.

2. Literature review

According to Stone (2015), Employee relations refers to the total relationship between an employer (and their representatives) and the employee (and their representatives) in regard to the establishment of conditions of employment. Also, employee relations refer to the relationship shared among the employees in an organization. An employer, for legal purposes; exercises control over employees, as responsibility for payment of wages and holds the power or authority to dismiss employees. Edwards (2003) described the relationship between employer and employee as a system where both parties have common and divergent interest, this is a situation where employer and employee communicate their requirement and views to one another in terms of agreement on work related issues. An employee is a worker under an employer's control. Control may involve; the location of the workplace, the way in which the work is performed and the degree of supervision involved.

The employees must be comfortable with each other for a healthy environment at work. It is the prime duty of the superiors and team leaders to discourage conflicts in the team and encourage a healthy relationship among employees. A healthy employee relationship is essential for the employees to find their work interesting and perform their level best. It is important for everyone to understand that one goes to his organization to work and conflicts must be avoided as it is nothing but a mere waste of time (MSG Experts, 2017).

Organisational Culture

One of the most important building blocks for a highly successful organisation, it's culture (Tende, 2015). Culture defines a people's way of life. Organisational culture helps in creating unity of purpose

and a sense of belonging. It can go a long way in enhancing the survival, expansion and growth of an organisation (Obisi, 2003). According to Ravasi and Schultz (2006), organisational culture is a set of shared mental assumptions that guide interpretation and actions in organisations by defining appropriate behaviour for various situations.

Furthermore, Needle (2004) defines Organisational culture as the collective values, beliefs and principles of organisational members and is a product of such factors as history, product, market, technology and strategy, types of employees, management style, and national cultures. Taylor (2001) states that contemporary research into what employees want to achieve from the employment relationship consistently report a desire, above other possibilities, for the following; an interesting job, employment security, a feeling of positive accomplishment and influence over how their job gets done. This foregoing strongly suggests that there are substantial long term dividends to be gained by employers who develop strong employee relations strategies. Organisational values can powerfully influence what people actually do within an organisation. Enhancing these values can become the most important job a manager can do. Organizational culture is, most of the time, the element that drives the organization. It creates an operational environment in which every employee strives to achieve the goal that was set by the company. The standards based on which the employees are measured and assessed are also defined by this environment (Tănase, 2015).

Goals of Organisational Culture

An organizational culture where employees are considered an integral part of the growth process of the organization fosters employee commitment towards the organization. They align their goals and objectives with those of the organization and feel responsible for the overall well-being of the organization. As their efforts are in turn appreciated by the management and suitably rewarded, they have immense job satisfaction. In such organizational cultures, the employees are committed to achieving their goals and thus have a positive effect on the overall performance of the organisation (Nag, 2011). An ideal working relationship is characterised by certain conditions:

- i. Transparent and open communications - candid information flows freely upwards, downwards and sideways. It is what makes employees feel that they belong in the organization. Work then becomes meaningful because the employees know that what they contribute affects the organization that they are affiliated with. Employers need to promote positive communication with and among co-workers so they may better understand each other's needs, as well as the needs of the employer. In this way, workers may perform their individual tasks with the understanding of how their work relates to others and what others need and expect from them.
- ii. Recognition for hard work - Rewards are necessary to encourage certain behaviours in persons. This is known as **positive reinforcement**. When hard work is appropriately rewarded and duly recognized by the management, **employees will naturally feel valued by the organization for what they put in**. Such mentality is healthy for the organization because employees will be willing to go the extra mile without worrying about not getting anything in return.
- iii. Strong team spirit - Mutual trust, the foundation of all employment relationships, is important for the proper delegation of work. Employers must trust their employees to handle crucial tasks in tandem with others. Employers need to clearly define employees' roles and responsibilities. Employees must

have faith in their employer and each other in order to perform well as a team. This gives employees a sense of identity. Healthy competition is encouraged within teams and employees.

iv. Training and Development- Learning on the job and various training for employees is continuous. Employers should want their employees to reach their full potential and recognize when their capabilities exceed their current role.

These components among others influence organisational culture. Once the organisational culture is positive, that is, employers and employees are able to understand the standpoints of each other, then; the likelihood of conflict is greatly reduced.

Leadership

Leaders come in a variety of shapes and sizes, though any good leader knows that it is the performance of the people who choose to follow that determines how great a leader he/she actually is. Leaders, in successful roles, are to be catalysts. Good leaders provide opportunities for employees to utilize their talents and strengths, and encourage them to do so (Fowler, 2001). House (2004) defined leadership as the ability to influence and motivate others to achieve a certain goal successfully. Leaders foster greatness, not for personal gain, but for the good of the people they lead. According to Jim Collins, in his book *Good to Great* (2001), refers to these people as "Level 5 leaders." Though not every leader possesses all five levels of leadership, a Level 5 leader possesses all of the other levels. Which are as follows; Level 1 –highly capable individual, Level 2 –contributing team member, Level 3 –competent manager, and Level 4 –an effective Leader. Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It's not that Level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious – but their ambition is first and foremost for the institution, not themselves" (Collins, 2001).

While leaders can be found in anyone and can come from anywhere, there are certain practices and commitments that make people leaders. The interaction between leaders and employees is characterized by the influence of the leader to change the employee's behaviour to be someone who is capable and highly motivated and tries to achieve a high work performance and quality. Leaders change the employees so that organizational goals can be achieved together. Aripin (2013 citing Gibson et al;. 1999), mentioned that leadership was an effort of influence, rather than a force to motivate people to achieve certain goals. In other words, a leader is someone who has the power to attract others with no compulsion so that they can actualize their vision together. Employees may join organizations for many reasons- great benefits, perfect hours, great pay, etc. However, the length of time the employee stays and how productive one is, is determined by one's relationship with their immediate supervisors. If the supervisor sets clear expectations, knows the employees, trusts them, and invests in them, the employees can forgive the lack of incentives. But if the relationship between supervisor and employee is broken, no amount of perks or benefits will encourage the employee to stay."It is better to work for a great manager in an old-fashioned company than for a terrible manager in a company offering an enlightened, employee-focused culture" (Buckingham, & Coffman, 2005). Leadership styles have strong effects on corporate culture because employees tend to act in ways that mirror their leaders. Staff also subconsciously wants to please supervisors and management.

Empirically, many authors have indicated to the strong relationship between organizational culture and leadership in organizations. Ogbonna and Harris (2000) revealed that the impact of leadership on a firm's performance is mediated by organizational culture. (Nguyen & Mohamed, 2011; Xenikou & Simosi, 2006) concentrated on the joint effects of culture and leadership on organizational factors such as performance, knowledge management, continuous learning, and job satisfaction. While others like Vardiman, Houghton, and Jinkerson (2006) supported the idea of a culture that facilitates the development of effective leaders on every organizational level. Block (2003) concluded that the leadership of immediate supervisors is strongly associated with the cultural perceptions of employees, but failed to link transformational and transactional leadership with distinct cultural elements. In addition, Torpman (2004) recognized that leadership becomes a factor of organizational culture and is incorporated into the daily organizational routine. Kwantes & Boglarsky (2007) related organizational culture with leadership and personal effectiveness in eight countries, revealing strong and statistically significant relationships. A study by Sarros, Gray & Desten (2002) found that the contingent reward of the transformational and transactional leadership is more prominent than culture. Also, some researchers supposed that leadership is a simple component of organizational culture, they assumed that by shaping the organizational values and constructing the social reality by leader an organization naturally became a strong organizational cultures (Çakar, 2004).

The core values of an organization begin with its leadership, which will then evolve to a leadership style. Subordinates will be led by these values and the behaviour of leaders, such that the behaviour of both parties should become increasingly in line. When strong unified behaviour, values and beliefs have been developed, a strong organizational culture emerges. Leaders have to appreciate their function in maintaining an organization's culture. This would in return ensure consistent behaviour between members of the organization, reducing conflicts and creating a healthy working environment for employees (Kane-Urrabazo, 2006). Savolainen (2000) also linked employer-employee relations with the aspect of leadership and suggested three development strategies: 1) Trust building or participative strategy, 2) The entrepreneurial cooperative strategy, 3) Negotiative strategy.

Assessment Instrument originally created by Quinn & Rohrbaugh (1981) and later modified by Cameron and Quinn (1999) to create the theoretical framework used so as to conduct the study is presented hereafter. This instrument recognizes leadership as one out of the six cultural dimensions: dominant characteristics, leadership style, employees' management, organizational glue, strategy, and criteria of success. This permits the measurement of both, leadership style and cultural type, by using a single instrument and also facilitates the understanding how leadership and culture are interconnected and how it can strengthen employer-employee relationship.

The model has two dimensions (flexibility and orientation), which create four types of culture that may exist within an organisation (Figure 1). The two dimensions create four distinct quadrants, each one representing a different type of organizational culture. Each type of organizational culture has its own characteristics and its own strengths and weaknesses:

The Clan / Group Culture

This culture is rooted in collaboration. Members share commonalities and see themselves are part of one big family who are active and involved. Leadership takes the form of mentorship, and the organization is bound by commitments and traditions. The main values are rooted in teamwork,

communication and consensus. A prominent clan culture is Tom's of Maine, the maker of all-natural hygiene products. To build the brand, founder Tom Chappell focused on building respectful relationships with employees, customers, suppliers and the environment itself.

The Adhocracy Culture

This culture is based on energy and creativity. Employees are encouraged to take risks, and leaders are seen as innovators or entrepreneurs. The organization is held together by experimentation, with an emphasis on individual ingenuity and freedom. The core values are based on change and agility. Facebook can be seen as a classic adhocracy organization, based on CEO Mark Zuckerberg's famous admonition to, "Move fast and break things – unless you are breaking stuff, you are not moving fast enough." Adhocracy culture supports a dynamic, entrepreneurial, and creative place to work.

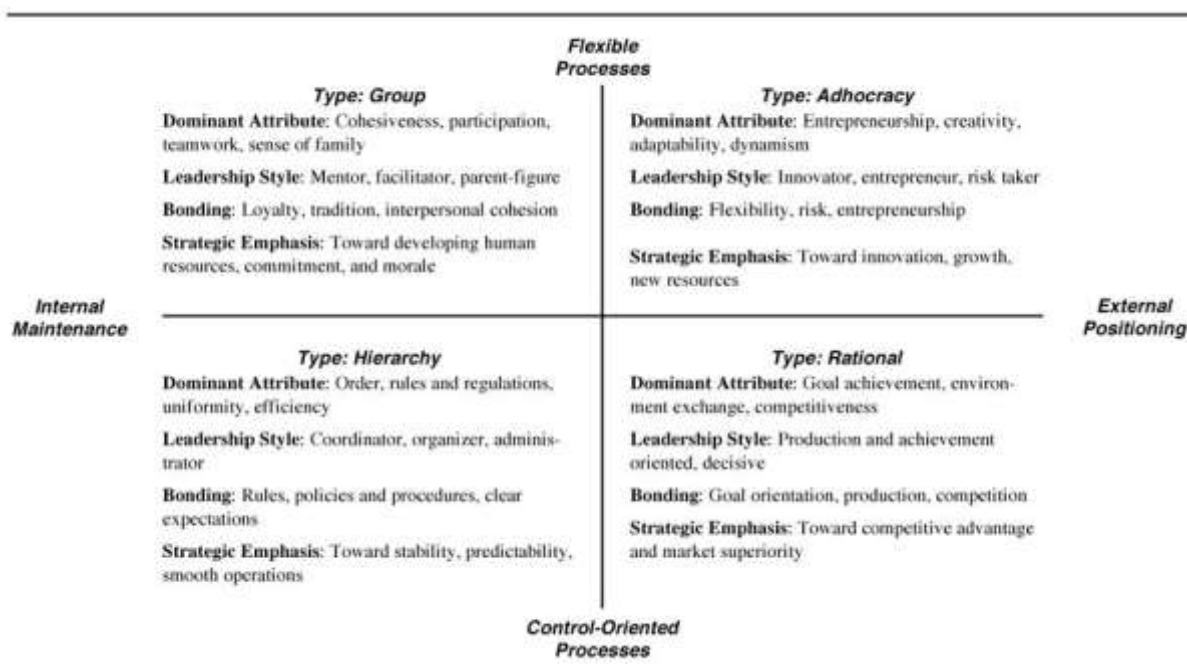
The Market/ Rational culture

This supports a results-driven organization focused on job completion and achieving concrete results. The focus is goal orientated. Leaders are demanding, hard-driving, and productive. The emphasis is on winning which unites the group. Long-term focus is on competitive action and achievement of measurable goals and targets. Example of the market culture is software giant Oracle under hard-driving Executive Chairman Larry Ellison.

The Hierarchy culture

This supports a highly structured and formal place to work. Rules and procedures govern behaviour. Leadership is based on organized coordination and monitoring, with a culture emphasizing efficiency and predictability. Stability, performance, and efficient operations are the long-term goals. The values include consistency and uniformity. Think of stereotypical large, bureaucratic organizations such as McDonald's, the military or formal organisations and in this case, Bingham University.

Figure 1: The Competing Values Culture Model*



Source: Cameron and Quinn (1999)

Building and Maintaining Better Employer-Employee Relationships

Maintaining these relationships intact for long requires awareness of the 5 basic elements that strengthen them. According to Gupta (2015) the elements in this regard are:

Mutual Respect

Socializing with your employees in a respectful manner offers the perfect way to establish a closer relationship with them. The logic behind this is very simple - you give respect and earn the same in return. Employees get more close to the management when they get the feeling of being treated in the most generous manner. Being an employer, you should be ready enough to provide honest & transparent feedback to all your employees, no matter which position in the hierarchy any employee is. Ideally, that holds true for companies of all sizes, whether small, medium or large. However, it's generally observed that mutual respect for employees is more in small to medium size companies.

Mutual Reliance

Between both the employer and employee, there should be proper reliance in the right amount of balance. Every employer relies on the employee to get all the task done for the sake of optimum business benefit while the employee relies on the employer to get fair treatment and pay. At any point of time, when this balance faces some or the other issues, problems are bound to occur both for the employee and employer. In such a scenario, the employer may start considering the employees efforts as disposable while the employee may feel bit disengaged and hence would no longer prioritize his job. Whenever something like this happens, the employer should re-evaluate the employees' role in the company as quickly as possible to avoid any chances of increased damage.

Maximum Transparency and Close Communication

Openness and transparency are the key requirements of a healthy employer-employee relationship. Creating a forum that allows employees to discuss about their families, lives and other interests in a candid manner can work wonders if done correctly. It would allow the employers to know employees better besides opening new avenues for employers to churn out opportunities for engaging employees better. It's also highly useful to keep employees in the loop in maximum business matters while seeking their valuable input for crucial company decisions.

Support As Needed

Ideally employers want employees to perform to the maximum level; it also requires recognizing the capabilities whenever they exceed the employees' current defined role. If an employee's natural abilities are left stagnant then it may lead to generation of boredom and stagnation, thus wasting the valuable energy that may be utilized for a different cause. Identify the gaps in the team to know who is performing well and who is lagging behind. It may be a hard thing to understand for employers that employees may not be a part of the organization forever. From the employees' perspective, it's crucial to contribute suitably in the company's welfare by adopting a suitable approach that even requires sacrifice at times - whether it's about stretching the working hours or offering one's own efforts in the absence of another employee.

Displaying Gratitude

Though it's considered a responsibility of the employer to display gratitude, it's also on the employees' part to maintain the same level of gratitude for the employer. It's quite common for employees to feel disheartened when they have been delivering constantly but receiving no appreciation whatsoever from the company management. Presenting gifts & rewards from time to time is an effective way to thank the employees for their good work. It's a part of the recognition process that ensures that employee efforts are being given importance.

Motivating Unproductive Employees

Are employees under performing? If that's the case, then probably the staff has been engaged in doing the same tasks repeatedly, while getting the same wages, for the past few years. They may even not be finding much hope of change in the far distant future. Hence, due to these reasons, if their productivity fluctuates any more, it's essentially required to motivate them. Syncing rewards to results is one of the easiest ways to doing this because if affording salary hikes is not within reach, do consider providing employees with performance-based bonuses/profit-sharing plans that aim at rewarding employees financially whenever they contribute in adding increased revenues to the organisation.

- i. Restructure Jobs – Jobs should match the capabilities of the employee. Offer the employee the chance to divert efforts on something more innovative that uses that skill in a much better way. Cross-training is another way to keep the routine work fresh, while benefiting the organisation as well.
- ii. Keep it Meaningful - When employees start feeling that what they do hardly matters, then interaction may help. Consider taking the team to various conferences, events and specific situations where the employees get to meet customers or people.
- iii. Offer Recognition Regularly - A study named as The Carrot Principle followed around 200,000 people for a period of 10 years. It was observed that the best managers working in some of the leading firms across the globe regularly offered proper recognition to their employees. Following this schedule once in a while is not suitable enough; rather the key is to follow the approach more frequently at different points of time.

Generating Conditions to Appreciate Employees Diligence and Commitment

As discussed earlier, there are a number of factors that affect employer-employee relationship. Employees when not satisfied or happy with the current working conditions within a company may have to turn to various means that may not be that favourable for the growth of the organization. Different actions that reveal such behaviour include high levels of absenteeism, wasting time deliberately, rule & policy violation, complaints, friction etc. These actions would further lead to a range of adverse outcomes including reduced profitability, festering discontent and problems for other employees as well. When employees engage better, they are more productive and stay in the jobs for a longer time too. Only a few organisations actually show concern to the employees good work and reward them suitably using one or the other methods.

3. Methodology

A research design should provide confidence to the scientific community that the findings derived capture the reality and possess high levels of reliability and validity (Kerlinger, 2007). Survey

descriptive research design was used in carrying out the study. Correlational was due to the fact that the researcher tested relationships between one set of variable against another. The survey approach offered the researcher the opportunity to capture a population's characteristics and test hypothesis quantitatively. The major statistical technique used in testing the hypothesis was the independent sample t-test would be used as and this was due to the fact that all the independent variables in this study are categorical variable while the dependent variable is a numerical variable.

The independent sample t-test is given by:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}}$$

Where;

$\bar{X}$ = Mean

S_1^2 = Variance

N = Sample

The justification for the use of independent sample t-test is because it measures the relationships existing between two or more variables. It is simple to compute without errors and it helps to illustrate the directional outcome and strength of the variable. It further shows a precise quantitative measurement of the degree of relationship between dependent and independent variables.

4. Analysis and Policy Discussion

In line with the statistical research, the two hypotheses formulated in this paper were approached with the aid of independent sample *t-statistics*. The level of significance for the study is 5%, for a two-tailed test and it is suggested that we shall go with the null hypothesis if the critical t-value (± 1.96) is greater than the estimated value from our analysis, else it will be rejected.

4.1 Hypotheses One: *H01: Organisational culture does not have an effect on leadership.*

Table 1: Independent Sample T- Test for *Organisational culture* and *leadership*.

Independent Samples Test					
		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F-test	Sig,	T-test	Sig. (2-tailed)
Organisational culture	Equal variances assumed	32.14	0.000	8.71	0.000
	Equal variances not assumed			7.106	0.002

Source: Authors Computation, SPSS 24

The calculated t-value for business skill in Table 1 is 8.71 and the tabulated value is 1.96 under 95% confidence levels. Since the calculated is less than the tabulated value ($8.71 > 1.96$), we therefore, reject the first null hypothesis (H01). We conclude that Organizational culture have a significant effect on leadership

Effect size statistics provide an indication of the magnitude of the differences between the two variables (not just whether the relationship could have occurred by chance).

The formula is given as:

$$Eta_Squared = \frac{t^2}{t^2 + (N1 + N2 - 2)}$$

Replacing with the appropriate values from the example above:

$$Eta_Squared = \frac{(8.71)^2}{(8.71)^2 + (171 + 171 - 2)} = 0.1824$$

For our current results, it can be observed that the effect size of 0.1824 is relatively large. Expressed as a percentage (multiply your eta square value by 100), only 18.24 per cent of the variance in leadership is explained by Organizational culture.

4.2 Hypotheses Two: *H02: Direct leadership has no Significant impact on employer-employee relationship.*

Table 2: Independent Sample T- Test for Direct leadership and employer-employee relationship.

Independent Samples Test					
		Levene's Test for Equality of Variances		T-test for Equality of Means	
		F-test	Sig.	T-test	Sig. (2-tailed)
Direct leadership	Equal variances assumed	14.524	0.000	4.87	0.0012
	Equal variances not assumed			3.421	0.0211

Source: Authors Computation, SPSS 24

More so, from the Independent Sample T- Test result in Table 2, it could be seen that the calculated t-value for direct leadership is 4.87 and the critical value is 1.96 under 95% confidence level. Since the t-calculated is greater than the critical value ($4.87 > 1.96$) it also falls in the rejection region and hence, we may reject the second null hypothesis (**H02**). The conclusion here is that direct leadership has a Significant impact on employer-employee relationship.

Estimating the effect of for our current results, the Eta value gave:

$$Eta_Squared = \frac{(4.87)^2}{(4.87)^2 + (171 + 171 - 2)} = 0.065. \text{ It can be observed that the effect size of 0.065 is}$$

moderate. Expressed as a percentage (multiply your eta square value by 100), only 6.50 per cent of the variance in employer-employee relationship is explained by direct leadership.

4.3 Discussion of Findings

Findings from the study revealed that organizational culture have a significant effect on leadership. This is in line with the findings of Vardiman, Houghton, & Jinkerson (2006) whose findings showed that culture facilitates the development of effective leaders on every organizational level. More so, Block (2003) concluded that the leadership of immediate supervisors is strongly associated with the cultural perceptions of employees. In addition, Kwantes and Boglarsky (2007) found that

organizational culture related strongly and statistically significant with leadership and personal effectiveness among eight countries used for his analysis.

More so, direct leadership was found to have a significant impact on employer-employee relationship. This is in agreement with Buckingham & Coffman (2005) whose findings showed that employees work better for a great manager in a company than for a terrible manager in a company offering an enlightened, employee-focused culture''. The interaction between leaders and employees has influence the leader to change the employee's behaviour to be someone who is capable and highly motivated and tries to achieve a high work performance and quality. Leaders change the employees so that organizational goals can be achieved together. Aripin et al; (2013) mentioned that leadership was an effort of influence, rather than a force to motivate people to achieve certain goals. In other words, a leader is someone who has the power to attract others with no compulsion so that they can actualize their vision together.

5. Conclusion and Recommendation

The core values of an organization begin with its leadership, which will then evolve to a leadership style. Subordinates will be led by these values and the behaviour of leaders, such that the behaviour of both parties should become increasingly in line. When strong unified behaviour, values and beliefs have been developed, a strong organizational culture emerges. Leaders have to appreciate their function in maintaining an organization's culture. As long as employees are producing agreed upon appropriate behaviour, management will support and trust their behaviour which would help to build healthy relationships. If they do not produce appropriate behaviour, their supervisor will likely observe them more closely. This type of leadership is a tool to improve communication of expected outcomes between employees and their managers; depending on the situation, management may increase or decrease their direction or involvement. The direct leadership thus helps others to visualize and understand their complexity of different styles of management. In-line with the findings, the following recommendations were made:

- i. Organization should also formulate policies, which will sustain and encourage leaders to empower employees to be part owner of the organization that would create complete functioning process, which depends upon many parts to create results.
- ii. More so, it is extremely important to balance management leadership style to equally reflect much interest in people in its pursuit to enhance employer-employee relationship so as to have competitive advantage. It is extremely important to balance the ability to get things done (tasks) with keeping the team together (people).

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SOCIO-ECONOMIC DETERMINANTS OF RURAL WOMEN ACCESS TO FORMAL AGRICULTURAL CREDIT

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Abstract

Rural women in Kaduna state are actively involved in agricultural production. They constitute the bulk of agricultural producers in the state. Most of these women are poor and the only alternative for raising capital has continued to elude them. Obtaining loan from the banks (formal) was more

problematic than the informal source that is, the non organised sector. This study therefore, investigated rural women access to formal credit. Primary data were collected through the use of structured questionnaire and Focus Group Discussion (FGD). A multi-stage random sampling technique was applied in the selection of eighty (80) women farmers. Each Local Government Areas had (40) respondents. The analytical tools used are frequencies, crosstab and percentages. The chi-square was also used to test the null hypotheses that there was a significant relationship between socio-economic factors and access to credit. It was discovered that 17 percent of rural women sourced credit from formal sources such as commercial banks, agricultural banks) and 83 percent. They got theirs from informal sources such as friends, relatives, NGOs and personal saving. The difficulty in accessing formal credit was due to socio-economic factors. The cross tabulation and chi-square analysis showed that occupation, education and landownership had influenced on access to agricultural credit. Socio-economic factors like age, family size, farm size had no influence on access to credit. Recommendations were made which includes reviewing the Land Use Act, improving education for rural women amongst others.

Key words: Women, Adashi, Chi square, Formal Credit, Informal credit, Socio-economic

1. INTRODUCTION

Rural women are known to produce up to 60% of food consumed and have been described as the backbone of subsistence agriculture in Nigeria (Osuala, 1991). Almost all active women in rural areas engage in agriculture (Adawo and Umobang 2003) yet, majority of these rural women are poor and lack access to resources. Most rural women in Kaduna State particularly, the southern part engages in agricultural production. Jema'a and Kaura Local Government Areas work under very difficult conditions, they use traditional tools and techniques. These tools are not efficient enough to generate the required output. Rural women are known to do other tedious farm work like marketing and processing of the product. Improving their access to credit would enable rural women to undertake profitable projects, increase their income and insure against negative shocks (Sadoulet and Janvry 1995).

Credit market imperfections can have severe consequences for poverty alleviation and growth. Many national governments, development organizations and financial institutions address the problem of women in general without specifically focusing on rural women. Rural women suffer from a range of both formal and informal barriers to develop themselves. These women lack collateral security for bank loan and have higher risk aversion for development servicing. Hence, women depend heavily on their own sources of income which are farming activities to meet their responsibility and sustain their farm (Okunade, 2007). For agriculture to play a dynamic role in economic development, it requires substantial capital inputs. Credit should be seen as one of the essential agricultural inputs needed for commercializing agricultural production. This study is important because rural women in Kaduna State are vital driving force of food security. Therefore, this study sought to evaluate the socio-economic factors influencing women access to formal credit particularly in the two Local Government Areas in Kaduna State.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Conceptual Framework

Credit according to Messah and Wangai (2011) enables small scale business operators overcome their liquidity constraints. This credit is either sourced from formal or informal financial sector (Gelinas, 1998; Aruwa, 2004). Formal credit can be sourced from institutions such as commercial banks, microfinance banks, international development banks (Gbandi and Amissah, 2014). The most common formal credit institutions are commercial banks and microfinance.

2.2 Theoretical Framework.

The risk management theory relates to this study. In risk management theory according to Jafee, (1989), the prime lending rate plays an important role. Interest rates on riskier loans are determined as a mark -up that is, an interest rate premium over the prime rate. The rural women are regarded as riskier borrowers. It is believed that their socio- economic characteristics like poor education, lack of collateral influences their loan repayment rate. In practice, the mark up over the prime rate charged a risky borrower may also depend on the degree of competition in the loan market. When the market is highly competitive the mark up represents only the expected loss due to default. If a bank tried to charge more, competitors would offer a lower interest rate and take away the customer. The absence of perfect competitive market makes it possible for banks to charge risky borrowers a mark up over the prime rate that is, more than the expected loss due to default. There are few banks in the rural areas. This makes the banks in the rural areas not to be highly competitive. Therefore, these few banks will charge more. Jaffee furthermore stressed that, the amount of competition in loan market is different for prime and risky borrowers. For prime borrowers and for highly collateralized loans, the loan markets tend to be highly competitive. Since rural women are regarded as risky borrowers, banks must determine the degree of risk. In determining the degree of risk the loan market in rural areas becomes less competitive.

2.3 Empirical Literature Review

Ajagbe (2012) study was on analysis of access to and demand for credit by small scale entrepreneurs in Oyo State, Nigeria. Primary data was obtained through stratified sampling technique and multinomial logit estimation technique. The work evaluated the impact of personal and household characteristics like age, education, gender, family size, value asset, membership composition, period of obtaining credit, contribution to credit market and business situation before credit on access to credit. Age, membership status of entrepreneur, education and possession of valuable assets were found to influence demand for credit from different credit markets. The research failed to capture occupation, marital status as a factor that could determine access to credit

Using descriptive and regression analysis, it was discovered that the level of education, number of dependants, gender and household income significantly determined the access to formal credit (Wangai and Messah, 2011). This study investigated the factors that influenced the demand for credit among small scale investors. There is also the supply side of credit which the study ignored. Terms and conditions are usually attached to any loan facility. These terms and conditions deters borrowing by women. A study on women entrepreneurs' access to microfinance credit in Imo State was done by Eze et al (2016). Data collected was analysed through descriptive and logit analytical tools. It was discovered that, microfinance banks supplied credit to women entrepreneurs in Imo State. However, women found it difficult to access credit in the subsequent years because of the stringent conditions introduced by microfinance banks. This stringent conditions are interest rate and shorter loan repayment period.

Furthermore, the socio-economic characteristics of women entrepreneur influenced women access to microfinance credit. The study did not consider rural women access to credit. A survey data consisting of 210 couples in rural Paraguay was analysed by Fletchener (2008) to determine the factors responsible for credit constraints among women. The study found out that, factors such as collateral requirement, the difficulty in finding a guarantor, lack of information about the availability of funds, low literacy rate, risk averse characteristic of women lack of confidence when applying loans, the requirement of the authorization by the husband or male relative, high transaction cost of receiving a loan and the requirement of the authorization by the financial institutions. This study did not consider the influence of women age on credit accessibility.

3. METHODOLOGY

3.1 The Area of the Study.

This research was conducted in two local government areas in Kaduna State. These two local government areas Jema'a and Kaura are situated in the southern part of Kaduna State having latitude 10.20` North and longitude 7.45` East. It covers an area of 45,711.2 square kilometers. People of these areas engaged in both pre- harvest and post- harvest activities. Again, women in these areas are known to be actively involved in agricultural activities.

3.2 The Nature and Sources of Data

The data for this study was primarily sourced. The primary data was collected through administration of structured questionnaire and interviewing method. A focus group discussion was also conducted in regard to the study. Also, information was obtained through personal contacts with the ADP field enumerators. The sampling frame for the study consists of only female farmers who engaged in different types of agricultural activities. According to 2006 census result, the two local government areas had an estimated total population of about two hundred and forty thousand (240000) women. Out of this total, about one hundred and eighty thousand (180000) were actively involved in farming. Therefore, to select the sample for this study, the two local government areas were divided into districts. These districts were made up of villages. Jema'a is made up of eight (8) districts and one hundred and sixty seven (167) villages, While, Kaura has 7 districts and 74 villages. Multi-stage random sampling technique was, therefore applied. Four (4) districts where women engaged actively in farming were selected from each local government area. This gave a total of eight (8) districts. The next selection is one village from each district. On village was targeted due to the fact that some districts were made up of two villages. Again, ten (10) farming households were selected from each village by simple random sampling method. From each household, only, female farmers were identified when administering the questionnaires. This gave a total of eighty (80) sample size.

3.3 Measurement of Accessibility

Accessibility to credit was ranked by the degree to which their sources were easily reached and the problems encountered in accessing credit. This accessibility was ranked using 2 scale of Very accessible (VA) and Not accessible (NA).

VA = Availability of credit institution, no emphasis on collateral, adequate amount, and low interest rate.

NA = Availability credit institution, emphasis on collateral, insufficient amount and high interest rate.

3.4 Analytical techniques.

Various statistical methods were adopted for this study. They include descriptive statistical tools, cross tabulation and the chi-square test.

4. RESULT AND DISCUSSION

Table 4.1 Agricultural Credit from Formal and Informal Sources

Sources	Types	Jema'a	Kaura	Total
		Freq (%)	Freq. (%)	Freq. (%)
Formal	Comm./Agric bank	8 (20)	9 (22.5)	17 (19)
Informal	Friends	4 (10)	2 (5)	6 (7.5)
	Relative	8 (20)	7 (17.5)	15 (21)
	Personal Saving (Adashe)	12 (30)	10 (25)	22 (28)
	NGOs	8 (20)	12 (30)	20 (25)
TOTAL		40 (100)	40 (100)	80 (100)

Source: Field Survey.

Various sources of credit were identified in table 4.1 formal source were obtained from commercial and agricultural banks, while the informal sources includes personal savings (adashe), friends, relatives and non-governmental organization (NGOs) like fanstwan foundation and pathfinder. Majority of the women in the study area obtained their agricultural finance from the informal sources. This suggests that there is problem in accessing formal agricultural credit.

Table 4.2 Distribution of Respondent by Problems Faced in Obtaining Credit From Formal source (Banks)

Problem encountered	Jema'a	Kaura	Total
	Freq.	Freq.	Freq (%)
Inaccessibility to credit institution	18	22	40 (50)
Lack of collateral security	18	14	32 (40)
Untimely Disbursement	11	9	20 (25)
Administrative/Bureaucratic procedure	16	24	40 (50)
Illiteracy	10	8	18 (23)
Interest Rate	9	11	20 (25)
Insufficient amount			

Source: field Survey

Table 4.2 shows that 50% of the respondent experienced difficulty in getting formal loans. This was due to the fact that credit institutions were inaccessible and there were also long administrative procedures. Again, 40% of these women lacked collateral security for bank loans. The least problem encountered is insufficient amount. This means that, the women had some challenges in accessing credit from the formal source (banks).

4.1.1 Analysis of the Socio-economic Factors

Age

Generally credit delinquency has been attributed to certain category of credit beneficiary below a particular age group. Therefore, the inversion here is to verify and test the relationship between age and accessibility to credit. The table below verifies this relationship.

Table 4.2 Age and Accessibility

Crosstab

	Accessibility		
Age	NA(%)	VA(%)	Total(%)
Less than 20	2 (66.7)	1 (33.3)	3 (3.8)
21-30	8 (61.5)	5 (38.5)	13 (16.3)
31-40	17 (56.7)	13 (43.3)	30 (37.5)
41-50	7 (30.4)	16 (69.6)	23(28.8)
51-60	6 (60)	4 (40)	10 (12.5)
Over 60	0 (0)	1 (100)	1(1.3)
Total	40	40	80(100)

KEY: NA (Not Accessible) VA (Very Accessible)

The cross-tab of table 4.2 shows that respondents did not vary significantly in their opinions with respect to the various accessibility rating. This means that age is not a factor to credit accessibility in the study.

Chi- Square Test

	Value	D f	Asymp.sig(2sided)
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Pearson chi-square	15.913	15	.388
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The chi-square test for age and accessibility is not statistically significant at 5% level. The chi-square p value of .388 has confirmed the cross tab result. Therefore there is no relationship between age and accessibility.

Occupation

An individual engage in a job to earn income. The predominant occupation in these rural areas is farming. Most rural women practice subsistence farming which give them low income. This low income can discourage them from opening accounts with banks. Those in non -farming jobs especially civil servant have easy access to formal credit. The interaction with these women made it clear that those in the civil service usually have salary account with bank. This salary account minimizes the problem of long protocol in opening an account. Again most of the civil servants have acquired formal education this makes them literate therefore, overcoming the problem of illiteracy in accessing credit.

Table 4.3. Occupation and Accessibility

Crosstab

Count

Occupation	Accessibility		
	N A (%)	V A (%)	Total (%)
Farming	30 (65.2)	16 (34.8)	46 (57.5)
Trading	8 (50)	8 (50)	16(20)
Civil Servant	2 (11.1)	16 (88.9)	18 (22.5)
Total	40	40	80(100)

KEY: NA (Not Accessible) V A (Very Accessible)

Table 4.3 Shows that more than half of the respondents were farmers. However, majority of then are saying credit is not accessible. Therefore, the cross tabulation between occupation and accessibility to credit indicates that civil servants have more access to credit than farmers. This is because they are capable of meeting bank condition of depositing cash in the banks.

Chi-Square Test

	Value	D F	Asymp sig. (2-sides)
Pearson chi-square	23.546	9	.005

The chi-square result also confirms the relationship. The chi-square p value was 0.005. It is statistically significant, meaning that there is a significant relationship between occupation and access to credit.

Marital Status

Most policy programmes usually target the household and the head of households (husbands) are considered first. The women (married ones) have problem accessing resources. Since their husbands always represent the family. This assumption is verified in the table below:

Table 4.4 Marital Status and Accessibility.

Crosstab			
Count			
Marital	Accessibility		
Status	N A (%)	V A (%)	Total (%)
Married	35(49.3)	36 (50.7)	71 (88.8)
Widowed	2 (40)	3 (60)	5 (6.3)
Divorced	3 (75)	1(25)	4 (5)
Total	40	40	80(100)

KEY: N A (Not Accessible) V A (Very Accessible)

The cross-tabulation result of table, 4.4 shows that the different categories of women face the same thing when accessing credit. The result is evenly distributed in the sense that the differences in their responses are minimal. The women in the study areas testified that they were not discriminated based on marital status. This implies that marital status is not a yardstick for obtaining credit. Any woman can access credit irrespective of her marital status.

Chi-square Test

	Value	D f	Asymp. Sig (2-sided)
Pearson chi-square	4.728	6	.579

The chi-square result with p value 0.579 also shows that the relationship between marital status and accessibility to credit is not statistically significant at 5%. This research finding contradicts previous works like Ishengoma (2004). This finding differs because some of the married women are also accessing credit like others without husband. This contradiction might be as a result of time lag that is increasing gender awareness.

Education

Education addresses the problem of illiteracy. The educated women stands the chance of accessing credit. The table below verified this fact

Table 4.5 Education and Accessibility

Crosstab

	Accessibility		
Education	NA (%)	VA(%)	Total (%)
None	7(63.6)	4 (36.4)	11 (13.8)
Primary	23(63.9)	13(36.1)	36 (45)
Secondary	10 (52.6)	9 (47.4)	19 (23.8)
Post Secondary	0(0)	14(100)	14 (17.5)
Total	40		80 (100)

KEY: NA (Not Accessible), VA (Very Accessible)

The above table shows that fewer number of respondents with none formal education ticked “Very Accessible” (VA). That is, four (4) out of eleven (11) women with none formal education selected “Very Accessible” (VA). Those with higher educational qualification agreed that credit was generally accessible. The cross tabulation between education and accessibility to credit shows that the more educated a woman is, the better chances of accessing credit.

Chi Square Test

	Value	D f	Asymp sig(2 sided
Pearson chi-square	26.185	9	.002

The p value 0.002 is also statistically significant. The result is similar to that a cross tabulation between education and accessibility. The relationship between education and access to credit is proven by the two tests. Therefore, higher level of education increases women chances to accessing formal credit.

Family Size

The formal credit institutions activities at times use children as security for loan collected. Hence this work tends to investigate the influence of family size on access to credit.

Table 4.6 Family Size and Accessibility

Accessibility			
Family size	NA (%)	VA (%)	Total (%)
1-4	18(52.9)	16 (47.1)	34 (42.5)
5-9	18 (50)	18 (50)	36 (45)
10+	4(40)	6 (60)	10 (12.5)
Total	40	40	80(100)

KEY: NA (Not Accessible) VA (Very Accessible).

Table 4.6 shows no much difference in the responses of the different family size. This result shows that accessibility to credit does not increase or decrease with family size.

Chi-square test

	Value	D f	Asymp-sig(2-sided)
Pearson chi- square	6.071	6	.415

The chi-square result also proved it. The chi-square value (0.415) is not statistically significant, hence family size is not a basis for accessing credit.

Farm Size

The banking sector also gives priority to large scale farmers. They have the tendency of making profit and their possibility of paying back is high.

The relationship between farm size and accessibility is shown in table 4.7.

4.7 Farm Size and Accessibility

crosstab

Accessibility			
Farm size	NA (%)	VA(%)	Total (%)
1.0-3.0	21(50)	21(50)	42(52.5)
3.1-5.0	18(56.3)	14(43.8)	32(40)

5.1 and above	1(16.7)	5(83.3)	6(7.5)
Total	40	40	80(100)

KEY: NA (Not Accessible) VA (Very Accessible)

It is clear that farm size does not determine accessibility to credit. The chi-square test will confirm it. The is because result is evenly distributed

Chi-Square Test

	Value	D f	Asymp sig-(2 sided)
Pearson chi square	6.427	6	.377

The p value of chi-square test is 0.377 therefore, it is not statistically significant. This so because 0.377 is greater than 0.05 which is the significant This means there is no significant relationship between farm size and access to credit.

Landownership

Land is a very important factor of production serves as collateral for accessing credit. Women need land to access credit. The table below explains the relationship between landownership and accessibility to credit.

Table 4.8 Landownership and Accessibility

Crosstab

Accessibility			
Landownership	NA(%)	VA(%)	Total(%)
Husband land	15 (71.4)	6 (28.6)	21(26.3)
Inherited	0(0)	7(100)	7(8.8)
Hired	23(48.9)	24 (51.1)	47 (58.8)
Purchased	2(40)	3 (60)	5 (6.3)
Total	40	40	80(100)

KEY: NA (Not Accessible) V A (Very Accessible)

The result of table 4.8 shows that women who inherited land had more access to credit. Land plays a great role in accessing credit in the study areas.

Chi-square Test

	Value	D f	Asymp sig(2-sided)
Pearson chi square	38.639	9	.000

The chi-square value (0.00) also substantiated the fact that there is significant relationship between ownership of land and accessibility to credit.

5. CONCLUSION AND RECOMMENDATION

The finding shows three major factor that influence access to agricultural credit. They are occupation education and landownership. Education and occupation are directly linked in the sense that those with higher educational qualification had well paid job. Landownership also increased these women chances of getting credit. There was no significant relationship between other socio-economic factors like age, marital status, family size; farm size with access to credit that is to say age, family size, marital status, farm size did not have influence on access to credit. The current food policy in Nigeria is directed at self- sufficiency in food crop production and improvement in the level of economic and technical efficiency. Barriers to accessing inputs like credit should be taken into consideration. There cannot be significant improvement in agricultural outputs without adequate credit to rural women farmers.

It is now acknowledge by many development agencies that credit is important in agricultural productivity. Credit can help rural women improve their agricultural productivity. Credit can help rural women improve their agricultural productivity. Based on the finding of this study following recommendation is put forward.

- i. Adult education should be encourage for older rural women and the younger Ones (girls) are sent to school.
- ii.. Agricultural development programme should facilitate women access to credit.
- iii. The land Act decree should increase women access to land.
- iv. The procedure of obtaining loan from bank should be minimized. This will in turn reduce transactional cost of borrowing.

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**EFFECT OF HUMAN CAPITAL INVESTMENT AS A STRATEGY FOR SUPERMARKET
BUSINESS SURVIVAL IN FCT – ABUJA**

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Abstract

In a global competitive world, the challenge of most firms is how to have the capability to find, assimilate, compensate and retain human capital in the shape of talented individuals they need who can drive its strategic survival. A number of businesses in Nigeria do phase out within their first five years of existence, while another smaller percentage goes into extinction between the sixth and tenth year. Thus, only about five to ten percent of young businesses survive, thrive and grow to maturity. The paper therefore examined the effect of human capital investment as a strategy for supermarket business survival in FCT, Abuja using descriptive research design. The study adopted ordinary least square (OLS) regression method of analysis, while the data used for the analysis were generated from structured questionnaires that were used to elicit information from the respondents. Findings from the study revealed that Seminars, conferences and workshops were found to have had a strong significant impact on the level of sales of supermarket businesses within the period under review. More so, on-the-job training and level of participation in trade fair and exhibitions, independently contributed significantly to supermarkets branch extension and also, the level of formal education has had a significant relationship with supermarkets branding and recognition. The paper thus recommends that it is imperative for supermarket operators pursuing strategic route of growth and expansion to focus their attention at investing on their employees. Furthermore, there is the need for supermarket operators to also retrain their experienced workers who can work with small resources to draw more wealth for its survival in an emerging competitive environment.

Keywords: Business survival, Human capital, Competitiveness, Investment strategy.

1. Introduction

Rapid strategic change, increasingly sophisticated customers and the importance of innovation has shifted the bases of competition for many businesses away from traditional physical and financial resources (Cuganesan, 2016). The challenge is to ensure that firms have capability to find, assimilate, compensate and retain human capital in the shape of talented individuals they need who can drive a global organization that is both responsive to its customers and 'the burgeoning opportunities of technology' (Armstrong, 2016). The supermarket business is being buffeted by a storm of trends and challenges. Customers perceive supermarket products and services as commodities; shareholders demand healthy growth and fat margins; employee turnover is a persistent problem; and skilled talent is in short supply. While these challenges are faced in all corners of the supermarket enterprise, they have a special impact on human resource departments.

Fayoumi (2010) stated that human capital effectively works at improving quality and upgrading what makes this quality precedent, giving competitive advantage to organizations. This is usually done during an organization's building, developing human capital which is the weighty factor in the improvement and development of the level of performance based on quality. Jamal and Saif (2011) confirmed that human resource investment is the difference between success and failure, where it makes up the most important resources in any organization. They pointed out also that human resource is a resource that is owned by all the organizations who are key to their success and continuity. According to Coff (2007), people possess skill, knowledge, and ability that have the potential to generate economic rent. Economic rent refers to profits in excess of formal economic returns. Like other assets, human capital has value in the market place, but unlike other assets, the potential value of human capital can be fully realized only with the cooperation of the person, since firm investment to increase employee skills, knowledge, and abilities carry cost to the organization, they are only justified if they produce future returns by means of increased productivity and overall firm performance. According to Fatoki (2011), entrepreneurs with higher general and specific human capital can be expected to show higher levels of performance than those with lower levels of general and specific human capital.

Onugu (2015) however observed that most businesses in Nigeria die within their first five years of existence, another smaller percentage goes into extinction between the sixth and tenth year. Thus, only about five to ten percent of young businesses survive, thrive and grow to maturity. The implication of this is that the survival rate of businesses in Nigeria is less than 5% in the first five years of existence. This also suggests that businesses in Nigeria have not been able to contribute to improved performance as much as expected. A general observation of efforts at boosting businesses' growth and performance has shown that such efforts have mostly been targeted at the aspect of financing and provision of infrastructure. It is however imperative that other aspects should be looked into in order to generate workable solutions to the growth and survival challenge faced by businesses. It is against this backdrop that this study set out to examine the effect of human capital investment on supermarket business performance in FCT, Abuja Nigeria.

2. Review of Relevant Literature

2.1 Concept of Human Capital Investment

Padilla and Juarez (2016) suggest that human capital consists primarily of knowledge and skills acquired through formal and informal education in the education system and in the home and also through the training, experience and mobility of the labor force. Thus, educational institutions and businesses are pillars of training and human capital development, namely academic life and working life should be linked to equip people with knowledge, skills and experience which will cope with the changing circumstances of the work environment in which they are pursued. One of the ways it is conducting this linkage is through internships, where students being in real scenarios, to gain experience, to perform tasks of their profession, to complement their academic preparation, acquire specific skills and get his security upon graduation, that they will have an excellent performance of his duties as a professional for the benefit of society (Hernandez, et.al., 2010). In business, human capital lies on its staff, is the acquired knowledge, the skills they have, the ability and willingness to learn,

placed at the service of the company where they work. An example of this is the personal satisfaction, skills and attitudes of individuals, leadership skills and teamwork (Navas and Ortiz, 2012).

Madrigal (2009) noted that the human capital of the company is a source of development and it is one of the critical factors that generate competitiveness. It is then that a competitive business is one that incorporates or train competitive people and continues to improvement. Everyone has skills, but not all apply those capabilities. In training and human capital development must always go together these two main elements, learning and experience. Sometimes companies taught numerous staff courses, provides a wealth of information and thinking that will form and develop human capital, but learning is not applied is useless, not useful, forgets and causes the discouraged worker trained go or simply refuses to receive it because it does not see the benefit of it. Just as there are many empirical people, they do things, but always in the same way, and when it comes to innovation and changes, are the most resistant because they do not care to learn that there are different ways to perform activities and perhaps with less effort. So then learning is complemented by the experience and vice versa. Knowledge, if it not applies, only provides the intellectual satisfaction of those who practice them, while willing to do without knowledge and without know-how, have important limitations, since knowledge is the substrate helps improve and advance to overcome difficulties. Knowledge facilitates decision-making and expertise helps solve (Saez, Garcia, Palao and Rojo, 2003).

2.1.1 Concept of Performance

Intellectual capital resources (including human capital) are increasingly important factors on the successful achievement of organizational objectives (Guthrie & Petty, 2000). For stakeholders to fully understand an organization and the effectiveness of its managers, it is therefore important that corporate reports adequately reflect all resources used and developed to further the organization's achievement. According to Divenney, Richard, Yip and Johnson (2008) firm performance encompasses these specific areas of firms outcomes: (a) financial (profits, return on assets, return on investments); (b) market performance (sales, market share);and (c) shareholder return (total shareholder return, economic value added) Academically, firm performance is the ultimate dependent variable of interest for those concerned with just about any area of management: accounting is concerned with measuring performance; marketing with customer satisfaction and market share; operations management with productivity and cost of operations, organizational behaviour with employee satisfaction and structural efficiency; and finance with capital market response to all the above, management journal, the academy of management journal and administrative science quarterly included some measures of firm performance. Performance is so common in organizational research that it is rarely explicitly considered or justified; instead it is treated as a seemingly unquestionable assumption (Devinney et al.,2008). The multidimensionality of performance covers the many ways in which organizations can be successful; domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

2.2 Human Capital in Business Growth

Teran, et. al (2008) observed that companies need people with specialized skills to develop innovative solutions that give competitive advantages to organizations in which they work and to help them improve their productivity and redesign of business processes by taking advantage of opportunities that provide process technologies, products and information. They are the people (human capital) who

should know better use of management (efficient) the financial resources available to the company to achieve its goals. It is clear that every person within the organizational structure has different scope or power of decision, but each from his trench must be competitive. A competitive person is one who is known for being innovative, creative, proactive, motivated, highly skilled, flexible, available, have complex thinking among other features. Put in another way, the factor or human capital is the key to competitiveness in companies, but in business, particularly small, a weakness is to consider that only the owner is the one who can perform efficient resource management and has failed to surround himself with people who are talented in the areas that make up the business and support, companies that depend on one man at some point fail. Another aspect that has been neglected, is, less has been concerned is, realizes that he just cannot do all the work, because it would fail. The owner requires its staff to learn and know the company, put aside the fear that takes away power and authority, on the contrary, the entrepreneur manager who is a good leader, intelligent, always look to surround himself with the best, since he knows that by the quality of its people depend on the growth of the company (Lechuga, 2004)

In modern times, this is essential because as indicated Dessler (2001) "Trends such as globalization and technological innovations are changing the way companies manage," says that the traditional pyramid structure is flattening, today more powers are delegated employees to make more decisions, more work is organized around teams and processes, changing power bases and now managers must establish more commitments. Dessler (2001) adds that these changes mean that organizations must rely more heavily on a committed staff and self-discipline.

Sáez, et.al. (2003) note that changes in work organization require all employees to acquire new skills, referring to management personnel including: oral and written communication, teamwork, interpersonal sensitivity, leadership, management planning, reasoning analytical, problem-solving ability, decision making, creativity, entrepreneurship, dynamism, energy and initiative and stress management.

2.3 Human Capital Investment as a Strategy for Business Survival

In response to current global market changes, most firms have embraced the notion of human capital as a good competitive advantage that will enhance higher performance. Human capital development becomes a part of an overall effort to achieve cost effective and firm performance. Hence, firms need to understand human capital that would enhance employees' satisfaction and improve performance. Although, there is a broad assumption that human capital has positive effect on firm performance the notion of performance for human capital remain largely indisputable. The constantly changing business environment requires firm to strive for superior competitive advantages via dynamic business plan which incorporate creativity and innovativeness. This is essentially important for their long term sustainability. Undoubtedly, human resources input play a significant role in enhancing firm's competitiveness (Barney, 2015). At a glance, substantial studies were carried out on human capital and their implications on firm's performance on widely basis and obviously, human capital enhancement will result in greater competitiveness and performance (Sanusi, 2003).

From the individual level, Collis and Montgomery (1995) pointed out that the importance of human capital depends on the degree to which it contributes to the creation of a competitive advantage. From an economic point of view transaction-cost indicate that firm gains a competitive advantage when they

own firm-specific resources that cannot be copied by rivals. Thus, as the uniqueness of human capital increases, firm have incentives to invest resources into its management and the aim o reduce risk and capitalize on productive potentials. Hence, individual needs to enhance their competency skills in order to be competitive.

From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. Following the work of Snell et al., (1999) it stated that a firm's capital has two dimensions which are value and uniqueness. Firm indicated that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated cost. In this sense, firm's human capital can add value if it contributes to lower costs and provide increase performances.

According to Fatoki (2011), business firms with higher general and specific human capital can be expected to show higher levels of performance than those with lower levels of general and specific human capital. Becker (1964) in his book entitled 'Human Capital' views human capital as similar to physical means of production such as factories and machines. Human capital is a means of production into which additional investment yields additional output.

Sullivan and Sheffrin (2013) defined human capital as the stock of competences, knowledge and personality attributes embodied in the ability to perform labour so as to produce economic value. Human capital represents the investment people make in themselves or by their organisations that enhance their economic productivity. Hessels and Terjesen (2008) also observed that entrepreneurial human capital refers to an individual's knowledge, skills and experiences related to entrepreneurial activity. Several authors and researchers have asserted that entrepreneurial human capital is important to entrepreneurial development. For example, Ganotakis (2010) noted that human capital development is a managerial tool for competitive advantage for entrepreneurial firms by using the Resource Based Theory (RBT) to explain the importance of human capital to entrepreneurship. Ofoegbe and Joseph (2013) also argued that adequate human capital development is indispensable for survival of businesses.

2.3.1 Intangible Assets as a Survival Strategy for Business Performance

Intangible assets consist of the stock of immaterial resources that enters the production process and are necessary to the creation and sale of new or improved products and processes. They include both internally produced assets - e.g. designs, blueprints, brand equity, in-house software, and construction projects - and assets acquired through external market – such as technology licenses, patents and copyrights, and the economic competences acquired through purchases of management and consulting services (Corrado, Sichel & Huiten, 2006). In addition to the quantitative dimension of intangible assets, various works have also stressed link between intangible assets and firm performance. Marrocu, Paci and Pontis (2009), and O'Mahony and Vecchi (2009), for example, find a positive contribution of intangible assets to both firm and industry productivity. Hall et al. (2005) show intangible assets to significantly contribute to company values in financial market. Delgado- Gomez and Ramirez-Aleson (2004) provide evidence for a positive relationship between firms' intangible assets and internationalization.

Prior research points to the importance of intangible assets on firm value (see for example, Aaker 2001; Chan, Lakonishok & Sougiannis 2001) It is natural to expect that firms with greater intangible assets operate more efficiently ceteris paribus and thus have better operating performance. Little is known however about the effect of intangible assets specifically on insurers. Insurer intangible assets (or franchise value) would include brand name, personnel, renewable business, and expertise in claim service and underwriting. Given the importance of brand loyalty and word-of mouth reputational effects for a financial security product like insurance we would expect that insurers with greater franchise value would have a competitive edge. The purpose of the paper is to provide the first systematic examination of the effect of intangible assets on insurer operating and stock performance. In addition, we introduce new measures of insurer intangible assets based on publicly-available ratings and employ a large data set across a 20 year period to measure intangible asset effects on insurer value. Despite the importance of intangible assets on firm value these assets are rarely recognized in financial statements. Lev and Zarowin (1999) and others argue that quantifying intangibles is where the current accounting system fails most seriously in reflecting enterprise value and performance.

2.4 Theoretical Framework

Contemporary discussions on human capital investment have been dominated by three theories below:

2.4.1 Human Capital Theory

This theory shows how education leads to increase in productivity and efficiency of workers by increasing the level of their cognitive skills. Theodore, Schultz, Gory Bucker and Jacob Mincer introduced the notion that people invest in education or as to increase their stock of human capabilities which can be formed by combining innate abilities with investment in human beings (Babalola,2000). Examples of such investments include expenditure on education, on- the- job training, health, and nutrition. However, the stock of human capital increases in a period only when gross investment exceeds depreciation with the passage of time, with intense use or lack of use. The provision of education is seen as a product over investment in human capital, an investment which the proponents of human capital theory considers to be equally or even more equally worthwhile than that in physical capital. Human capital theorists have established that basic literacy enhances the productivity of workers low skill occupations. They further state instruction that demands logical and analytical reasoning that provides technical and specialized knowledge increases the marginal productivity of workers in high skill or profession and positions. Moreover, the greater the provision of schooling society and consequently, the greater the increase in national productivity and economic growth.

2.4.2 The Modernization Theory

This theory focuses on how education transforms an individual's value, belief and behaviour. Exposure to modernization institutions such as schools, factories, and mass media inculcate modern values and attitudes. The attitude includes openness to new idea, independences from traditional authorities, willingness to plan and calculate further exigencies and growing sense of personal and social efficacy. According to the modernization theorists, these normative and attitudinal changes continue throughout the life cycle, permanently altering the individual's relationship with the social structure. The greater the number of people exposed to modernization institutions, the greater the level of individual modernity attained by the society. Once a critical segment of a population changes in this way, the pace of society's modernization and economic development quickens. Thus, educational expansion

through its effects on individual values and benefits sets in motion the necessary building blocks for a more productive workforce and a more sustained economic growth.

2.4.3 The Dependence Theory

This theory arose from Marxist conceptualizations based on the dynamic world system that structures conditions for economic transformation in both the core and periphery of the world economy. Certain features of the world polity such as state fiscal strength, degrees and regime centralization and external political integration may contribute to economic growth in the developing world.

3. Methodological Framework

For the purpose of this study, descriptive research design was used. The descriptive design describes phenomena as they exist. It issued to identify and obtain information on the characteristics of a particular problem or issue. Descriptive research design was selected because it has the advantage of producing good amount of responses from a wide range of people. Also, this design provides a meaningful and accurate picture of events and seeks to explain people's perception and behavior on the basis of the data collected. The advantage with this design is that it helps to find views as they are in their natural setting. The population of the study consists of some selected Supermarkets in FCT, Abuja. A sample of 164 respondents was drawn up using Smith (1984) sample size formula out of 572 populations. A self-administered questionnaire of 180 was used in gathering the data, out of which 169 were properly filled and returned. A five point Likert scale of agree to disagree (that is, Agreed, Disagree, Undecided, Strongly Agreed and Strongly Disagreed) was used to measure the extent to which the various respondents agreed or disagreed with the issues raised.

Taking inferences from literatures, the model is hinged on human capital theory, and as thus, the model specifications here was formulated to tests three hypotheses and they are as follows:

$$L / S = \beta_0 + \beta_1 SCW \quad (1)$$

$$BE = \beta_0 + \beta_2 JT \quad (2)$$

$$B / R = \beta_0 + \beta_3 FE \quad (3)$$

Where;

SCW = Seminar/ Conference and workshop

L/S = Level of sales

JT = Job training

BE = Branch Extension

FE = Level Formal Education

B/R = Brand and Recognition

4. Results and Discussion

Three hypotheses formulated in this study were tested using t-test and its corresponding probability values (*p*-value). The level of significance for the study is 5%, for a two tailed test. The f-test computes a test statistic based on the unrestricted regression and tests for the joint significance of the coefficients. The t-statistic measures how close the unrestricted estimates come to satisfying the restrictions under the null hypothesis. If the restrictions are in fact true, then the unrestricted estimates should come close to satisfying the restrictions.

4.1 Hypotheses One: H_{01} : *Level of participation in seminars/ conferences and workshop (SCW) have no significant effect on Supermarket level of sales (LS) in Nigeria.*

Table 1: Regression Result on L/S and SCW

Stepwise Regression Analyses of <i>Level of participation in seminars/ conferences</i> on Outcome Variables				
Dependent Variable: <i>Supermarket level of sales (LS)</i> $R^2 = 0.6045$; $F = 29.04$; $Sig = 0.0000$				
Independent Variable	Beta	t-value	Pearson Correlation(r)	Probability value
<i>Level of participation in seminars/ conferences</i>	6.04	5.38	0.75189	0.0021

Source: Authors Computation, 2017 (Eview-9.0)

$$L / S = 20.57 + 6.04SCW \quad (4)$$

$$SEE = 2.00 \quad 1.12$$

$$t^* = 10.28 \quad 5.38$$

$$F^* = 29.04; \text{Prob (F-statistic)} = 0.00000$$

$$R^2 = 0.6045; \text{Adj.}R^2 = 0.5837$$

$$DW = 2.10$$

Test of Hypotheses One: H_{01}

From the regression result in table 1, the calculated t-value for **SCW** is 5.38 is greater than the critical value of 1.96. It falls in the rejection region and hence, we may reject the first null hypothesis (H_{01}). The conclusion here is that ***Level of participation in seminars/ conferences and workshop have a significant effect on Supermarket level of sales in Nigeria.***

The ANOVA F-statistic

The F-statistics which is used to examine the overall significance of regression model equally showed that the result is significant, as indicated by a high value of the F-statistic, 29.04 and it is significant at the 5.0 per cent level. That is, the F-statistic value of 0.00000 is less than 0.05.

The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction, that is, 60.45percent change in supermarkets level of sales (LS) was due to seminars/ conferences and workshop (SCW), while 39.55percent unaccounted variations was captured by the white noise error term. It showed that SCW had strong significant impact on the level of sales of the selected supermarkets within the period under review.

Serial correlation

The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 2.10. This shows that the estimates are unbiased and can be relied upon for policy decisions.

4.2 Hypotheses Two: H_{02} : *On- the-job training (JT) has no significant impact on Supermarkets branch extension (BE)*

Table 2: Regression result on JT and the BE

Stepwise Regression Analyses of <i>on- the-job training (JT)</i> on Outcome Variables				
Dependent Variable: <i>branch extension (BE)</i>				
$R^2 = 0.5452$; $F = 11.07$; $Sig = 0.0034$				
Independent Variable	Beta	t-value	Pearson Correlation(r)	Probability value
<i>On- the-job training (JT)</i>	0.32	2.31	0.61892	0.0431

Source: Authors Computation, 2017 (Eview-9.0)

$$BE = 54.42 + 0.32JT \quad (5)$$

$$SEE = 18.92 \quad 1.03$$

$$t^* = 2.87 \quad 2.31$$

$$F^* = 11.07; \text{Prob (F-statistic)} = 0.0034$$

$$R^2 = 0.5452; \text{Adj.}R^2 = 0.4171$$

$$DW = 2.15$$

Test of Hypotheses Two: H_{02}

From table 2, the calculated t-value for JT is 2.31 and the tabulated value is given as ± 1.96 , under 95% confidence levels. Since the calculated t-value is greater than the tabulated value ($2.31 > 1.96$), we therefore, reject the null hypothesis (H_{02}). *We conclude that on- the-job training has a significant impact on Supermarkets branch extension*

The F-statistic

Examining the overall fit and significance of the model, it could be observed that the model also has a better fit. That is, the probability F-statistic value of 0.0034 is less than 0.05.

The R^2 (R-square)

The coefficient of determination (R-square) also indicates that the model is reasonably fit in prediction, as about 58.69 percent change in Branch extension was due to job training, while 41.31 percent unaccounted variations was captured by the white noise error term. It showed also that job training had strong significant impact on supermarket branch extension.

Serial correlation

Durbin Watson (DW) statistics which is also used to test for the presence of autocorrelation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 2.15. This shows that the estimates are unbiased and can also be relied upon for policy decisions.

4.3 Hypotheses Three: H_{03} : Level of formal education (FE) have no significant relationship with Supermarkets branding and recognition (BR)

Table 3: Regression result on FE and the BR

Stepwise Regression Analyses of <i>Level of formal education (FE)</i> on Outcome Variable				
Dependent Variable: <i>Supermarkets branding and recognition (BR)</i>				
$R^2 = 0.5860$; $F = 17.96$; $Sig = 0.00044$				
Independent Variable	Beta	t-value	Pearson Correlation(r)	Probability value
<i>Level of formal education (FE)</i>	0.17	4.23	0.62145	0.0023

Source: Authors Computation, 2017 (Eview-9.0)

$$B / R = 20.45 + 0.17FE \quad (6)$$

$$SEE = 0.42 \quad 0.04$$

$$t^* = 48.69 \quad 4.23$$

$$F^* = 17.96; \text{Prob}(F\text{-statistic}) = 0.000444$$

$$R^2 = 0.5860; \text{Adj.}R^2 = 0.5589$$

$$DW = 2.02$$

Test of Hypotheses Three: H_{03}

From table 3, the calculated t-value for *FE* is 4.23 and the tabulated value is given as ± 1.96 , under 95% confidence levels. Since the calculated t-value is greater than the tabulated value ($4.23 > 1.96$), we therefore, reject the third null hypothesis (H_{03}). We conclude that *Level of formal education have a significant relationship with Supermarkets branding and recognition*

The ANOVA F-statistic

Also, by examining the overall fit and significance of the supermarkets branding and recognition **model**, it can be observed that the model does really have relevance, as indicated by the relatively high value of the F-statistic, 17.96 and it is significant at the 5.0 per cent level. That is, the F-statistic value of 0.0000444 is less than 0.05 probability levels.

The R^2 (R-square)

The coefficient of determination (R-square) indicates that the model is reasonably fit in prediction, that is, 58.60 percent change in Supermarkets branding and recognition was due to Level of formal education, while 41.40 percent unaccounted variations was captured by the white noise error term. It

showed that Level of formal education had strong and significant impact on Supermarkets branding and recognition

Serial correlation

Durbin Watson (DW) statistics which is also used to test for the presence of serial correlation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 2.02, and as thus the estimates are unbiased and can further be relied upon for sound policy decisions.

4.4 Discussion of Findings

Seminar / conferences and workshops was found to have had a strong significant impact on the level of sales of supermarket businesses within the period under review. The level of participation in seminars, conferences, and workshops and level of participation in trade fair and exhibitions as strategies of human capital development for small business employees. This result is in line with the findings of Ofoegbunam and Okorafor, (2010).

On the-job training was also found to have a significant impact on Supermarkets branch extension. This means that on the- job training and level of participation in trade fair and exhibitions, independently contributed significantly to Supermarkets branch extension. The result is consistent with that of Hisrich and Drnovsek (2002) that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry, positively impact on the performance of new small scale businesses.

Lastly, Level of formal education have a significant relationship with Supermarkets branding and recognition. This implies that level of formal educations are the key options of human capital development that improve supermarket business performance. The study is consistent with the assertion of Industrial Training Fund (2006) that on- the-job training, formal education and participation in trade fairs and exhibitions for supermarket employees help them adjust to rapidly changing job requirements and market conditions.

5. Conclusion and Recommendations

The conclusion from findings of this study is that human capital investment activities that can enhance the human capital (that is, knowledge, skills and competencies) of supermarket business operators have positive impact on their performance. Specifically, this study has drawn attention to the need for supermarket operators to key into the benefits of participating in seminars, trade fairs, workshops and exhibitions as a means of developing their human capital through the acquisition of current knowledge that will positively impact their performance, thereby enhancing the sale' capacity for growth and potentials for survival.

Based on the findings, the paper recommends that:

- i. It is prudent for supermarket operators pursuing the route of growth and expansion to focus their attention at investing on their employees. These would enable them contribute massively towards branch expansion of their business.
- ii. There is the need for supermarket operators to also retrain their experienced workers who can work with small resources to draw more wealth for its survival in a competitive environment.

- iii. More so, supermarket operators should consider constantly updating the skills and knowledge of their employee through both on-the-job training and off the- job training in order for them to acquire the requisite competencies to manage their businesses to be able to meet current and future job demands.

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**TRAINING AND ITS EFFECT ON EMPLOYEES' PRODUCTIVITY IN SELECTED
INSURANCE FIRMS IN NIGERIA**

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Abstract

Organizations are facing increased competition due to globalization, changes in technology, political and economic environments. Therefore, prompting these organizations to train their employees is one of the ways to prepare them to adjust to the increases above and thus enhance their performance. It is important not to ignore the prevailing evidence on growth of knowledge in the business corporate world in the last decade. This growth has not only been brought about by improvements in technology nor a combination of factors of production but increased efforts towards development of organizational human resources. The study thus examines then influence of training on employee performance in selected insurance industries using regression method of analysis. Findings showed that Job training has had a significant effect on employee productivity. This is in agreement with literatures that also supported that productivity and workers performance have a strong relationship with development and training. More so, career development training (CDT) had a significant influence on employee effectiveness. It was found that those employees who have taken career development trainings were more capable in performing different task & vice versa. Training has direct relationship with the employees' performance. And lastly, refresher training has had a significant effect on job quality. The study thus concludes that various insurance organizations should embrace various job-training programmes in order to enhance employee efficiency and performance and thus add profitability in the organization. These values may include job satisfaction, challenging work, a sense of accomplishment and growth, sufficient financial compensation and other rewards and recognition the individual consider necessary and important hence if employees are properly motivated, they will make customers happy by giving them first hand services and hence improve on service delivery

Key words: Training, Productivity, Employees, Insurance Industry

Introduction

Employees are the most valuable asset of every company as they can make or break a company's reputation and can adversely affect profitability. Employees often are responsible for the great bulk of necessary work to be done as well as customer satisfaction and the quality of products and events. Without proper training, employees both new and current do not receive the information and develop the skill sets necessary for accomplishing their tasks at their maximum potential. Employees who undergo proper training tend to keep their jobs longer than those who do not. Training is a necessity in the workplace. Without it, employees don't have a firm grasp on their responsibilities or duties. Employee training refers to programs that provide workers with information, new skills, or professional development opportunities. To accomplish this undertaking, organisations will need to invest resources to ensure that employees have the required knowledge, skills, competencies and attitude they need to work productively in a rapidly changing and complex environment.

In response to the changes, most organisations have embraced the notion of employees training as good competitive advantage that will enhance higher productivity. Manpower development becomes a part of an overall effort to achieve cost-effectiveness and organisation productivity. Hence, organisations need to understand training programmes that would enhance employee satisfaction and improve productivity. Although there is a broad assumption that manpower has positive effects on organizations' productivity, the notion of productivity for manpower remains largely untested. Hence, this study attempts to look into the effects of training on employee's productivity in the insurance industry.

Training is however considered as the most veritable tool for nation building. It helps the citizen in the development of individual with some skills and attitudes necessary for national building. That many graduates of Nigeria Universities and other higher institutions of learning fall short of employers or industry standard is no longer news (Idehan 2007). The manpower training system in Nigeria as a source of supply of skilled labour for industries and insurance industry in particular over the years invoked concern. This study evaluates problems of employees training as it impact on productivity in insurance industry in Nigeria. In view of the foregoing, the following hypotheses were also tested in the course of the study:

H₀₁: Job training has no significant effect on employee productivity

H₀₂: career development training (CDT) has no significant influence on employee effectiveness

H₀₃: refresher training has no significant effect on job quality

Literature Review

Concept of Training

Training is a commonly used term which has various meanings to various people, yet it is a very important concept to all society. There are cases where training is simply taken to mean impartation of 'knowledge', 'enlightenment' or 'wisdom'. Davidson, (1997) defines training as the process of teaching and given instruction, the process of improving. Similarly, Macmillan English Dictionary for Advance Learners (2007) defines training as the activity of educating people, and all the policies and arrangements concerning same. For the purpose of this study, training is defined as the knowledge

and abilities, development of character and mental powers, acquired through systematic giving of instruction for the improvement of the employees' productivity in organisation.

The above definition makes it very apparent that training plays a role as a refiner and regulator of human behaviours in organisations. It does not only embrace the deliberate processes of improvement of skills, knowledge, and attitude, it includes even indirect and incidental influences. The core value of training here is the culture which gives deliberate purposeful skill to those who are to be its successors in order to empower them for use to raise the level of improvement which has been attained. Training involves showing the evidence of knowledge and breadth of understanding. The two terms are being used together here to prove that Training is much more than just mere recitation of information and the acquisition of skills (which is the reality of training). Based on the above it is apparent that Training changes uninformed employees to informed employee; training changes unskilled or semiskilled workers into skill employees who can do their assigned tasks in the way the organization wants them done into workers who do things the right way. Training could then be seen as activities aimed at improving the performance of personnel in organizations for the attainment of continuous improvement in productivity.

Concept of Productivity

An understanding of the concept of productivity improvement program requires clear definition of the following concept issues, productivity programmes. According to Ulrich in (Sheriff Bukar, Ali Baba Shehu , & Aliyu Idris, 2012) , productivity refers to a ratio of output to input. Input may include labour hours or costs, production costs and equipment costs. Output may consist of sales, earnings, and market share. Many firms now assume or have shown that productivity is affected by employee's knowledge, skills, abilities, attitude, motivation and behaviours. The improvement programme starts with this assumption and proceeds with different intervention strategies. Prokopenko (1996) defined productivity as the relationship between the output generated by a production or service system and the input provided to create this output.

Empirical Framework

Numerous studies have sought to examine the influence of training on employee performance and have found different results. For instance, Elnaga and Imran (2013) and Neelam Tahir et al. (2014) found that training is costly to the organization which means that it should identify the lack of knowledge or skills required for training to achieve organizational targets. According to Amir Elnaga1 Amen Imran, (2013) findings from training leads to increased organizational costs. An organization's management should identify poor performance or actual lack of skills or knowledge before conducting training programs. Performance assessments help companies to save more money so as not to spend on unnecessary training. In addition, Neelam (2014) argued that dependent variables: productivity, workers and performance have a strong relationship with independent variables: development and training. Training and development leads to enhanced productivity through increased knowledge and skills of employees. Training and development are the backbone of human resource management, as these can increase the performance at individual and group levels thereby achieving organizational goals. A significant relationship was found between the employees training and their resultant performance in accomplishing different tasks. It was found that those employees who have taken

trainings were more capable in performing different task & vice versa. Training has direct relationship with the employees' performance.

Basically training is a formal & systematic modification of behavior through learning which occurs as result of education, instruction, development and planned experience (Michael , 2010). Because of the practical implications of training, it is important to have training that is effective. Studies have proven that more costly but effective training can save money that is wasted on cheap but inefficient training (Ginsberg, 1997). Ameerq-ul-Ameerq and Furqan Hanif (2013) also stated that training is the most important part in influencing employee performance directly as it has a significant effect on overall performance as well as enhancing efficiency among employees toward achieving specific goals. This study noted that employees without training cannot achieve specific tasks as well as with training as it can improve the skills of employees to help them achieve desired goals. In addition, rationally designed training programs have a significant effect in meeting organizational needs including assessment on the results of training in order to achieve organizational goals. Some organizations seek to meet their training needs in haphazard ways thereby making it difficult to identify their actual training needs (Sultana et al, 2012).

Jagero (2012) and Azara Shaheen (2013) found that there is a linear relation between job training and employee performance in enhancing organizational performance. Moreover, Jagero et al. (2012) argued that there is a positive relationship between job training in employee activities and their good performance. Good training leads to superior performance in the same field. In addition, Azara (2013) noted that employee training plays an important role in identifying the relationship between employee performance and organizational performance. Besides that, effective employee performance leads to positive results in increasing productivity and thereby achieving organizational goals. According to Anam Amin et al. (2013) and Muhamamd Aslam Khan (2013) results showed that dynamic training is the main direction for success to increase organizational productivity. Anam Amin et al. (2013) found that training is a necessary function to acquire new skills and information for employees in the enhancement of educational sector needs and updates on the current scenario within the organization. On the other hand Mubashar Farooq and Muhamamd Aslam Khan (2000) found that effective training activities helped those who receive training to enhance their efficiency and the quality of tasks performed, thereby effectively increasing productivity.

Theoretical Framework

Theory of Social learning

According to Bandura, (1963) Social learning theory has been developed in the last 15 years primarily to describe and predict how people learn from observation of models. Learning from models has been shown to be more efficient than trial and error learning under many conditions. According to social learning theory, observational learning is controlled by the processes of attention, retention, and reproduction. Rewards operate to affect performance of behavior not learning. In addition to motivating behavior by directly rewarding it, a person may perform behavior that he observes another is rewarded for (extrinsic reward), and he may learn to reward himself for appropriate behavior.

From social learning theory, a number of rules can be derived for optimal training conditions. Twenty statements about conditions for effective training are given to illustrate the application of social

learning theory to industrial training. For example: "When modeling a task, give the learner a verbal model to guide performance. The best verbal models will give rules for the responses of that task, but will be as simple as possible and easy to remember. "The trainee is most likely to learn to reward himself for a good job performance if he comes to feel that the work he is performing is very important to him and to the company and that he has significant control of the work outcomes." Social learning theory has been applied to industry in two ways: a training method based on social learning theory has been used to teach managers to deal more effectively with human relations problems occurring on the job and social learning theory have been used to predict which subordinates will imitate the behavior of their supervisors.

Career Development Theory

The theoretical framework for this study was further based on Super's Career Development Theory which is a life-span-life-space approach which entails social situations the individuals have to go through, and focuses on individuals' intra-personal aspects, such as values, self-concept, life roles and culture: Super's Career Development Theory- The practice of matching people with certain kind of work was derived from Frank Parson (1909) who tried to match individuals' abilities and interests with vocational opportunity, Parson's important contribution to the development of career theories was the idea that interests and abilities do influence careers. Someone will, thus, choose a career that matches his or her interests, abilities and personality. once a person has made a career decision, then he or she will be restricted to it, The person may find it difficult to change his/her career goals and the decision taken might restrict that person from making other decisions concerning his or her career development because the person might have already made efforts regarding the chosen career and committed him or her to it. Super's theory did not arise at one time and stop there, but it developed itself over a long period of time. Different constructs were added and adjustments were made since 1953 until the 1990's. Career development and self-concept were core concepts in Super's theory in 1953 (Stead & Watson, 1999; Brown, Brooks & Associates, 1996).

According to Super, (1909), career choice is based on matching the individuals' abilities and interests with the work, and is influenced by economic, social, environmental and physical factors. Changes in these factors may have an impact on individuals' career development and choice. Super's theory is comprised of different developmental stages during which career choices are made. During these developmental stages, the individual develops skills and acquires a level of maturity to adopt in his or her career choice. In 1953, Super's theory (Sharf, 2002), consists of three original constructs. These are career development, self-concept and career maturity (Sharf, 2002). Other constructs of Super's theory were expanded from the original ones, through further studies by Super himself and other researchers, over the years. These are the constructs of values, life roles and cultural context (Sharf, 2002; Osipow, 1983; Brown, et al, 1996; Super, Sverko & Super, 1995). The current study is therefore based on concept career development theory which is a life-span-life-space approach which entails social situations the individuals have to go through, and focuses on individuals' intra-personal aspects, such as values, self-concept, life roles and culture

Methodology

This study adopted descriptive research design. According to Gay (1981) a descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. Borg and Gall (1989) noted that descriptive survey research is intended to produce statistical information about aspects of education that interest policy makers and educators. The descriptive survey design was employed because it guaranteed breadth of observation and also provided for the accurate descriptive analysis of characteristics of a sample which was used to make inferences about population. Employee's Questionnaire (EQ) was used to get a deeper and wider exploration into research perspective which gave the research more quality and accurate information. Taking inferences from literatures, the model specifications here are formulated to test the three hypotheses and they are as follows:

$$EP = \beta_0 + \beta_1 JT + \mu_t \text{-----} 1$$

$$EE = \beta_0 + \beta_2 CDT + \mu_t \text{-----} 2$$

$$JQ = \beta_0 + \beta_3 RT + \mu_t \text{-----} 3$$

Where:

EP = employee productivity
JT = job training
EE = employee effectiveness
CDT = career development training
JQ = job quality
RT = refresher training

Statistical Test of Hypothesis

In the course of the study, three hypotheses were raised and tested using student t-statistics. The level of significance for the study is 5%, for a two tailed test. Using the student *t*-test (*t*-statistic), we say that a variable is statistically significant if *t*^{*} (*t*-calculated) is greater than the tabulated value of ±1.96 under 95% (or 5%) confidence levels and it is statistically insignificant if the *t*^{*} is less than the tabulated value of ±1.96 under 95 % (or 5%) confidence levels.

Hypotheses One: *H₀₁: Job training has no significant effect on employee productivity* Model one:

$$EP = \beta_0 + \beta_1 JT + \mu_t \text{-----} 1$$

Regression Result EP and JT

Dependent Variable: EP

Method: Least Squares

Date: 03/29/17 Time: 16:44

Sample: 162

Included observations: 162

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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JT	0.235622	0.036428	2.700363	0.0097
C	3.257837	0.878599	3.707992	0.0010
R-squared	0.517843	Mean dependent var	2.646264	
Adjusted R-squared	0.418533	S.D. dependent var	0.517805	
S.E. of regression	0.522582	Akaike info criterion	1.606401	
Sum squared resid	7.373470	Schwarz criterion	1.700697	
Log likelihood	-21.29281	Hannan-Quinn criter.	1.635933	
F-statistic	3.490508	Durbin-Watson stat	1.862242	
Prob(F-statistic)	0.089692			

Source: Authors Computation, 2017 (Eview-7.0)

$$EP = 3.25 - 0.23JT \text{ ----- (2)}$$

$$SEE = 0.87 \quad 0.33$$

$$t^* = 3.70 \quad 2.70$$

$$F^* = 3.49; \text{Prob(F-statistic)} = 0.008$$

$$R^2 = 0.5178; \text{Adj.}R^2 = 0.4185$$

$$DW = 1.86$$

Test of Hypotheses One: H_{01}

From the regression result in table 6, it was observed that the calculated t-value for **Job training(JT)** is 2.70 and whilst the tabulated value is -1.96. Since the t-calculated is less than the t-tabulated ($2.70 < 1.96$) it thus falls in the acceptance region and hence, we accept the first null hypothesis (**H_{01}**). The conclusion here is that **Job training has no significant effect on employee productivity**

The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction. The R^2 (R-square) value of 0.5178 shows that the JT and EP has a good fit. It indicates that about 51.78 per cent of the variation in BE is explained by TR, while the remaining unaccounted variation of 48.22 percent is captured by the white noise error term

Serial correlation

Durbin Watson (DW) statistic was used to test for the presence of serial correlation or autocorrelation among the error terms.

The null hypothesis is:

$H_0 : \rho = 0$ That is, the μ 's are not autocorrelated with first order scheme. This hypothesis is tested against the alternative hypothesis;

$H_1 : \rho \neq 0$ That is, the μ 's are autocorrelated with a first-order scheme.

Therefore, if there is no autocorrelation, $\rho = 0$ and $DW \approx 2$.

The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 1.86. This shows that the estimates are unbiased and can be relied upon for policy decisions.

Hypotheses Two: H_{02} : career development training (CDT) has no significant influence on employee effectiveness

Model Two: $EE = \beta_0 + \beta_2 CDT + \mu_t$ -----2

Regression Result EE and CDT

Dependent Variable: EE

Method: Least Squares

Date: 03/29/17 Time: 16:46

Sample: 162

Included observations: 162

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CDT	0.325420	0.167159	1.986770	0.0420
C	1.030982	0.523729	1.968540	0.0594
R-squared	0.623089	Mean dependent var	2.049110	
Adjusted R-squared	0.590611	S.D. dependent var	0.157769	
S.E. of regression	0.150451	Akaike info criterion	-0.883881	
Sum squared resid	0.611162	Schwarz criterion	-0.789585	
Log likelihood	14.81628	Hannan-Quinn criter.	-0.854349	
F-statistic	3.789915	Durbin-Watson stat	1.886830	
Prob(F-statistic)	0.062035			

Source: Authors Computation, 2017 (Eview-7.0)

$EE = 1.03 + 0.32CDT$ ----- (4)

$SEE = 0.52$ 0.16

$t^* =$ 1.96 1.98

$F^* =$ 3.78; Prob(F-statistic)=0.06

$R^2 = 0.6230$; $Adj.R^2 = 0.5906$

$DW = 1.88$

Test of Hypotheses Two: H_{02}

Mores so, from the regression result in table 7 the calculated t-value for CDT is 1.94 and the tabulated value is 1.96. Since the t-calculated is also less than the t-tabulated ($1.98 > 1.96$) it also falls in the acceptance region and hence, we reject the second null hypothesis (**H02**). The conclusion here is that *career development training (CDT) has a significant influence on employee effectiveness*

The R^2 (R-square)

Furthermore, the coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is also reasonably fit in prediction. The R^2 (R-square) value of 0.6230 shows that the CDT has a good impact on . It indicates that about 62.30 per cent of the

variation in **employee effectiveness** is explained by **CDT**, while the remaining unaccounted variation of 37.7 percent is captured by the white noise error term

Serial correlation

The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 1.88. This shows that the estimates are unbiased and can be relied upon for policy decisions.

Hypotheses Three: H_{03} : refresher training has no significant effect on job quality

Model three: $JQ = \beta_0 + \beta_3 RT + \mu_t$ -----5

Regression Result JQ and RT

Dependent Variable: JQ

Method: Least Squares

Date: 03/29/17 Time: 16:48

Sample: 162

Included observations: 162

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RT	0.591799	0.177936	3.325913	0.0025
C	5.906374	1.168310	5.055485	0.0000
R-squared	0.590625	Mean dependent var	2.220629	
Adjusted R-squared	0.564352	S.D. dependent var	2.322767	
S.E. of regression	1.992235	Akaike info criterion	4.282864	
Sum squared resid	107.1631	Schwarz criterion	4.377160	
Log likelihood	-60.10153	Hannan-Quinn criter.	4.312396	
F-statistic	11.06170	Durbin-Watson stat	2.127461	
Prob(F-statistic)	0.002548			

Source: Authors Computation, 2017 (Eview-7.0)

$JQ = 5.90 + 0.59RT$ ----- (6)

$SEE = 0.17 \quad 1.16$

$t^* = 5.05 \quad -3.32$

$F^* = 11.06$; Prob(F-statistic)=0.002

$R^2 = 0.5906$; $Adj.R^2 = 0.5643$

$DW = 2.12$

Test of Hypotheses Three: H_{03}

The calculated t-value for RT was found to be 3.32 and also by rule of thumb, the tabulated value is ± 1.96 under 95% confidence interval levels. The calculated TF was found to be greater than the tabulated value (that is; $3.32 > 1.96$), we thus, reject the third null hypotheses (H_{03}). **In conclusion, refresher training has no significant effect on job quality**

The R^2 (R-square)

The coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is also reasonably fit in prediction. The R^2 (R-square) value of 0.5906 shows that the TF has a strong but, negative impact on PR. It indicates that about 59.06 per cent of the variation in PR is explained by TF, while the remaining unaccounted variation of 40.94 percent is captured by the white noise error term

Serial correlation

Durbin Watson (DW) statistic was used to test for the presence of serial correlation or autocorrelation among the error terms.

The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 2.12. This shows that the estimates are unbiased and can be relied upon also for policy decisions.

Discussion of Findings

The results showed that Job training has had a significant effect on employee productivity. This is in agreement with Neelam (2014) who argued that productivity and workers performance have a strong relationship with development and training. Training and development leads to enhanced productivity through increased knowledge and skills of employees. He stated that training and development are the backbone of human resource management, as these can increase the performance at individual and group levels thereby achieving organizational goals.

More so, career development training (CDT) had a significant influence on employee effectiveness. It was found that those employees who have taken career development trainings were more capable in performing different task & vice versa. Training has direct relationship with the employees' performance. And lastly, refresher training has had a significant effect on job quality.

Conclusion and Recommendation

Organizations should embrace various job-training programmes in order to enhance employee efficiency and performance and thus add profitability in the organization. These values may include job satisfaction, challenging work, a sense of accomplishment and growth, sufficient financial compensation and other rewards and recognition the individual consider necessary and important hence if employees are properly motivated, they will make customers happy by giving them first hand services and hence improve on service delivery. The rationale behind these recommendations may be different, but foremost it is rooted in human's growth-need. Therefore organizations with proper laid down employee job-training programs will enhance employee performance and thus increase the levels of task performance

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IMPACT OF LEGISLATURE ON PUBLIC BUDGETING DECISION IN NIGERIA

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Abstract

The constitution of the federal republic of Nigeria empowers the legislature to make laws for peace, order and good government. This powers of law making and oversight had been misunderstood and misinterpreted by various interest groups in Nigeria. This study examines the impacts of legislature in public budgeting decision. The role of legislature in Nigeria like many other democracies in the world is enamors and cannot be over emphasized. The research work adopted survey research design, questionnaires were administered and responses were analyzed using simple percentage and correlation analysis. Journals and articles related to this work were also reviewed. The study found that the legislative powers in Nigeria are beyond edge in terms budgeting decision especially as it affects allocation of resource allocation to the citizens. The paper recommends national discuss on the constitutional role of both the executive and the legislature and timely capacity building programs.

Keywords: Legislature, Public budgeting, Governance, Budgeting decisions

INTRODUCTION

The two most important players in the budget process are the legislature and the executive arms of government. Their respective role and power in the budget process differ from country to country and are influenced by many factors, including the wider historical, constitutional and political context as well as the legal and procedural aspects of the budget process itself and internal legislative structures and processes (Posner & park, 2007). The Nigerian national assembly just as most legislatures in other democracies is the arm of government charged with the responsibility for law making and oversight function over the other arms of government. The basic and core law making responsibility is conferred on the national assembly by the 1999 constitution. Section 4 of the constitution empowers the national assembly to make laws for peace, order and good government of the federation or any part thereof. This power covers matters on both the Exclusive and Concurrent legislative list set out in the first and second schedule of part one of the constitution which impliedly includes the appropriation Act. With this, therefore the impact of the legislatures in public budgeting decision is seen on the role they perform in terms of representation, law making and oversight (Albert Tsokwa & Ochanja 2016).

LITERATURE REVIEW

Recent events have portrayed the extent of the powers of legislature with respect to public budgeting decision in Nigeria. The legislature is unquestionably, constitutionally at the heart of budgeting decision not only in Nigeria but also in most countries practicing presidential democracy (Dogara, 2016). The constitutional division of power between executive and legislative branches ranges from presidential systems of separation of powers, such as in the United States, where the legislature has a strong role, to Westminster parliamentary systems, where the executive generally dominates. In between are modified forms including semi-presidential systems and non-Westminster parliamentary systems.

Recent events have brought to the fore the extent of the powers of the National Assembly with respect to the Budgeting process. Indeed many commentators, including Lawyers, have contended that the power of the National Assembly (NASS) is restricted to examining the Budget and making corrections where necessary. Some contend that the Appropriation power enables the National Assembly to reduce but not to increase expenditure and that it lacks power to introduce new items into the Budget. However, a close examination of the Constitution shows otherwise. Section 4 grants general law making powers to the National Assembly; Section 80, particularly 80(2); 80(3) and 80(4) are unambiguous. Funds cannot be withdrawn from the Consolidated Fund of the Federation or other Public Funds of the Federation without legislative approval and or authorization. The Constitution requires that all legitimate federal expenditure must be in the MANNER prescribed by the National Assembly not by the Executive. It is our firm view that the word ‘manner’ used in S.80 (4) connotes some form of discretion on the part of the National Assembly.

Furthermore, S81(1) gives Mr President authority to “cause to be prepared and laid before each House of the National Assembly at any time in each financial year estimates of the revenues and expenditure of the Federation for the next following financial year”. The President submits mere estimates and not a budget as such because the Budget itself is a law which is an Act of the National Assembly and not that of the Executive (Dogara, 2016). Section 81(2) provides that the estimates should be in heads of expenditure and included in an Appropriation Bill. Section 81 did not specifically say how the

Appropriation Bill should be passed. It needs not say so since S.80 and S.4 had made elaborate provisions already. In any case, S.59 is specifically devoted to money bills and gives the National Assembly and not Mr President final authority over passage of the bill into law. The Constitution did not envisage that the National Assembly shall be a rubber stamp on budgetary matters (Dogara, 2016).

Those who contend that the National Assembly cannot increase the budget but can only reduce it are trying to import the British parliamentary law into a presidential system of government. In the British parliamentary system, the Crown has prerogative over money supply and the legislature is specifically prohibited from increasing the budget. It should be noted that the critical difference is that Parliament under a parliamentary system includes all the Ministers unlike the presidential system where the Ministers are not part of the National Assembly. It is therefore the decision of the Executive that carries the day in Parliament as the Ministers are also leaders of Parliament. This position is therefore justified on the basis of separation of powers which is inherent in a Presidential democracy as practiced in Nigeria. In addition, if the Constitution intended that the National Assembly should not have power to increase a budget item it should have said so.

Nigeria's budgeting system is closer to the model practiced in the United States of America, where Congress has authority to alter, increase, reduce or indeed introduce new budget items. Article 1, Section 9 of the United States Constitution provides that: "No money shall be drawn from the Treasury, but in consequence of Appropriations made by law". This provision is similar to Section 80 of the Nigerian Constitution. The principles disclosed are that First, All monies are paid into the USA Treasury and in the case of Nigeria, all Funds are paid into the Consolidated Revenue Fund or other Public Funds of the Federation. Secondly, No money can be withdrawn from the Treasury of the United States of America except through Appropriation. In Nigeria, any withdrawal from the Consolidated Revenue Fund or other Public Funds of the Federation can only be made in pursuance of authorization of the National Assembly. In the USA, the Congress has authority to alter, increase, reduce or even introduce new items. Congress possesses unlimited amendment powers in the budget proposals. It can change funding levels, eliminate or add programmes, add or eliminate taxes or other sources of receipts (See the Budget of the U.S Government Fiscal year 1999 Washington DC, U.S Government Printing Office, 1998, page 2). In an International survey prepared by the National Democratic Institute, examples of jurisdictions are given on the role of the Legislature in budget making (Mainoma, 2017).

In Malawi, the Constitution effectively prohibits the Legislature from considering any bill or amendment for the imposition of any charge upon the CRF or any alteration of such charge unless the recommendation comes from the Government; this effectively prohibits amendment of the Ministers budget (Mainoma, 2017). Ghana – their constitution prohibits the imposition of charge on the Consolidated Fund of Ghana or the alteration of any such charge otherwise than by reduction. South Africa – their 1996 constitution empowers the Legislature to offer amendments to the executive's budget but the Legislature must provide the procedure to exercise this power under a framework Law.

It must be noted that the defunct 1979 constitution and the current 1999 constitution of Federal Republic of Nigeria were in line with the principle of Separation of Powers amongst the Legislature, Executive and the Judicial Arms of Government. The Legislature makes laws; the Executive administers and enforce the laws while the Judiciary interprets the laws. In practice, there is

cooperation and inter-dependence amongst them. Also through the checks and balances one arm of the government can exercise some level of powers over the other arms while being careful in doing that, not to undermine or usurp their functions. But the Legislature should not be made to seem like a rubber stamp of the executive in the budgeting process by accepting the proposal hook, line and sinker. Budget is a plan for saving, borrowing and spending. It is a mere guess work of income and expenditure. The actual income or revenue may fall short of what is expected while expenditure may outstrip the expected revenue. From Section 81 of the constitution, it is clear that the President will after research on estimate of the revenue and expenditure for the year in question; present same to the National Assembly. The National Assembly is the custodian of the Nations' purse; one of its most basic and fundamental powers exercised is the power to make laws in relation to taxation of income, profits and capital gains. (See item 59 of the Exclusive Legislative List, 2nd Schedule PT 1 to the Constitution 1999 as amended) the question is "does the National Assembly have the power to sanitize, query, apportion, vary subtract from, add to multiply, tinker with in any way the plans and estimates presented to ensure conformity with the laws, especially the constitution?"

It must be noted that without the approval of the National Assembly the Executive cannot withdraw money from the consolidated revenue fund. See Section 80(2)(3) and (4) of the constitution. Article 1 Section 9 of the U.S Constitution is similar to Section 80 of our constitution. That section provides "No money shall be withdrawn from the Treasury but in consequence of the Appropriations made by law". This means all moneys are paid into the USA Treasury which is like our CRF. Also no withdrawal can be made from the USA Treasury except through appropriation. During the 20th century, the size and complexity of government grew exponentially in Nigeria and OECD countries, along with a greater focus on international issues and conflict affairs. In some countries, these trends promoted greater influence by the executive in budgeting. In recent years, however, executive roles have been challenged, as legislatures in certain countries have asserted new roles and responsibilities in budgeting. This trend is driven by many different factors, including the increased political stress on fiscal policy because of fiscal constraints and changes in the composition and cohesiveness of parties and party systems. Even in the United Kingdom, the core Westminster parliamentary system, new measures were introduced in the 1990 s to support the legislature's efforts to more effectively control public expenditure. The need to respond to current fiscal problems – and future fiscal risks – arising from ageing populations as well as performance management and budget reforms will continue to challenge both executive and legislative officials to adapt and strengthen their roles in the budget process. As budgeting becomes more relevant for a wider range of policy and management challenges, officials throughout government will increasingly focus on how they can influence these choices by repositioning their roles in budget formulation, execution and oversight (Posner & Park 2007).

Legislature and Public Budgeting

The legislative role in budgeting has evolved over centuries. In Nigeria the constitutional role of the legislature is vested on the two houses of the national assembly, as provided for in section 4 (1-5) and section 4 (6&7) in the case of the state assemblies. In England, the ascendancy of the legislature as a political and fiscal institution was integral to the shift from a monarchy to a democracy. Other countries have had similar experience. The independent exercise of the "power of the purse" was a primary anchor of the legislature's emerging role in the governance process. Determining the allocation of

resources among competing agencies and activities was critical to establishing the legitimacy and authority of the legislature as an institution competing with the monarchy.

Over time, the legislature's authority to appropriate public funds became the foundation for public budgeting and accountability, preceding the development of budgets by the executive. The fundamental power of appropriation gave the legislature formative influence in allocating funds among competing priorities. Legislatures went beyond this *ex ante* role to assume *ex post* influence over the process of budget execution and programme administration (Posner & Park 2007). Agencies were typically bound to follow the levels in detailed appropriation accounts in order to spend funds during the course of the year. Legislative influence over executive agencies was further reinforced by the exercise of oversight over agencies' management and budget implementation, either directly or through independent audit offices.

The roles currently exercised by legislatures actually range widely. The major influences include broader political, legal and institutional forces beyond the control of legislatures, as well as internal legislative structures and processes that can be changed by the legislature itself. The constitutional division of responsibilities between the executive and the legislature has a major impact on legislative-executive roles in budgeting. In presidential separation-of-powers systems, like in the United States, the legislature has a significant role in policy formulation and in budgeting, partly owing to its independent election by constituencies that are different from those of the president. Legislative powers are arguably weakest under the Westminster system, where the executive leadership is drawn from the parliament and where the legislature is politically obligated to support the government. In between are modified forms including the semi-presidential system (France, Korea), the parliamentary republic (Germany, Italy) and the non-Westminster parliamentary monarchy (Netherlands, Sweden) (Lienert, 2005, p. 1).

Party systems play a fundamental role in determining the degree of independence of the legislature *vis-à-vis* the executive. Strong, cohesive two-party systems will generally work to attenuate legislative influence. In these systems, legislatures have a working majority to support executive initiatives. Under these circumstances, there is often little incentive for the executive to bargain and little incentive for the legislature to disagree. In parliamentary systems, the majority party in the legislature can precipitate a downfall of its own government by voting against the budget or by making major amendments. The executive's influence is further strengthened if the national party selects legislative candidates, thereby ensuring that legislative members owe their allegiance more to national party leaders than to local constituencies. On the other hand, weaker two-party systems, as well as multiple-party systems, generally strengthen the role of legislatures in budgeting and in the policy process more broadly. In these systems, the executive must bargain with more independent legislative actors to ensure majority support for budgets and policy goals. Sometimes this bargaining takes place outside of formal legislative channels and institutions, such as in pre-budgetary negotiations, but should nonetheless be considered as an exercise of legislative influence over executive decisions.

The institutional structure and role of the legislature have a bearing on the legislature's ability to act. Generally speaking, bicameral legislatures may have greater possibilities for influence, particularly if one house has a political standing that is different from that of the government's majority. Thus, for

instance, the upper house in Australia and in Germany has different electoral constituencies and cycles that can lead to control by parties outside of the majority government. Also, legislatures that are full-time governing bodies will tend to attract members with an interest in promoting the legislature's role, as opposed to legislatures composed of part-time members with careers outside of government. Legislative bodies whose members serve for a number of terms tend to have greater expertise and interest in participating in governing than do those where membership is considered to be temporary. The structure of the budget will have a major bearing on the role played by the legislature in the budget process. Generally speaking, comprehensive budgets which afford maximum control to budget decision makers over allocations and levels provide the greatest opportunities for influence for political leaders, whether they are in legislative or executive branches. On the other hand, budgets with large portions deemed "uncontrollable", due to entitlements or to trust funds that are considered to be external to general budgetary debates, will tend to limit the influence of the legislature in the annual budget process. While legislatures can still bid for influence over entitlements or trust funds, they must often pursue their interests outside the annual budget process in such areas as authorizing or enabling legislation.

Other factors lending themselves to legislative influence are more in the control of the legislature itself. For instance, as governing has grown more complex, legislative influence is in no small part a function of the capacity of the legislature to marshal the expertise and information necessary to monitor and supervise executive agencies. In this regard, legislatures that organize their budgetary review and oversight in specialized committees help to deconstruct large, complex budgets and divide the labour of reviewing such massive amounts of information. Specialized committees also encourage legislative officials to acquire sufficient expertise to effectively compete with and, when necessary, challenge executive officials.

Trends in Legislative Budgeting

The 20th century was a century in which legislatures faced new challenges in asserting their influence in budget formulation and execution. Factors like the growth of government, the increased technical complexity and expansion of bureaucracy, and the seemingly perennial presence of international conflicts all served to solidify and reinforce executive responsibilities for the budget. In some countries, the executive budget was developed to provide coherence to the modern state and accountability to national constituencies that particularistic appropriation bills simply could not do. Legislatures themselves delegated powers to the executive, wary of their own instincts to favour particular constituency-based policies at the expense of the broader fiscal wellbeing of the country. Moreover, legislatures did not have expertise to keep up with the growing sophistication and complexity of modern budgets, particularly when compared to the detailed knowledge possessed by executive bureaucracies (Schick, 2002).

The eclipse of the legislative role in budget formulation was reflected in the limited formal roles legislatures were given in developing and approving budgets. Legislatures had little formal power to review or approve overarching budget targets or policies, nor were legislatures generally involved in approving medium-term expenditure frameworks. The authority of many legislatures to change

executive proposals was limited as well. Many were only able to cut spending, while others that wished to raise spending on line items were forced to search for offsets to neutralize their effects on the budgetary bottom line. In contrast with regular laws, budgets were often not enacted into law, but rather set in motion through executive proposal or legislative resolutions. Many legislatures had small staffs without the deep institutional knowledge necessary to effectively compete with the executive, and the executive was often loathe to share important information that had been developed in a highly privileged and somewhat secretive process. The limited time available to review government budget documents and plans only compounded the legislature's problems: for instance, the United Kingdom Treasury submits estimates only two weeks before parliament must consider them. The formal limits were offset to some extent by considerable informal consultation and bargaining, particularly in those legislatures where the executive did not enjoy a commanding and cohesive majority of its own partisans. Even where legislatures had effective control over executive budgeting, their roles were largely defined as checks on executive plans and proposals. In an era where government has become more important in society, a primarily negative role failed to command the respect of citizens who looked to their national leaders to solve a growing menu of increasingly daunting problems. Even in strong legislatures such as the United States Congress, the power to say no fails to capture the public imagination, as government is valued more for what it can do than for what it refuses to do (Cooper, 2001). And acting as a check on executive power is all the more difficult as budgets become dominated by entitlements and tax expenditures: these have become viewed as rights which, if changed, would cause detriment to families and economies alike.

Recent years have witnessed a resurgence of legislative roles and responsibilities in budgeting. In many countries, the efforts have had broad bipartisan support for assisting the legislature in recapturing some of its influence in the budget process. The legislative resurgence was prompted by several important trends:

- First, fiscal balances are increasingly viewed as precarious, particularly over the longer term, and budget and tax policies define the capacity of any system to satisfy the political demands placed by constituencies on legislatures. Moreover, the globalization of markets has made countries' fiscal position more precarious and consequential; losing the confidence of world credit markets has broad sweeping consequences for a country's standing at home. Legislative leaders ignore fiscal policy at their peril, for they could thus alienate themselves from the process that can prevent, mitigate or respond to threats to the country's economy and social wellbeing.
- Second, party systems in many countries have become frayed as emerging economic and demographic forces splinter previously cohesive parties into narrow blocks or factions. Many legislatures are not managed by cohesive party leaders but rather through a turbulent combination of factions and parties. In fragmented political settings, political factions succeeded in using legislative footholds to challenge executive-led fiscal policy, prompting them to champion reforms to institutionalize stronger legislative roles and capacities.
- Third, democratization in many formerly closed systems, such as in central Europe, has spurred changes to promote legislative activity in budgeting (Wehner, 2004). Assigning new roles to

the legislature is part of a broader movement toward openness and transparency in government. Accountability has become a watchword for governance reforms, as reformers dust off historic conceptualizations of legislatures as a check on unilateral and unmitigated central government power.

- Finally, the relationship between the executive and the legislature in budgeting is a competitive one in many systems. Legislatures compete with executives for influence over budget formulation and for control over executive agencies' actions. Ironically, the reforms instituted by executives to strengthen their own roles in budgeting prompted legislatures to adopt similar measures. Thus, as noted below, the adoption of top-down budgeting frameworks in executive budgeting was accepted by legislatures, which realized that failure to do so would weaken their position in the system. Similarly, the superior information on spending and performance possessed by executive budget offices has prompted legislatures to acquire and improve their own information capacities.

Recent Innovations in Legislative Roles

Legislatures are expanding their roles and influence in budgeting in several different areas. This is not surprising given the wide variance of legislative activities in budgeting. Recent reforms can be characterized as both strengthening traditional legislative controls over executive powers and projecting new legislative roles in setting overall fiscal policy targets and government performance. Legislatures have also taken steps to equip themselves with greater capacity and information to carry out these new responsibilities. It should be noted that, while there is a trend toward expanding legislative involvement in budgeting, the reforms themselves proceed from a very low level of involvement. As noted above, legislatures have often been given limited roles in the past due to real political, constitutional and technical constraints. The legislative reforms fall into several categories: approving *ex ante* fiscal frameworks, broadening the portion of the budget subject to legislative review, strengthening institutional budget and deliberative processes, increasing legislative budget capacity, changing appropriation structures and budget execution, and enhancing *ex post* oversight. In many cases, countries have adopted reforms across many of these categories, but some have concentrated their initiatives on only one aspect.

The 2016 Appropriation Bill may go down in history as the most controversial budgeting process in the history of Nigeria. This unfortunate act is believed to have been an entrenched practice in finance and planning process all through the years in a classic case of official corruption. Every individual, organization and nations engage in budgeting. It is as old as man. The budget is the master plan of government. It brings together estimates of anticipated revenues and proposed expenditures, implying the schedule of activities to be undertaken and the means of financing those activities. In the budget, fiscal policies are coordinated, and only in the budget can a more unified view of the financial direction which the government is going to be observed. Therefore budgeting is essentially planning for expenditure as a person, entities or even as a nation.

The word padded is defined by Merriam Webster's Collegiate Dictionary, Eleventh Edition as to furnish with a pad or padding ... to expand or increase especially with needless, misleading or fraudulent matter..." padding is the „material with which something is padded“. Padding the budget

on the other hand means making the budget proposal larger than the actual estimates for the project. Budgetary slack in this paper is defined as the subordinates' intentional biasing of performance targets below their expected levels which is consistent with (Chow, Cooper, & Haddad, 1991). This is done either by increasing a project's expenses or decreasing its expected revenue. The insertions of figures into the budget or mutilations of the budget without the consent of the owner of the document (the president) or with intent to betray the initial objectives of the budget preparation remain very suspicious. The goal of budget padding could mean to get an approval committee to grant an artificially high level of funding to the budget maker's proposed project. According to Wahab (2016), padding the budget is a practice that some people use in business when submitting a budget for approval. It artificially inflates the proposed budget in order to give the project room to expand or to cover unexpected costs. Budget makers face several incentives to pad their budgets especially in limited liabilities establishments. First, they want to account for economic factors. This is true of budget increases that anticipate inflation or, in the case of international projects, fluctuations in exchange rates. Second, they want to avoid red tape. If an unexpected expense arises, the padding gives the project flexibility to cover budget slack or breathing room. Third, they want to make a favorable impression on their superiors. If they propose a larger budget and then outperform the budget, then the project team will be viewed favorably by the bosses. Finally, they fear budget cuts as budget preparers' fight against cuts that they see as unfair by anticipating them with an inflated proposal.

Budget Padding

Falana (2016), Padding takes place when legislators resolve to rewrite the budget by introducing new items outside the estimates prepared and presented to them by the president... Neither the Constitution nor the Fiscal Responsibility Act has empowered the National Assembly members to rewrite the national budget by including constituency projects whose costs are arbitrarily fixed by the legislators. According to Falana (2016), about 20 legislators in both chambers of the National Assembly altered the budget by inserting constituency projects worth N100 billion in the Appropriation Bill. Both the Senate and the House allocated to themselves N60 billion and N40 billion respectively. If it is established that the alterations were effected after the passing of the budget by both chambers, the issue at hand goes beyond padding and become a clear case of conspiracy, fraud, forgery and corruption. Padding is an unconstitutional infraction when the p estimates are increased on the floor of the House. The infraction becomes criminal when the Appropriation Bill is altered by a few legislators after it had been passed by both houses of the National Assembly. With the foregoing therefore, budget could be seen to be padded due to one of the following:

- i. ***It creates illegal funds for Preparers and Beneficiaries:*** Apart from their allowances and salaries it helps them with extra funds to continue to keep their political structures and remain „powerful“.
- ii. ***Padded funds can also be laundered:*** Since budget padding involves secret insertion of line items so it creates an avenue for such funds to be diverted without anyone noticing.
- iii. ***Excess funds are shared at the end of the year:*** The budget padding is done by group of lawmakers secretly without the knowledge of their colleagues. So this caucus now shares the infused funds among themselves and they tend to repeat this year after year.

- iv. ***Padded funds are not returned to the treasury:*** Since these funds are used for phony projects which do not exist, it provides an avenue for lawmakers to divert the funds for private use.
- v. ***Extra money is used for patronages:*** Excess funds from budget padding are now dispensed as political patronages. So when you hear different organizations pay courtesy visits to politicians they don't go empty handed.
- vi. ***It is a source of easy money for civil servants:*** Civil servants see the budget as an avenue to enrich them by inflating the budget for their ministries. Some of them do this in connivance with the lawmakers.
- vii. Budgets are padded to anticipate a downward review by the appropriation committee: Budget is sometimes padded by ministries to enable them to have access to funds after it is been slashed.
- viii. ***It has been institutionalized:*** It has become a norm among lawmakers who now see this inappropriate way of laundering money as the in-house legislative culture.
- ix. It is typical of Nigerians to generally pad their expenditures: It has become a culture for Nigerian ministries and parastatals. Finally, insatiable greed of Nigerian politicians: The average lawmaker earns well. They also have the privileged of attracting projects to their constituencies in form of constituency's project approved by the president. Their feeding, clothing, transportation and furniture are taken care if by the government, yet they still pad the budget to make more money.

The Nigerian Experience

Issues surrounding budget padding is an invention of the executive and the blame for such criminal acts should first go to the executive. The road to this unfortunate episode began with the report that the 2016 budget was missing. It was later revealed that the executive had sent a second version different from the original one presented at the joint sitting of the entire, National Assembly by President Muhammadu Buhari. It was discovered by the legislature in the cause of their scrutiny of the budget that certain irreconcilable figures were added by some MDAs by way of inflated budgetary estimates, with possible intention to convert same to personal monetary gains if passed into law. This padding was further complicated by the fact that two versions of the budget existed and the National Assembly was in dilemma as to which to work with. The Presidency finally accepted the fact that it replaced the first version of budget with a second one because of discrepancies it discovered. This was interpreted as a veiled admittance that indeed the budget is padded. This was particularly dramatized by the minister of health, Prof Isaac Adewole during his budget defense on February 8th when he claimed that the figures contained in the document before him was strange and did not emanate from him. This claim reverberated all through the various MDAs when billions of naira was alleged to have been smuggled into the original estimates. The saga was blamed on a so-called „budget mafia“. The presidency acted swiftly by approving the sack of the Director General of the Budget office of the federation, Yahya Gusau and other top management staffs of the budget office on the 14th of February. According to Omonobi & Agbakwuru (2016), among the projects which votes were surreptitiously jerked up without the knowledge of the executive, were Nigerian railway modernization project: Lagos

– Kano standard gauge rail line project, which cost was raised by N32.5 billion and the consultancy dredging and river training works (N609 million) under the Ministry of Transportation. Others, according to the document, are the Code of Conduct Bureau which had N4.4 billion added to its vote, provision of broadband Internet Service to National Assembly by Nigcomsat, N318 million, Training and Consultancy for Nigcomsat 2 Project, N3.5 billion etc, in the Ministry of Communications. Most scandalous, according to the document, is the case of Ministry of Works, Power and Housing where 82 new projects, principally roads, with a total provision of about N50.63 billion, were inserted in the budget. The aggregate expenditure as contained in the budget details as passed, is higher than that in the Appropriation Bill by about N481 billion, compared to the Appropriation Bill. “The executive made provision for the sum of N60 billion to be used by members of the National Assembly in funding their constituency projects. This was increased by the National Assembly to N100 billion.

The executive proposal of N4.06 billion for the provision for test kits, vaccines and antiretroviral drugs under the Federal Ministry of Health was reduced to N1.01 billion. In the history of Budgeting system, budget padding is not new. In 2014, A constitutional lawyer, Tunji Abayomi, had to drag the former Senate President, David Mark and Speaker of the House of Representatives, Aminu Tambuwal, before the Federal High Court, Abuja over padding of the 2014 budget by about N53 billion. Akpata (2016) stated that “the results of the study show that corruption in Nigeria could cost up to 37% of Gross Domestic Products (GDP) by 2030 if it’s not dealt with immediately. This cost is equated to around \$1,000 per person in 2014 and nearly \$2,000 per person by 2030. The boost in average income that we estimate, given the current per capita income, can significantly improve the lives of many in Nigeria

Effects of Budget Padding and Moral Implication

- i. Budget padding can impede and retard Nigerian economic growth and development.
- ii. Budget padding may be likened to corrupt practices. Deprived government funds, thereby reducing public spending on socio-economic infrastructures, social services, poverty oriented programs.
- iii. It has appearance of criminality and financial embezzlement.
- iv. It tends to diversion and misappropriation of public funds.
- v. Antidevelopment to the extent that it reduces the amount of funds available to be used for developmental purposes. Funds that should have been used to better education, health, infrastructure and other items needed to encourage a good life of Nigerians are stolen by a microscopic few.

Furthermore, budget padding involves conspiracy to act corruptly and illicit enrichment corruption diverts limited funds or resources, undermines economic progress and impedes policy changes required for economic growth and development, persistent and deepen corruption in Nigeria led to high rate of poverty, inequality, unemployment, destitution, diseases, illiteracy and deteriorated living standard among the citizens. According to Nasir (2016), the recurrent situation of corruption has negatively affected the standard of living of the 80% of the population of Nigeria because corruption undermines the government ability and capacity to deliver range of basic needs and social services

such as health, education, roads, portable water supply, electricity, housing and general welfare services. Through corruption Nigeria loss huge revenue, loss both internal and foreign investors, increase the cost of goods and services leads to the production of sub-standard products and goods and services, and contracts. The current capital shortage Nigeria is facing in the economy 60% must be attributed to corruption.

Moral Implications

The issue of budget padding is a monumental national disgrace. This shows the level of moral bankrupt and shameless open displace of inordinate financial ambition and fraud. According to Michael (2016), the implications and harm caused by the abnormal conduct of the Speaker, the principal officers and all others at the senate are many. First, it has to do with that of national embarrassment and moral disgrace it imposed on the Nigerian State. Secondly, the injustice done to Nigerians, whose Representatives were not part of the padding process, and lastly, the diversion of funds and non-execution of constituency projects In the international level, Nigerians are seen as fraudulent people, thieves and figure manipulators. Meanwhile, it is pertinent to note that the same Lawmakers who are running a divisive and non-inclusive legislative house are the same set of leaders that preach oneness across the Nigerian polity. It is a disgusting, however, that Nigerians will erroneously support the political lust of these controversial leaders come 2019. Michael (2016) further opined that if it were to be in advanced nations, Speaker Dogara and other Principal Officers in the House would have resigned their portfolio in order to calm the brewing situation and protect the image of the nation before the world. For instance, a former Speaker of New York State Assembly, Sheldon Silver, resigned his leadership post on February 2, 2015, after being charged for corruption. In like manner, Dean Skelos, a former majority leader of New York State Senate, resigned May 11, 2015, a week after his arrest based on corruption charges. Most recently, is the resignation of the Prime Minister of Iceland, Sigmundur Gunnlaugsson, who stepped aside on April 5, 2016, after the revelation of the Panama Papers Scandal, which indicted also our Senate President, Bukola Saraki.

METHODOLOGY

The paper adopted survey research design. Materials were sourced through the use of questionnaire. Data were collected from members of the national assembly and some selected state assemblies from the six geo-political zones. The selected states are Nasarawa, Kano, Rivers, Enugu, Gombe and Lagos. The table below shows the distribution of the population.

CLASSIFICATION	POPULATION	SAMPLE
Senators	109	109
Members (HOR)	360	360
States assemblies		
Nasarawa	24	24
Kano	40	40
Rivers	32	32
Enugu	24	24
Gombe	24	24

Lagos	40	40
Total	653	653

Out of the population above, a sample is drawn using Taro Yaman sampling procedure as stated below:

$$n = N / (1 + N(e)^2)$$

$$n = 653 / (1 + 653 (0.05)^2) = 400$$

From the above therefore a total of 400 legislators from both federal and state were issued with questionnaire, in order to address the problem of size effect as some assemblies have higher number of members, we decide to weight the population of each state. The table below shows samples of legislators selected for the study.

Federal and state legislators	Number of house members	Sample
Senators	109	$109/653 \times 400 = 67$
Members (HOR)	360	$360/653 \times 400 = 220$
State assemblies		
Nasarawa	24	$24/653 \times 400 = 15$
Kano	40	$40/653 \times 400 = 24$
Rivers	32	$33/653 \times 400 = 20$
Enugu	24	$24/653 \times 400 = 15$
Gombe	24	$24/653 \times 400 = 15$
Lagos	40	$40/653 \times 400 = 24$
Total	653	400

In the distribution of the questionnaire, only members who have served two terms were issued within the questionnaire though the required sample is 400, 500 questionnaires were administered, the extra 100 were used as lag to take care of problems of unreturned questionnaires which is capable of distorting the required sample results. However the extra questionnaire was not considered in the distribution. The data collected were analyzed using percentage counts and correlation analysis which is presented below. Out of the 500 questionnaire issued only 400 were used in the analysis

Table 3

1. The legislature has more information about the need of the electorates on resource allocation

	Responses	Percentage
Always	68	17%
Often	200	50%
Sometimes	132	33%
Rarely	0	0%
Never	0	0%
Total	400	100%

Table 3 above analyses the responses to question one suggesting that 17, 50 & 33% responded with always, often and sometimes respectively while zero responses were received with respect to rarely, and never. This indicates the level of acceptability to the fact that the legislature has more information about the need of the electorates or resource allocation.

Table 4

2. The legislature covers the interest of the electorate on resource allocation in Nigeria

	Responses	Percentage
Always	200	50%
Often	132	33%
Sometimes	68	17%
Rarely	0	0%
Never	0	0%

Table 4 above analyses the responses to question one suggesting that 50, 33 & 17% responded with always, often, and sometimes respectively while zero responses were received with respect to rarely, and never. This indicates the level of acceptability to the fact that the legislature has more information about the need of the electorates or resource allocation.

Table 5

3. Public opinion influence budgeting decision in Nigeria

	Responses	Percentage
Always	132	33%
Often	132	33%
Sometimes	68	17%
Rarely	68	17%
Never	0	0%

Table 5 above analyses the responses to question three suggesting that 33, 33, 17, 17% responded with always, often, sometimes, rarely respectively while zero response were received with respect to never. This indicates the level of acceptability to the fact that the legislature has more information about the need of the electorates or resource allocation.

Table 6

4. Lobbying by the public through their representatives influence resource allocation in Nigeria

	Responses	Percentage
Always	67	17%
Often	266	66%
Sometimes	67	17%
Rarely	0	0%
Never	0	0%

Table 6 above analyses the responses to question four suggesting 67, 266, 67 responded with always, often, sometimes respectively while zero responses were received with respect to never. This indicates that the level of acceptability to the fact that the legislature has more information about the need of the electorates or resource allocation.

DISCUSSION OF FINDINGS

Evidences from this paper indicated that the legislators have wide scope of powers for legislative activism. This is reflected in their constitutional powers over the budgetary processes which includes unlimited amendment power of the draft budget and oversight. this is reasonable as it is intended to provide checks and balances and also ensure the entrenchment of fiscal accountability and transparency in the budgetary processes.

This paper examined impact of the legislature on public budgeting decision with a view to tackling the perennial problems of determining who has the constitutional powers of altering the provision of the budget and late presentation of the Appropriation Bill to the National Assembly by the President—a Constitutional duty imposed on the President by Section 81(1) of the Constitution. The paper established that since 1999, successive Presidents, have failed to meet the international good practice of presenting the budget to the National Assembly 2-4 months before the commencement of the next financial year. The study found that though Section 81(1) of the Constitution provides the timeframe within which the President is to lay the Appropriation Bill before the NASS, no timeline is provided. Section 81(1) of the Constitution, thus, became subject to abuse by successive Nigerian Presidents. The enactment of the Fiscal Responsibility Act (FRA) 2007 intended to tighten the loose ends in Section 81(1) compounded the problem of late submission of the appropriation bills to the National Assembly. This has frequently led to reversionary budget provision under Section 82 of the Constitution with all its negative consequences, including delay in the implementation of the new policy initiatives and investment projects that ought to be implemented with new budget. To ensure timeliness in the passage of the Appropriation Acts, Sections 81(1) and 82 of the 1999 Constitution and the FRA 2007 were recommended for amendment. A budget law such as the US Congressional Budget and Impoundment Control Act, 1974, be enacted.

CONCLUSION AND RECOMMENDATIONS

From the foregoing, it can be concluded that the impact of legislature on public budgeting decision in Nigeria cannot be over emphasized. The Appropriation Act is the major instrument for delivery of services to the nation. It is a social contract between the people and its government. the Appropriation Act has provided a mechanism for a resolution through consultations. A situation where the Executive branch picks and chooses which aspects of the Act to execute without consultation with the Legislature is untidy and undermines the foundation of the constitutional order. Appreciable Budget implementation will act as stimulus and help to reflate the economy. The Legislature consequently should rise up and conduct proper oversight on the activities of the Executive with respect to the budget to ensure that projects and programmes contained in the Budget to improve the economy, fight poverty, provide infrastructure, education, health services and enhance socio economic

development of the nation is carried out. Consequently, it is recommended that there is an urgent need for Budget Reform in Nigeria. It is axiomatic to note that any realistic, credible and lasting Budget Reform process will involve:

- i. A review of the Legal Framework to ensure that the Annual Budget is submitted on time. This will lead to amendment of S.81(1) CFRN, which gives the President authority to present the estimates of revenue and expenditure 'at any time' within a financial year.
- ii. The imperative necessity to ensure that the Budget is passed on time, before the commencement of the next financial year. This may, if necessary, require that a budget time frame be included in the Constitution to bind both The Executive and Legislature.
- iii. A clear development plan with broad national consensus should be put in place that deals with short, medium and long term plans of the nation.
- iv. We must ensure that yearly budgets follow the development plans as much as possible, except emergencies arise. MTEF should be detailed enough to contain major projects contemplated in a three year period with approximate costing.
- v. Projects that are admitted to the National Budget are not properly thought through and based on actual need with relevant spread to reflect federal character of Nigeria. This entails that project selection process must be more transparent, need based and technically driven with justification. Discretionary and whimsical selection of projects must be downplayed.
- vi. That the Technical capacity of both the bureaucracy and Members of both the Executive and legislative branch on budget matters is deliberately beefed up. Most importantly, there should be capacity building program to sensitize both the executive and the legislature on constitutional responsibilities on budgeting
- vii. There should be extensive stakeholder consultation at the executive level during preparation of the Budget.
- viii. There must be a robust Pre-budget interface between the Executive and Legislature, to reduce areas of friction during the Appropriation process.
- ix. Clear Budgetary objectives and government targets to be achieved in the Budget should be clearly stated. Government must set out clear objectives and targets it intends to achieve during the budget year, which should be widely disseminated to all stakeholders and the Nigerian people.
- xii. Amendment of Section 82 of the Constitution to reduce the time the previous years budget will continue to run in the event that the Appropriation Act is not passed at the beginning of the Financial year from 6 months to 3 months as this distorts the Budget process.
- xiii. A critical look should be taken at the operation of Financial Year as defined in S. 318 of the Constitution. A situation where an approved budget is not allowed to operate for 12 months is constitutionally unacceptable. This is the main reason for failure of budget implementation every year

and the cause of abandoned projects that litter the Nigerian landscape. When projects are not completed, the nation is terribly short-changed as the money and effort invested in it is lost. In this regard, we must institute a compulsory mechanism that rolls over major projects that is not completed in one budget year into the following year's budget. The current practice of not including on-going projects in the following year's budget is a huge waste of resources.

xiv. I wish to draw attention to the existence of the problem of lack of full disclosure of the appropriate size of the National budget and the actual revenue and expenditure of the Federal Government of Nigeria. It is recommended that the Executive should look into the possibility of having just one National Budget that captures the revenues and expenditure of all MDAs, such as NNPC, CBN and other revenue generating government agencies. This should be included in the yearly Appropriation Bill. I must commend Mr President for formally sending the Budget of these Agencies to the National Assembly this year. The budget of these agencies should not just be an 'attachment' to the Appropriation Act but an integral part of the National Budget.

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EFFECTS OF BRANDING ON CONSUMER PURCHASE DECISION IN SELECTED COMPANIES IN JOS, PLATEAU STATE

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Abstract

In a competitive business market environment such as Nigeria, it is difficult for company to build a database of loyal consumers. Experience in marketing management show that it is much more difficult to retain customers than to obtain them for the first time especially when it comes to their purchase decisions. This paper thus examined the effect of branding on consumer buying behavior using selected companies located in Jos, Plateau State. Smith (1984) sample technique was used to estimate a sample of 126 out of purposive population of 558 NASCO group and Nigerian Bottling Company customers in Jos. Ordinary least square (OLS) regression method of analysis was employed in carrying out the empirical analysis. Findings from the study revealed that brand logo and symbol towards Nasco group and Nigerian Bottling Company product has positive and significant effect on consumer purchase decision (CPD). It revealed that the higher the value of brand logo and symbol, the higher the CPD. Brand logo/symbol offers superior quality of the service up to the customer's expectation and satisfaction. More so, it was revealed that product brand had positive and significant relationship with CPD. It showed that there is a significant relationship between core brand name and consumer purchase decisions towards Nasco group and Nigerian Bottling Company products. Lastly, brand design towards Nasco group and Nigerian Bottling Company products has positive effect on consumer level of purchase (CLP). It showed that about 94.42 percent of the variation or changes in consumer level of purchases were explained by brand design. The study thus recommended that firms or companies must constantly review the branding of their products in the face of changing consumer preferences and technological advancements so as to ensure the sustainability of consumer interest and purchase decisions.

Keywords: Branding, Brand Name, Brand Design, Consumer Purchase Decision, Brand Logo

1. Introduction

Today's world is more conscious about society whenever they make a purchase decision. Brands are now known for their corporate social responsibility and not merely on the basis of product only. Researchers have noted that it is imperative to take a closer look at how consumers develop relationship or interaction with brands and be able to form communities of brand in their own personal lives (Esch, 2016). Branding ultimately works as a signal. It allows consumers to quickly recognize a product as one they are familiar with or one they like. It acts as a memory cue, allowing consumers to retrieve relevant information from memory. This information may be about past experience of the brand, brand perceptions or brand associations. The information we have stored about brands is crucial in guiding our decisions. Brands that are recognized more quickly and easily are liked more and ultimately chosen more (Winkielman, Schwarz, Reber and Fazendeiro, 2010). Branding on packaging facilitates these memory processes, giving consumers the information they need quickly and efficiently. The speed with which consumers can find and recognize products is crucial in determining their decisions. Brand is a combination of name, symbol and design. Brands represent the customer's perceptions and opinion about performance of the product. The powerful brand is which resides in the mind of the consumer. Brands differ in the amount of power and worth they have in the market place. Some brands are usually unknown to the customers in the marketplace while on the other hand some brands show very high degree of awareness. The brands with high awareness have a high level of acceptability and customers

do not refuse to buy such brands as they enjoy the brand performance. Some brands commend high level of brand loyalty.

Brands also have a symbolic value which helps the people to choose the best product according to their need and satisfaction. Usually people do not buy certain brands just for design and requirement, but also in an attempt to enhance their self esteem in the society (Leslie and Malcolm, 2012). Brand names present many things about a product and give number of information about it to the customers and also tell the customer or potential buyer what the product means to them. Furthermore it represents the customers' convenient summary like their feelings, knowledge and experiences with the brand. More over customer do not spend much time to do find out about the product. When customer considers about the purchase they evaluate the product immediately by reconstructed product from memory and cued by the brand name (Hansen and Christensen, 2013).

A brand has a value; this depends on the quality of its products in the market and the satisfaction or content of the customer in its products and services. This provides the trust of the customers in the brand. If customers trust a brand quality it makes a positive connection to the brand and customers will have a reason to become a loyal to the brand. Loyalty and trust of the customers is very important for a company because it reduces the chance of attack from competitors (Aaker, 2016). Brands play a very important role in the consumer decision making processes. It is really important for companies to find out customer's decision making process and identify the conditions, which customers apply while making decision (Cravens and piercy, 2013). Marketers are highly concerned to know how brand names influence the customer purchase decision. Why customers purchase a particular brand also implies how customers decide what to buy. Customers follow the sequence of steps in decision process to purchase a specific product. They start realizing a requirement of product, get information, identify & evaluate alternative products and finally decide to purchase a product from a specific brand. When customers purchase particular brand frequently, he or she uses his or her past experience about that brand product regarding performance, quality and aesthetic appeal (Keller, 2008).

Nowadays, customers have a good knowledge about the branded products, they trust the well known brand name because branded products are offering them good quality what they expect from the brands. Most of the customers are loyal with some specific brands. Customers have high awareness about the known brands as compared to an unknown brand. Therefore, the primary objective of this research is to determine the influence of branding on consumer purchase decision using selected companies in Jos metropolis. In a competitive environment such as Nigeria, it is difficult for company to build a database of loyal consumers. Experience in marketing management show that it is much more difficult to retain customers, than to obtain them for the first time, as a customer does not have full experience with the product by purchasing it for the first time (Okpara, 2007). He or she is influenced by advertising, brand of producer and the trust in the product. In the process, most company find it difficult to convince or satisfy the customer on a product to buy. This task is not easy. In this process, brand could perform an important role of influencing customer better understanding and identification with a product and can make them return to its purchase based on the existence of the brand. The study addressed the following questions:

- i. What effect does brand Logo and symbol has on consumer purchase decisions?
- ii. To what extent has product brand significantly influenced consumer purchase decisions?

- iii. What effect does brand design has on consumer level of purchase?

In-line with the research questions, the following hypotheses were tested:

- i. Brand Logo and symbol has no significant effect on consumer purchase decisions.
- ii. Product brand has no significant influence on consumer purchase decisions.
- iii. Brand design has no significant effect on consumer level of purchase.

2. Literature Review

Concept of Branding

Various scholars have viewed brand from various perspectives. According to (Keller, 2008) Brand is “a name, sign, symbol, or design, or a combination of them, intended for the goods and services of one seller or group of sellers to differentiate them from others sellers or group competitively”. There has been a universal definition of the word brand. Previous research has explored a series of concepts related to the meaning value and effective use of brands. The broader concept of brand was used as a distinguishing name or symbol such as logo, trade mark, or package design. Brands are used to identify and distinguish between specific manufacturers of consumer goods (Burmam and Zeplins, 2009). Today, brands are widely recognized as important vehicles for differences among services, people, ideas, and organization.

Kotler and Keller (2009) explained further that, a brand is thus a product or service whose dimension differentiates it in some way from other products or service designed to satisfy the same need. Brand facilitates customers to cater for their needs in the best possible way, having a perfect confidence in the quality of the product as they had relied on that particular product before. In addition, it is expected that this practice will increase the chances of repeat purchase. Brand design is something that resides in the minds of consumers. A brand is a perception and perhaps an idiosyncrasy of consumers. Brand image/perception can be defined as the perception about a brand as reflected by the cluster of similar products that consumers connect to the brand name in memory (Rio and Azequez, 2001). A logo on the other hand, is a design symbolizing ones organization. It is a design that is used by an organization for its letter head, advertising material, and signs as an emblem by which the organization can easily be recognized, also called logotype. It is a symbol, sign, or emblem. Human beings have used such symbols throughout time to convey a succinct message. In present times, logos tend to be graphical in nature, designed for easy recognition of an organization. Brand Identity is essentially 'how' a business wants to be perceived by customers. It is through brand identity design that a brand strives to communicate clearly with the target audience. Product brand is an identity is the combined message transmitted via the brand name, logo, style and visuals. Product brand is the identity of a company; this word is expressed as a whole very complex concept that encompasses several categories of the advertising industry. Examples are louis Vuitton products that attracts consumers due to its brand name. It ranges from louis Vuitton bags, louis Vuitton perfume, louis Vuitton shoes etc.

Concept of Consumer Purchase decision

Intent to purchase is a kind of decision in which studied why a customer purchases a brand in particular. Constructs like considering something purchasing a brand and anticipating to purchase a brand aids to scope the intentions of purchasing. Porter (1974) elaborated customers' intention to purchase a focused brand is not merely by his same brand attitude, but also by his attitudes leading to other brands in

choice of set considered. Schoenbachler (2004) explained a type of loyal customer, whose purchase decision is insensitive to pricing and they show their loyalty by suggesting positive recommendations to the firm and even investing money in the brand which shows their extreme trust in the brand. Porter (1974) explained that customers' buying behavior also depends on the level of existing competition in the industry. Wang (2004) stated that people of China who have affordability for expensive imported branded items of clothing, they are becoming receptive in large numbers to fashionable styles internationally and demand for imported brand products is increasing due to variations in behavior of the consumer as well as growing purchasing power. According to Rajagopal (2006) under these circumstances, consumers must depend merely on extrinsic attributes of the product. Sovereignty of the consumer relies on saving decisions which want that the individual effectively finds income view of current and future consumptions (Redmond, 2000). To do so consumers should obey their practices in the past for the products in particular type (e.g. brand loyalty or habitual buying) in formation of the decision for the purchase of the product (Terrell, 2002). According to Sproles and Kendall (1986), a consumer's decision making style is "a mental orientation characterizing a consumer's approach to making choices".

Concept of Consumer Buying Decision

A consumer is a person or organization that uses economic services or commodities. It can also be seen as an individual who purchases goods and services from the market for his/her end-use. The process the consumer goes through when buying a product is referred to as consumer buying decision process where the outcome of such process is referred to as consumer buying behaviour. Consumer's purchasing behavior can be viewed as a signal of retention or defection towards the products. When there is no re-purchasing from consumers, the acquiring cost, which is the cost of getting new customers, will be costly, rather than retaining the satisfied current customers because their attraction involves advertising and promoting, and other promotional costs. Many people do consume a wide range of products every day, from basic necessities to high-valued collectables. As mentioned by Schiffman and Kanuk (2012), consumer buying decision is about how people make their decisions on personal or household products with the use of their available resources such as time, money and effort. Blackwell, Miniard, and Engel, (2006) further provide a holistic view that defines consumer buying decision as the activities and the processes in which individuals or groups choose, buy, use or dispose the products, services, ideas or experiences.

Consumer behavior is a challenging and controversial issue which includes people and what they buy, how and why they buy, marketing and marketing mixing with market. Consumer behavior is defined as follows: physical, mental and emotional activity which people do during selecting, purchasing, using and disposing of goods and services in order to satisfy their needs and their own desires (Samadi, 2003). The general impression is that consumer behavior is how people purchase goods and services, but in fact it is nothing more than the purchase of consumer goods and services by individuals. Consumer behavior in general, is defined as: Consumer's final decision regarding the acquisition, use and disposal of goods, services, time and ideas from different parts of the decision in a period of time (Hoyer and MacInnis, 2001).

Different stages of the consumer purchasing behavior have been identified by Kotler, Saunders and Armstrong (2005) and they are examined as thus; activities before purchase: Diagnosis the problem;

Gather information; Evaluation of options; Activity during shipping; choosing and buying decision; after purchasing activities; assessment of the Acquisition. Hoyer and MacInnis (2001) noted that the principal aim of consumer behaviour analysis is to explain why consumers act in particular ways under certain circumstances. It tries to determine the factors that influence consumer behaviour, especially the economic, social and psychological aspects that can indicate the most favored marketing mix that management should select. Consumer behaviour analysis helps to determine the direction that consumer behaviour is likely to make and to give preferred trends in product development, and attributes of alternatives communication method etc. Consumer behaviour analysis views the consumer as another variable in the marketing sequence, a variable that cannot be-controlled and that will interpret the product or service not only in terms of the physical characteristics, but in the context of this image according to the social and psychological makeup of that individual consumer (or group of Consumers). Consumer behavior includes the number of processes, stages of decision making, and activities in which customer/consumer make decision of buying, using and disposing off the products after usage or fulfillment of needs (Blackwell, Miniard, & Engel, 2006). Consumer behavior is a decision making process in which people make their purchase and other decisions keeping in view the available resources which are efforts, time and money (Schiffman and Kanuk, 2012). The decision is based on consumer preferences and consumer has his/her own preferences which may differ from each other Blackwell, Miniard, and Engel, 2006). As brand name or image increases the value of the brand in the eyes of the customers, so they are purchasing a particular brand again and again (Hoyer, & MacInnis, 2001).

Empirical Literature

It is believed that branding or re-branding, with a new name or logo does not come cheap and should therefore be handled with utmost care and precision lest it amounts to a total waste of money and other resources. Lead Edge (2005) asserts, based on the result of its survey that the value of a strong brand lies in the impression left with anyone who comes into contact with the organization. They further opined that the most compelling reasons for effective branding is to achieve customer loyalty and support a premium price because purchasers rely on experience and their long held attitudes about a brand; and that successful brands are often focused on one specific market segment. Kim and Chung (1997) researching on brand Popularity, Country Image and Market Share found that competition among brands has become more complicated as the number of brands originating from foreign countries increases. They identified two concepts (brand popularity and country-of-origin-image) as being key variables for the long-term success of brands or firms in global markets. They strongly believe that these two factors interact with other marketing variables in influencing brand performance and by extension acceptance by consumers. Suffice it to say here that what country-of-origin image does for brand performance in the global market is what company-of-make-image does in the domestic market. Again, brand popularity is an important factor in market performance both in the global and domestic market.

In a study by Smith and Brynjolfso (2010) after analyzing 268 consumers who selected various books from 33 retailers over 69 days, they found that although each retailer offered homogenous products, brand was an important determinant of consumer's choice. They went further to state that, "the three

most heavily branded retailers held a \$1.72 price advantage over more generic retailers in head-to-head price comparisons. In furtherance of their research, they found that consumers used brand as a proxy for retailer credibility in non-contractible aspects of the products and service bundle, such as shipping reliability". Okpara (2007), studying brand popularity and company-of-make cognitions of major consumer brands in the Nigerian youth market, had its main objective as finding the impact of popularity and company-of-make on consumer choice. The research surveyed a total of 1200 respondents (students) chosen from universities in the southeast, Nigeria and came to the conclusion that 100% of the respondents do not know all the manufacturers of even their favorite brands, with females being more brand loyal than males. This research went further to observe that majority of first choice brands in the market are from Multinational companies. On the strength of this finding, the study recommended that corporate bodies should intensify promotional campaigns on the company more than on the individual brands (institutional as against brand advertising).

Adirika, Ebue and Nnolim (2014) recorded the outcome of a study on branding carried out on Taiwanese manufacturers who produce a great amount of the worlds clothing, consumer electronics and computers but not under Taiwanese brand names. The result of the study showed that marketing Power lies with the brand-name companies and not with actual manufacturers. This is because brand name companies can replace their Taiwanese manufacturing sources with cheaper sources in Malaysia and elsewhere and still retain their market shares. This study only goes to portray the fact that consumers are more susceptible to brand names rather than quality. Okpara (2008) studying the Attitudinal Dimensions to Home brands of shoes as compared to foreign brands discovered the presence of what he termed Consumption Complex Syndrome (CCS) as being responsible for local consumers preference for foreign branded shoes over the local branded counterparts. Okpara's model suggests that once consumers are exposed to the awareness and knowledge of a brand of product, they either like or dislike it. Allusion to Consumption Complex Syndrome suggests that when a consumer asserts preference for a particular brand of shoe (foreign) and cannot in a blind brand experiment clearly pick out that brand, then he possesses the syndrome. This simply suggests that what consumers buy most times is name and not quality. This, one believes may equally be true of consumers of regulated bottled water who cannot determine in a blind brand experiment their choice brand.

For another authority (Beyond Marketing Thought, 2015), a most effective branding, entails a memorable name and a ubiquitous slogan combined with an instantly recognizable and unique logo. It recommended a simple and straight forward logo or potentially, an elaborate design of a simple idea, such as a silhouette of a person or an object. It further identified the brand name as another crucial element of branding which should be both simply memorable and is particular to a firm or product. Daye, VanAuken and Asacker (2008) identified color as a critical element in developing a branding strategy. They opined that a firm needs to be wise in considering what they called the psychology of color when designing their marketing materials. They asserted that colors not only enhances the appearance of the item they also influence customer behavior. They further said that the color of your brand may make or mar our branding strategy while pointing out that effect of colors differs; from culture to culture. Roll (2008) recommends that firms should rather concentrate on having a brand portfolio which usually refers to the firms set of related brands and/or products. According to him, the traditional logic behind having a portfolio of brands rather than a single brand has been possible

diversification and risk minimization. He however advised that the days of a firm having one leading star brand and others of low quality merely following have gone and that all brands in the portfolio must be made to compete for leadership. In the works of Lindstrom (2008), there are three pronged approaches to developing an effective branding strategy namely, determine which audience to focus on, determine what message your brand should convey and finally, determine what creates the brand. He further opined that a brand must have a clear audience focus, value focus and tone-of-voice focus with which to deliver its well-honed message.

Theoretical Framework

Cognitive – Dissonance Theory

The theory of cognitive dissonance according to Attschul and Sindair, (1981) posits a human phenomenon used by psychologists to express psychological discomforts or a state of disequilibrium amongst one's cognition (values, beliefs, attitudes and knowledge) resulting from the inflow of conflicting message, objects, events or experiences. Stone and Cooper, (2000) propose that dissonance begins when people exhibit behaviour and then access such behaviour against some meaningful criterion of judgment or when an action measured against relevant criterion poses a threat to oneself. Leon Festinger since 40 years published the original theory of cognitive dissonance, and scholars have continually debated to refine complement and/or extend its arousal and reduction in at least three perspectives. First cognitions represent standards or expectancies that facilitated dissonance arousal (Duval and Widdund, 1977). Second, cognitions function as resources for dissonance reduction (Aronson, Cohen and Nail, 1999) which may be irrational and sometimes maladaptive behaviour; and third, cognitions are irrelevant to the process of dissonance arousal and reduction (Copper and Fazio, 1984). Scholars affirmed that at least empirical supports for the prediction of the role played by cognition in dissonance process in each perspective exist (Steele, Spencer and Lynch, 1993), although, no consensus exists among scholars as to how self relevant thoughts mediate the arousal and reduction of dissonance (Stone and Cooper, 2000).

The theory of cognitive dissonance seems to have wider applications and empirical fertility and enjoys practical fascination to both the social psychologists and consumer behaviour scientists. The social psychologists have been motivated by controversies to enrich theory while the consumer behaviour scientists have been attracted by the theory flexibility and unique insights into post purchase behaviour. Fertinger, (1957) and his followers note that relations exist between relevant cognitions of man. Any two or more cognitive elements e.g values, attitudes, beliefs, or knowledge may be at consonant, dissonant or irrelevant to one another. Assuming we de-emphasize the issue of relevance and score all beliefs or attributes as relevant, then a satisfactory relationship between cognitive elements is characterized by fitting or consonant relations. Psychological tension resulting from non-fitting of or contradiction amongst cognitive element connotes dissonance relations. The classic dissonance paradigm of (Spence, Joseph and Steele 1993) suggests that if attention is drawn to threats inherent in a given behaviour ever body tries to affirm by deflecting or diminishing the threat and if people do not focus on their self resources following dissonance, they tend to rationalize or dismiss the dissonance relations.

3. Methodology

The study employed descriptive research design which is useful for solving problems emanating from primary data used for the study with questionnaire as research instrument. Questionnaire was administered to raise data meant for tabulation and results analyzed to establish the effect of branding on consumers purchase decision. The population of the study covers purposively selected customers of NASCO group and Nigerian Bottling Company operating within Jos metropolis. The purposive population for the study is 558 customers of the two companies. Smith (1984) sample technique was used to estimate a sample of 126 customers of NASCO group and Nigerian Bottling Company in Jos.

Questionnaire was used as the instrument for data collection and most of the questions were defined in simple format to arouse respondent interest to read carefully and answer each question to ensure easy completion. They indicate, 5= strongly agreed = 4 = agreed = 3 = undecided = 2 = disagreed = 1 = strongly disagreed on a 5 point Likert type scale. The Ordinary Least Square (OLS) regression method was adopted to find out the linear relationship among the independent variables and the dependent variable. The OLS is the most precise (efficient) unbiased estimation technique that is frequently used to estimate parameters of regression models. The justification for the use of OLS regression method is because it measures the relationships existing between two or more variables. It is simple to compute without errors and it helps to illustrate the directional outcome and strength of the variable. It further shows a precise quantitative measurement of the degree of relationship between dependent and independent variables.

Křižanová and Štefániková (2012) identified brand elements to be in the form of text as a name, allocation of address on the internet, title, and slogan or in the form of character as a logo, symbol and person or in the form of design as trailer, cover, colour rendition. They are especially important to extend the product life cycle. Thus, following cognitive-dissonance theory, the model specifications here are formulated to tests the three hypotheses and they are as follows:

$$CPD = \beta_0 + \beta_1 BLS + \mu_t \text{ -----1}$$

$$CPD = \beta_0 + \beta_i PB + \mu_t \text{ -----2}$$

$$CLP = \beta_0 + \beta_i BD + \mu_t \text{ -----3}$$

Where;

CPD	=	Consumer Purchase Decision
BLS	=	Brand Logo/ Symbol
PB	=	Product Brand
BD	=	Brand Design
CLP	=	Consumer level of purchase
β_1	=	Coefficient of Brand Logo/ Symbol
β_2	=	Coefficient of Product Brand
β_1	=	Coefficient of Brand Design
μ_t	=	Error Term

4. Results and Discussion

Descriptive Statistics

The summary of the descriptive statistics is captured in table 1. It can be observed that Consumer Purchase Decision (CPD) grew by about 3.1%. Brand Logo/ Symbol (BL) was found to be 3.16%, Product Brand (PB) was found to grow by 3.37%; consumer level of purchase (CLP) was found to be 3.04. The Brand Design (BD) was found to have the least average value, and it was found to be 2.83%.

The skewness statistics which was used to show the direction of the normal distribution curve showed that, CPD, BLS, CLP and BD had a negative distribution and they all tailed to the left-hand side of the normal distribution curve. Their skewness values gave -0.83, -0.13, -0.56 and -0.44 respectively. However, PB was found to have positive skewness and tailed to the right side of the normal distribution. The Jarque-Berra statistics which was used to show the normality of the data revealed that CPD, BLS, and BS are normally distributed at 5% level of significance. However, PB and BD were also found to be normally distributed, but at 10% statistical level.

Table 1: Descriptive Statistics

	CPD	BLS	PB	CLP	BD
Mean	3.107511	3.165043	3.377512	3.045134	2.832521
Median	3.214122	3.215011	3.335740	3.180554	2.945225
Maximum	3.370411	4.031122	3.540223	3.684414	3.271122
Minimum	2.640022	2.241011	3.322200	2.140110	2.170254
Std. Dev.	0.328976	0.822375	0.110265	0.670050	0.515129
Skewness	-0.831909	-0.138064	1.037768	-0.568756	-0.441474
Kurtosis	2.044820	1.449334	2.239489	1.868855	1.578728
Jarque-Bera	3.613443	3.413468	3.814371	3.428904	3.466602
Probability	0.035855	0.013236	0.065521	0.006984	0.091915
Sum	12.43000	12.66000	13.51221	12.18111	11.33542
Sum Sq. Dev.	0.324675	2.028900	0.036475	1.346900	0.796075
Observations	126	126	126	126	126

Source: Authors Computation, 2017 (Eview-10)

Statistical Test of Hypothesis

In line with the statistical research, the three hypotheses formulated in this paper were approached with the aid of *t-statistics* contained in the regression results. The level of significance for the seminar is 5%, for a two-tailed test and it is suggested that we shall go with the null hypothesis if the critical t-value of ± 1.96 is greater than the estimated value from our analysis, else it will be rejected.

Effect of brand Logo symbol on Consumer Purchase Decisions

Table 2: Result on Consumer purchase decision and brand logo /symbol

Dependent Variable: CPD
Method: Least Squares
Date: 06/17/17 Time: 17:50
Sample: 126
Included observations: 126

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.10516	3.093656	4.236141	0.0008

BLS	1.934326	0.334111	5.789468	0.0000
R-squared	0.705374	Mean dependent var	4.792412	
Adjusted R-squared	0.684330	S.D. dependent var	0.840547	
S.E. of regression	0.472258	Akaike info criterion	1.453884	
Sum squared resid	3.122380	Schwarz criterion	1.550458	
Log likelihood	-9.631072	Hannan-Quinn criter.	1.458829	
F-statistic	5.787794	Durbin-Watson stat	1.812299	
Prob(F-statistic)	0.000047			

Source: Authors Computation, 2017 (Eviews-10)

From the regression result in table 2, the calculated t-statistic for brand logo and symbol is 5.78 is greater than the critical value of 1.96. It falls in the rejection region and hence, we reject the first null hypothesis (H_{01}). The conclusion here is that brand logo and symbol has a significant effect on consumer purchase decisions. The F-statistics which is used to examine the overall significance of regression model equally showed that the result is significant, as indicated by a high low value of the F-statistic, 5.78 and it is insignificant at the 5.0 per cent level. That is, the F-statistic p-value of 0.000047 is less than 0.05. The R^2 (R-square) value of 0.7053 shows that the Brand logo and symbol has a very good impact on consumer purchase decision. It indicates that about 70.53 per cent of the variation in Consumer Purchase decision is explained by Brand logo and symbol, while the remaining 29.47percent is captured by the error term. The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 1.81. This shows that the estimates are unbiased and can be relied upon for policy decisions.

Influence of product brand on consumer purchase decisions

Table 3: Regression result on Consumer Purchase decision and Product Brand

Dependent Variable: CPD

Method: Least Squares

Date: 06/17/17 Time: 17:51

Sample: 126

Included observations: 126

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-23.44511	2.362155	-9.925304	0.0000
PB	3.170380	0.258372	12.27061	0.0000
R-squared	0.914929	Mean dependent var	5.516088	
Adjusted R-squared	0.908852	S.D. dependent var	1.270622	
S.E. of regression	0.383609	Akaike info criterion	1.038085	
Sum squared resid	2.060187	Schwarz criterion	1.134659	
Log likelihood	-6.304680	Hannan-Quinn criter.	1.043030	
F-statistic	150.5680	Durbin-Watson stat	1.696527	
Prob(F-statistic)	0.000000			

Source: Authors Computation, 2017 (Eviews-10)

From table 3, the calculated t-statistic for product brand is 12.27 and the tabulated value is given as +1.96, under 95% confidence levels. Since the calculated t-value is greater than the tabulated value ($12.27 > 1.96$), we therefore, reject the second null hypothesis (H_{02}). We conclude that product brand has a significant influence on consumer purchase decisions. Also, by examining the overall fit and

significance of the purchase decision model, it can be observed that the model does have a good fit, as indicated by the relatively high value of the F-statistic, 12.27 and it is significant at the 5.0 per cent level. That is, the F-statistic p-value of 0.0000 is less than 0.05 probability levels. More so, the R^2 (R-square) value of 0.9149 shows that the model does have a good fit too. It indicates that about 91.49 percent of the variation in CPD is explained by product brand, while the remaining 8.51percent is captured by the error term. Durbin Watson (DW) statistics which is also used to test for the presence of autocorrelation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 1.98. This shows that the estimates are unbiased and can also be relied upon for policy decisions.

Effect of Brand Design on Consumer Level of Purchase

Table 4: Regression result on CLP and Brand design

Dependent Variable: CLP

Method: Least Squares

Date: 06/17/17 Time: 17:52

Sample: 126

Included observations: 126

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.739591	0.186911	9.307081	0.0000
BD	1.039429	0.039166	26.53893	0.0000
R-squared	0.980510	Mean dependent var		6.694463
Adjusted R-squared	0.979118	S.D. dependent var		0.244344
S.E. of regression	0.035309	Akaike info criterion		-3.732872
Sum squared resid	0.017454	Schwarz criterion		-3.636298
Log likelihood	31.86297	Hannan-Quinn criter.		-3.727926
F-statistic	26.54149	Durbin-Watson stat		0.381841
Prob(F-statistic)	0.000000			

Source: Authors Computation, 2017 (Eviews-10)

The R-square shall be used to measure the impact levels. The R^2 (R-square) value of 0.9442 shows that the brand design (BD) have a very good fit also. It showed that about 94.42 percent of the variation in consumer level of purchase (CLP) is explained by BD, while the remaining 5.58 percentage unaccounted variation is captured by the error term. Thus, we may reject the third null hypotheses (H_{03}). In conclusion, brand design has a significant effect on consumer level of purchase. Also, by examining the overall fit and significance of the brand design model, it was found to have a good fit, as indicated by the high F-statistic value of 26.54 and it is significant at the 5.0 per cent level. That is, the F-statistic p-value of 0.0001 is less than 0.05. Durbin Watson (DW) statistics which is also used to test for the presence of serial correlation indicates that there is no autocorrelation among the variables as captured by (DW) statistic of 2.13, and as thus the estimates are unbiased and can further be relied upon for sound policy decisions.

Discussion of Findings

Based on the result found in table 1, it could be observed that brand logo and symbol towards Nasco group and Nigerian Bottling Company products has positive and significant relationship with

consumer purchase decision (CPD). It shows that the higher the value of brand logo and symbol, the higher the CPD. Brand offers superior quality of the service up to the customer's expectation and satisfaction. Furthermore, people are much attached to the branded products, as majority of the people purchase the branded products with the belief that brands show their status and life style in the society. The findings here is in line with the results of Teng (2007) analysis which showed that the variables Core brand image, Environmental consequences & Brand attitude which are independent in nature influences purchasing intention of customers. Teng (2007) concluded that a customer attitude leading to a focused brand not only is dependent on his cognition of brand, but also dependent on his perceptions of brand before making his purchases. The result in equation 2 thus showed that a one percent increase in brand logo and symbol, on the average, increased consumer purchase decision by 1.93 percent.

Findings from table 2 also revealed that product brand had positive and significant relationship with CPD. It showed that there is a significant relationship between core product brand and consumer purchase decisions towards Nasco group and Nigerian Bottling Company products. The findings here is in agreement with Moore and Steve (2000) who found out that Core brand image and name expansion into global market has achieved success in creating awareness which had significantly influenced consumer purchase decisions. He noted that the core brand symbol and image is a valuable intangible asset, that is difficult to imitate, and which may help to achieve sustained superior financial performance. Therefore, the result in equation 4 thus showed that a one percent increase in product brand, on the average, enhanced consumer purchase decision by 3.17 percent.

Lastly, the results from table 3 showed that brand design towards Nasco group and Nigerian Bottling Company products has positive effect on consumer level of purchase. It showed that about 94.42 percent of the variation or changes in consumer level of purchase are explained by brand design. This is in-line with Delgado-Ballester and Munuera-Aleman (2005) who found that trust associated from past experience becomes the part for current purchase decision and terms the customers as loyal which further intact the brand design. Esch (2006) further observed that operationally, brand attachment has a longer-lasting commitment towards inducing bond between the brand and the consumer purchase decisions. The result is also consistent with Shwu-Ing and Chen-Lien (2009) where they have showed that positive relationship exists between brand design and consumer purchase levels. Thus, the result in equation 6 thus showed that a one percent change in brand design, on the average, enhanced consumer purchase levels by 1.09 percent.

5. Conclusion and Recommendations

In the competitive environment, it is essential for the company to build a database of loyal consumers. There is no gainsaying the fact that branding is one of the most sought-after strategies in marketing for the purpose of influencing consumer purchase decision positively. This research work, aside laying a confirmation to this assertion, went further in introducing a new dimension to the importance of branding in influencing consumer buying behaviour by dissecting the anatomy of it and thereby isolating its various elements to determine their individual contribution in determining consumer choice.

In conclusion, it has been found out that there are positive and significant relationship between a branding and the behavior displayed by consumers with regards to their purchase decisions. Consumers are very much enlightened about the various brands on the market and as such their logo, style, design and symbol are very crucial when it comes to making a purchase decision especially at first time. Based on the findings, the following recommendations were made:

- i. A firm's branding strategy should be an integration of all the elements with none isolated but each playing a complementary role to others to sustain consumer interest.
- ii. Firms should manipulate the possibility of consumption complex in getting customers to choose their brand through proper perception management and by the instrumentality of branding.
- iii. The company must constantly review their branding and packaging in the face of changing consumer preferences and technological advancements and they must be prepared to do that that will ensure sustainability of consumer purchase decisions.

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STRATEGIC CHOICE AND THE PERFORMANCE OF SUGAR INDUSTRIES IN NIGERIA

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Abstract

Over the years, strategic choice has been discovered to be a potential source of competitive advantage in order to set up a successful strategy. Strategic choice is recognized and realized through a process whereby those with the power to make decisions for the organizations interact among themselves with other organizational members and with external parties. The study examines the influence of strategic choice on the performance of sugar industries in Nigeria using Cross sectional survey research design. Findings from the study revealed that that diversification strategy has significant predictive influence on performance in most performance measures such as total turnover. Findings clearly show significant increase in profitability and capacity utilization through companies' involvement in unrelated production activities while sales volume increases through related production activities. The study further shows that market development strategy when adopted may solely not achieve performance in terms profitability and therefore need to consider other strategies. Even with availability of market for sugar product, market prices could affect realization of profitability due to entry of cheap foreign sugar into the market, making local sugar companies to sell off their products at lower prices without realizing profitable returns. The study thus recommends that Sugar companies should explore unrelated products as it is happening in their company to exploit idle capacity increase sustainability, manage competition and boost returns. More so, the study also recommends that sugar companies should expand their product base, and devise ways of using the already existing infrastructure.

Keywords: Strategic choice, Market development strategy, Sustainability and profitability

1. Introduction

The progressive rise of the competition among firms, at national and international level, over the last twenty years, due to increasing globalization, has led to a growing interest in understanding the potential sources of competitive advantage in order to set up a successful strategy. Strategic management is about decisions and actions used to formulate and implement strategies that provide a competitively superior fit between the organization and its environment to enable it to achieve organizational objectives (Hannagan, 2002). Strategic choice approach argues that the effectiveness of organizational adaptation hinges on the dominant coalition's perceptions of environmental conditions and the decisions it makes concerning how the organization will cope with these conditions (Miles & Snow, 1978). Product, market and diversification strategies are growth strategies, while corporate social responsibility activities of companies have been found to be those that exceed compliance with respect to environmental or social regulations, in order to create the perception or reality that these firms are advancing a social goal (Morrison & Siegel, 2006). Environmental dynamics have been considered as performance determinants, while macro environmental factors have been found to impact to a greater extent on almost all organizations (Kariuki, Owino & Ogutu, 2011). Different organizations use varying measures of performance in terms of qualitative and quantitative. Jauch, Osborn and Glueck (1980) used Return on Assets (ROA) as measures of success, Cool and Schendel (1988) employed Return on Sales (ROS) Onipe (2001), Ramaswany (2001) and Chan and Faff (2005) represented performance by Return on Investment (ROI).

2. Literature Review

2.1 Concept of Strategic Choice

Strategy is considered a key variable, since by choosing specific strategic priorities; management is able to position the firm in specific environments (Dekker, Groot & Schoute, 2016). Cool and Schendel (1988) grouped strategies into scope commitment, resource commitment and marketing commitments. Jauch, Orborn and Gluek (1980) considered strategic decisions in the light of mission, market development, market penetration, market extension, production efficiency, goal emphasis, merger and financial restructuring. Kariuki, Owino and Ogutu (2011) advanced strategic choice analysis to incorporate both subjectivist and objectivist perspectives on organizational environment. Strategic choice approach essentially argues that the effectiveness of organizational adaptation hinges on the dominant coalition's perceptions of environmental conditions and the decisions it makes concerning how the organization will cope with these conditions (Miles & Snow, 1978). Strategic choice is recognized and realized through a process whereby those with the power to make decisions for the organizations interact among themselves with other organizational members and with external parties. This study therefore considers choice of strategy mainly in terms of product development, market development, diversification and corporate social responsibility and their relationship with performance in sugar companies in Nigeria.

2.2 Empirical review of existing literature relevant to the study

2.2.1 Product development strategy and organizational performance

Strategies adopted by Kenyan sugar companies were explored by Atsango (2012) in response to globalization using Mumias sugar company as a case study research design. Data was collected using questionnaires and analyzed using descriptive and inferential statistics. The analyzed data was then presented using bar graphs, pie charts and tables. Findings showed that, globalization brought about challenges and opportunities and the sugar industry was prepared for the challenges and opportunities brought about by globalization (Atsango, 2012). The study however ought to have incorporated operational level employees and customers.

While examining empirically the effects of new product development outcomes on overall firm performance, Anurag and Nelson (2004) chose the pharmaceutical industry as the empirical context. This was appropriate for the study's analysis due to the gate-keeping role played by the Food and Drug Administration (FDA) provides a specific event date on which to focus the event study methodology. The study estimated market model parameters using a 300-day period. Daily return data were obtained on individual securities from DataStream International and abnormal return for firm. The expected returns were estimated using the market model where returns on security, the daily returns of each firm in days were regressed against the return on market portfolio during the corresponding time period to obtain estimates. This study's results showed that market valuations are responsive strongly and cleanly to the success or failure of new product development efforts. Further conclusions were that financial markets may be attuned sharply to product development outcomes in publicly traded firms (Anurag & Nelson, 2004).

Examining recent empirical research, Cusumano and Nobeoka (2011) conducted and published their findings on product development in the automobile industry. Their objective was to identify what has been learned, and what is yet to be learned about the effective management of this activity. The study

focused 22 organizations from Japanese manufacturers in general, while the basic framework used to compare the studies examined variables related to product strategy, project structure or organization, and project as well as product performance. Evidence from the study indicated that Japanese automobile producers have demonstrated the highest levels of productivity in development as well as of overall sales growth, and have used particular structures and processes to achieve this (Cusumano & Nobeoka, 2011). The evidence does not however clearly indicate what the precise relationships are between development productivity and quality or economic returns.

2.2.2 Market development strategy and organizational performance

A study on competition in the regional sugar sector was conducted by Chisanga, (2014) did entitled; the case of Kenya, South Africa, Tanzania and Zambia and later presented the paper at pre-ICN conference. The study which was basically empirical reviews found progressive liberalisation of global markets are likely to result in increased competitiveness in the regional sugar industry as firms seek to grow their capabilities in order to trade globally. The study further showed that while firms have strategically positioned themselves in markets which are characterised by trade and investment incentives, the competitive outcomes in the region are more likely to be affected by protectionism (Chisanga et. al., 2014). The study fell short of exploring same industry similarly in other economies in Africa.

The study by Zott and Amit (2007) examined the fit between a firm's product market strategy and its business model. Data was collected on a sample of firms that had gone public in Europe or in the United States between April 1996 and May 2000. The study randomly sampled 170 firms on their business model characteristics and product market strategies. Analysis for the study was done through descriptive statistics, confirmatory factor analysis and partial least squares regression. The study manually collected dataset and found that novelty-centered business models—coupled with product market strategies that emphasize differentiation, cost leadership, or early market entry—can enhance firm performance. Data suggested that business model and product market strategy are complements, not substitutes (Zott & Amit, 2007). The study was however limited in addressing how business models evolve and in particular how they coevolve with the product market strategy of the firm.

2.2.3 Diversification strategy and organizational performance

Challenges facing the implementation of differentiation strategy in the operations of the Mumias Sugar Company Limited was a study conducted by Awino, Wandera, Imita and K'Obonyo (2009). The study employed a positivist philosophical orientation with a target population of all departments within Mumias Sugar Company Limited (MSCL), and a population estimate of 300 permanent workers. The study used primary data obtained through questionnaires with selected managers. Findings of the study showed that few differentiation strategies were carried out in Mumias Sugar Company Limited. The study also found out that there are other challenges, which included inadequate interdepartmental communication. Recommendations of the study included regular staff meetings needed to be put in place to enhance team work and creativity (Awino et. al. 2009). The study however did not explore challenges from other Porter's strategies like focus and low cost.

This interdisciplinary research attempts to verify whether firm level diversification has any impact on performance was explored by Pandya and Rao (2008). This study used specialization ratio (SR) to

classify firms into three classes of diversification. SR is a ratio of the firm's annual revenues from its largest discrete, product-market activity to its total revenues. Using compustat database, the study classified 2188 firms in three groups: Single Product Firms ($SR > 0.95$), Moderately Diversified Firms ($0.5 \leq SR \leq 0.95$), and Highly Diversified Firms ($SR < 0.5$), for each of the seven years, from 1984 to 1990, for which complete segmental data was available. To test the null hypothesis, a test of equality of means of each classification group, and for each performance variable was done. The results suggested that the average performance of diversified firms (especially highly diversified ones) perform well on a risk-return basis on accounting measures as well as market-based measures, when compared with group of firms that are not as highly diversified (Pandya and Rao, 1998). The study did not however address the question whether investor portfolios outperform diversified firms.

The relationship between diversification and firm's performance and possibility of a causal relationship was a research conducted by Marinelli (2011). Through longitudinal studies using both accounting and market indicators, the sample included diversified firms available from compustat's north America Industrial Annual file. Econometric's model was used to take into account three critical considerations; the existence of the time invariant firm's specific effect, to control for heteroscedasticity and the length of time series. The study concluded that this relationship was not causal but attributable to factors other than the degree of relatedness among business units and the degree of efficiency of the internal capital market. The study further found that some diversified firms persistently created shareholder value, beat the market index and had lower market volatility while some others persistently reached opposite results. Higher performance was associated with an unrelated portfolio of business segments (Marinelli, 2011). However more complete models including firm's performance and management skills should have also been taken into consideration.

2.3 Theoretical Framework

This study is anchored on industrial organization theory, open system theory, stakeholder theory, resource based view and dynamic capability theory. These theories are further explained in the following sub-sections:

2.3.1 Industrial Organization Theory

The Environment-Strategy-Performance (E-S-P) paradigm was first fronted by Mason (1939) Structure-Conduct-Performance (SCP) paradigm of the industrial organization (IO) economics. Industrial organization theory was adopted in the early fifties through the writings of Andrews (1952). The structure of a market, and how a market is functioning is the concept behind the industrial organization theory. Industrial organization theory is about how a structure of market has an influence on the strategy and decision making of a company (Raible, 2013). Barthwal (2010) advanced that industrial economics is a development of micro economics and is concerned with economics aspects of firms and industrials seeking to analyse their behavior and draw normative implications. Ramsey (2001) pointed that industrial organization theory is reflected in the structure-conduct-performance model, which claims there is a "causal link between the structure of a market in which a company operates, the organizational conduct and in turn the organizational performance in terms of profitability. Industrial organization focuses on the whole industry and market conditions of a company and the central analytical aspect can be used to identify strategic choices, which firms have in their

respective industries (Teece, Psano & Shuen, 1997). The relevance of industrial organization to this study is well summarized in Porter's (1981) words that the central analytical aspect of industrial organizational can be used to identify strategic choices which firms have in their respective industries and the contribution is growing rapidly. The study therefore wishes to relate strategy choices and performance in sugar companies.

2.3.2 Open System Theory

An open system is a system which continuously interacts with its environment. Open System Theory (OST) was initially developed by Bertalanffy (1956), a biologist, but was immediately applicable across all disciplines. Perspectives of Open System Theory (OST) were further advanced from the work of Emery and Trist (Emery & Trist, 1960). Open system Theory is a modern system based changed management theory designed to create healthy, innovative and resilient organizations and communities in today's fast changing and unpredictable environments. Organizations continually confront the uncertainty of new challenges and problems that they have to address in a timely, efficient, and effective manner for their survival. Therefore, organizations die or are transformed when the needs satisfied by them no longer exist or have been replaced by other needs (Thompson, 1967). A systems view considers an organization as a set of interacting functions that acquire inputs from the environment, process them, and then release the outputs back to the external environment (Daft, 2001). Open-system models focus on events occurring external to the organization that influence changes within the organization. Sugar companies in Kenya have an open and active adaptive relationship with their external environment and therefore using concepts of Open Systems Theory (OST), the study will bring out the role that macro environment is playing in influencing choice of strategy towards achieving company goals.

2.3.3 Stakeholder Theory

The idea that business has duties towards society and more specifically towards identified constituents (the stakeholders) is widely acknowledged. Stakeholder theory was originally detailed by Freeman (1984). The theory identifies and models the stakeholders of a corporation and then recommends methods by which management can give due regard to the interests of those groups (Freeman, 1984). Kakabadse, Rozuel & Davis (2005) found corporate social responsibility (CSR) and the notion of stakeholder approach as pivotal concepts when examining the role of business in society. The role of stakeholder theory in business is further supported by Lantos (2001) and Moir (2001) who claim that business people are simply using the resources of the principle they ultimately serve and therefore do more of a disservice that good to society. Carroll (1991) expresses that there is a natural fit between the idea of corporate social responsibility and organizational stakeholders.

According to stakeholder theory, success of the organization depends primarily on how well are well managed relationships with many key groups and other important community organizations within which it operates (Robins, 2008). Other stakeholder theory the work of a manager is to support all these groups, carefully align their differing interests that should create the organization to be a place where shareholders' interests can be collectively maximize gradually (Freeman & Philips, 2002). Critics have found stakeholder's theory as a failure, because of one, it does not help the management to identify who what groups are or are not stakeholders (Heugens & Van Oosterhout, 2002). Secondly,

they theory does not specify how a manager should compare the competing interests of different stakeholder groups (Nesvadbora, 2010). However, this study finds relevance in stakeholder theory in its focus to describe and explain the characteristics and behaviours of firms. The theory is instrumental to this study in identifying connections that exist between the corporate social responsibilities towards stakeholders groups and the achievement of corporate goals.

2.3.4 Dynamic Capabilities Theory

Dynamic capability philosophy draws on Schumpeterian reasoning, which sees dynamic capability as another rent-creating mechanism based on the competences of organizations (Schumpeter, 1950). Eisenhardt & Martin (2000) defined dynamic capabilities as ‘a set of specific and identifiable processes’ that are ‘idiosyncratic’ in details and somehow ‘dependent’ in their emergence. Teece, Pisano and Shuen, (1997) define the theory as the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. The theory was first introduced by Hamel and Prahalad (1989). Research on dynamic capabilities is rooted in the resource based view. Dynamic capabilities of firms may account for the emergence of differential firm performance within an industry (Zott, 2000). Zott (2000) synthesizing insights from both strategic and organizational theory, found performance relevant attributes of dynamic capabilities to be the timing of dynamic capability deployment and learning to deploy dynamic capabilities.

The emerging consensus in the field of strategic management suggests that dynamic capabilities are; one, embedded in organizational processes. Two, dynamic capabilities are learned regular patterns of organizational activity. Three, dynamic capability as directed to serve change a firm’s capabilities, knowledge and competencies. Four, dynamic capabilities create and shape a firm’s resource positions. Dynamic capabilities act as a buffer between firms’ resources and the shifting business environment by helping a firm adjust its resource base and thereby maintain the sustainability of its competitive advantage, which otherwise might be eroded (Protogerou, Caloghirou, & Lioukas, 2008). Dynamic capabilities have however been challenged by some scholars, that it differs from functional or operational competences by emphasizing change (Winter, 2003). Dynamic capability is about organizational competitive survival rather resource based view’s achievement of sustainable competitive advantage. Dynamic capability theory explains the capacity of an organization to purposefully create, extend or modify its resource base which refers to the choice of strategy an organization adopts to achieve its goals.

3. Methodology

A research design should provide confidence to the scientific community that the findings derived capture the reality and possess high levels of reliability and validity (Kerlinger, 2007). A cross-sectional and correlational survey descriptive research design was used in carrying out the study. Cross sectional survey was appropriate because the information about subjects that is gathered represents what is going on at one point in time. It offered the researcher an opportunity to collect data across different firms while correlational was due to the fact that the researcher tested relationships between one set of variable against another. Both cross sectional and correlational approaches offered the researcher the opportunity to capture a population’s characteristics and test hypothesis quantitatively. Data was analyzed using a combination of both descriptive and inferential statistics. Descriptive

statistics to analyze qualitative data where all the questionnaires received were referenced and items in the questionnaire coded to facilitate data entry. After data cleaning which entailed checking for errors in entry, descriptive statistics and frequencies were estimated for all variables and information presented in form of frequency tables. Descriptive statistics were used because they enable the researcher to meaningfully describe distribution of scores or measurements using a few indices (Saunders, Lewis & Thornhill, 2009).

4. Results and Discussion of Findings

4.1 Test of Hypotheses

The two hypotheses were tested using t-test. The t-test statistic indicated significance of variables where P-value will show significance how independent variables (strategic choices) determine dependent variable (performance) e.g. P-value less than alpha, assumed to be 0.05 in this case would indicate significance.

4.1.1 Hypothesis One: H01: Diversification strategy has no significant impact on profitability levels of Sugar industries

Table 1: T-Test Result on whether *Diversification strategy* have had significant influence on profitability levels of Sugar industries in Nigeria

			Test Value		
t-value	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
			Difference	Lower	Upper
2.877	129	0.0012	2.9982	2.9093	2.7663

Source: Authors Computation, SPSS, 2017

The calculated t-value in table 1 is 2.87 and the tabulated value is 1.96 under 95% confidence levels. Since the calculated is greater than the tabulated value ($2.87 > 1.96$), we therefore, reject the null hypothesis (H_{01}). We conclude that *diversification strategy has a significant impact on profitability levels of Sugar industries*.

4.1.2 Hypothesis Two: H02: Market development strategy has no influence on sales volume of sugar industries in Nigeria

Table 2: T-Test Result on whether *market development strategy* has had and *sales volume of sugar industries in Nigeria*

			Test Value		
t-value	df	Sig. (2-tailed)	Mean	95% Confidence Interval of the Difference	
			Difference	Lower	Upper
3.452	129	0.0004	3.0095	3.7749	38771

Source: Authors Computation, SPSS, 2017

From the t- test result in table 2, the calculated t-value is 3.452 and the tabulated value is 1.96. the t-value therefore falls in the rejection region and hence, we may reject the null hypothesis(H_{02}), and

that *Market development strategy has a significant influence on sales volume of sugar industries in Nigeria*

4.2 Discussion of Research Findings

On effects of diversification strategy on performance, study findings showed that diversification strategy has significant predictive influence on performance in most performance measures such as total turnover. Findings clearly show significant increase in profitability and capacity utilization through companies' involvement in unrelated production activities while sales volume increases through related production activities. Specifically, when sugar companies produce unrelated products to their current product which is sugar are bound to perform better through increasing their profitability and capacity utilization. The study therefore concludes that though diversification strategy contributes significantly to sugar companies' profitability. This further shows that market development strategy when adopted may solely not achieve performance in terms profitability and therefore need to consider other strategies. Even with availability of market for sugar product, market prices could affect realization of profitability due to entry of cheap foreign sugar into the market, making local sugar companies to sell off their products at lower prices without realizing profitable returns.

5. Conclusion and Recommendations

The study first looked at the effects of each of the strategic choices on performance, where different levels of influence were realized on when performance was measured in terms of profitability and sales volume. Market development strategy was operationalized as extensions of markets into new geographical regions and developments new market segments by targeting previous non users of the product. The findings draw conclusions that extensions to new market segments which involve capturing consumers not previously using the product and also reaching out to new geographical areas can influence companies' sales volume and turn over. The study therefore concludes that while the market for sugar product is becoming competitive and it is readily available with industry records showing that production is less than consumption.

Based on the findings therefore, it is recommended that; sugar companies should explore unrelated products as it is happening in their company to exploit idle capacity increase sustainability, manage competition and boost returns. This study's outcome has shown that related and unrelated products can be produced concurrently without compromising each other. The study also recommends that sugar companies should expand product base, one sugar company has already devised ways of using the already existing infrastructure to add water bottling and production of ethanol in the product bracket. Further with improved procedures aiming at effective and efficient operations, it is evident that same products can be manufactured with minimum costs and thereby improvement on the returns.

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EFFECTS OF INTEREST RATE POLICY ON INVESTMENT LEVELS IN NIGERIA

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Abstract

Interest rate policy has been observed to be a major instrument of monetary policy with regards to the role it plays in the mobilization of financial resources aimed at promoting investments and economic growth. However, with a decline in investments activities in Nigeria due to poor business climate, several business firms relocated their businesses to other neighboring countries with the aim of minimizing cost of productions. The study therefore examines the effects of interest rates policy on investment levels in Nigeria between 1987 and 2015 using fully modified ordinary least square (FMOLS) method. Finding from the study reveals that the minimum rediscount rate (MRR) showed that it relates negatively with investment levels but was found statistically significant. This showed that debt related uncertainty has adverse effects on private investment in Nigeria in the debt-overhang manner. However, the maximum lending rate (MLR) variable was found to be positively and significantly related to the investment in Nigeria between the periods under study. This finding agrees with other literatures who reported that real lending rates have significant effect on Nigeria's economy. There also exists a unique long-run relationship between economic growth and its determinants, including interest rate. The study thus recommends that there is the need for the formulation and implementation of financial policies that enhance investment-friendly rate of interest is necessary for promoting economic growth in Nigeria, taking into consideration those other factors which negatively affect investment in the country.

Keywords: Interest rates, investments, maximum lending rates and minimum rediscount rates

1. INTRODUCTION

In many developing economy, interest rate policy is seen as a major instrument of monetary policy with regards to the role it plays in the mobilization of financial resources aimed at promoting economic growth and development.

Policy inconsistency during the Structural Adjustment Program (SAP) as periods of liberalization were intertwined with impositions of some credit controls which made Interest rate policy in Nigeria not to be stable. The business climate is very risky and uncertain so firms may not be able to service debt. Apart from this, the judicial system is reportedly inefficient and banks cannot easily enforce contracts, consequently, banks charge high interest rates and request for high levels of collateral. In addition to the above, high interest rate in the Nigerian financial system is a reflection of the extremely poor infrastructural facilities and inefficient institutional framework necessary to bring about substantial reduction in the risk associated with financing an extremely traumatized economy (World Bank, 2012). The administration of low interest rate which was intended to encourage investment before the structural adjustment program (SAP) era and during SAP era of 1986 ushered in a dynamic interest rate regime where rates were more influenced by market forces and it failed to yield desired result of stimulating investment growth in Nigeria. Most of these difficulties enumerated continued due to the inconsistency of monetary policy and inability to formulate interest rate reform that will be a component of the broad policy package aimed at facilitating financial intermediation and monetary management that can induce investment spending through low interest rate.

Interest rate policy is among the emerging issues in current economic policy in Nigeria in view of the role it is expected to play in the deregulated economy in inducing savings which can be channeled to investment and thereby increasing employment, output and efficient financial resource utilization (Uchendu 2013). Also, interest rates can have a substantial influence on the rate and pattern of economic growth by influencing the volume and disposition of saving as well as the volume and productivity of investment (Lensink, 2010). The long run objective of deregulating the interest rate to promote investment in the agricultural and manufacturing sector of Nigeria was to achieve positive linkage between interest rate and investment in Nigeria in order to foster economic growth and development. This study thus examined the effectiveness of interest rates policy on investment levels in Nigeria.

2. LITERATURE REVIEW

2.1 The Concept of Investment

Over time, investment has been broadly referred to the acquisition of an asset with the aim of receiving a return. Stiglitz (1993) defined investment as the production of capital goods; goods which are not consumed but used in future production. Investment from this perspective refers to the purchase of real tangible assets such as machines, factories or stocks of inventories which are used in the production of goods and services for future use as opposed to present consumption.

Anyanwu (1995) noted that the remarkable feature of investment as a component of spending was its fluctuating nature. Most business cycle theories anchored their analysis of cyclical fluctuations on fluctuation in investment expenditures. Ajayi (1998) opined that fluctuations in investment expenditure via the multiplier effect exert a multiple effect on the aggregate level of national income. Thus, investment is considered to be the most dynamic and erratic element of all macro-economic aggregates.

2.2 Theories of Interest Rate Determination

2.2.1 Liquidity Preference or Cash Balances Theory of Interest Rates

During the 1930's, British economist John Maynard Keynes (1936) developed a short term theory of the rate of interest that, he argued was more relevant for the policy makers and for explaining near term changes in interest rate. Keynes argued that the rate of interest is really a payment for the use of scarce resource, money (cash balances). Business and individuals prefer to hold money for carrying out daily transactions and also as a precaution against future cash needs even though money's yield is usually low or even non-existent. Interest rate, therefore are the price that must be paid to induce money holders to surrender a perfectly liquid asset (Cash balances) and hold other assets that carry more risk (Rose, 2003). In the theory of liquidity preference, only two outlets for investor fund are considered: bonds and money on cash balances (including bank deposits). Money provides perfect liquidity. Bonds pay interest but cannot be spent until converted into cash. If interest rates rise the market value of bonds paying a fixed rate of interest falls; the investor will suffer a capital lost if those bonds were converted into cash. On the other hand, a fall in interest rate results in higher bond prices; the bond holder will experience a capital gain if his or her bonds are sold for cash. To Keynes, however, the holding of cash balances could be a perfectly rational act if interest rates were expected to rise; rising rates can result in substantial losses for investors in bonds. The shortcoming of the liquidity preference

is that it considers only the supply and demand for the stock of money, whereas business, consumer and government demands for credit clearly have an impact on the cost of credit. A more comprehensive view of interest rates is needed that considers the important roles played by all actors in the financial system: businesses, households and government.

2.2.2 The Loanable Funds Theory of Interest

The neo-classical or loanable funds theory explains the determination of interest in terms of demand and supply of loanable funds or credit. According to the theory, the rate of interest is the price of credit which is determined by the demand and supply for loanable funds (Jhingan, 2002). It is the price which equates the supply of credit or saving plus the net increase in the amount of money in a period, to the demand for credit or investment plus net hoarding in the period. The demand for loanable funds does not determine rate of interest by itself, the supply of loanable funds must be added to complete the picture. Rose (2003) observed that the demand for loanable funds consists of credit demands from domestic businesses, consumers, and governments; and also borrowing in the domestic market by foreigners. The supply of loanable funds stems from domestic savings, dishoarding of money balances, money creation by the banking system, and lending in the domestic market by foreign individuals and institutions. The theory is however criticized on ground that it over emphasizes the influence of the rate of interest on savings. People have been found to save not to earn rate of interest but to satisfy precautionary motive, and as such savings are interest inelastic. It has also been criticized for combining monetary factors with real factors this makes the theory unrealistic.

2.2.3 The Acceleration Theory of Investment.

The acceleration theory of investment was originally attributed to Clark (1917). The accelerator principle suggested that increases in output would lead to increase in investment. This principle relates investment to Gross Domestic Output (GDP). It follows from the fact that the demand for machinery and factories is a derived one. Thus, if the demand for the goods that capital equipment produces rises and the existing industrial capacity cannot meet this demand, if production were to be increased, then new plant and equipment would be required. Arrow (1968) observed that while new capital equipment was being built and installed, investment expenditure has taken place. If the desired stock of capital good increases, there will be an investment boom which would translate to increased GDP in that economy.

Anyanwu (1995) opined that two versions of the acceleration hypothesis can be distinguished: the fixed accelerator and the flexible accelerator. The fixed acceleration is characterized by two distinguishing features. In the first case, there is an assured fixity of the ratio of current desired capital stock to current output. This can be expressed as;

$$v = \frac{K_t^*}{Y_t} - 1$$

Where K_t^* , is the desired capital stock and Y_t is the current level of output.

Equation 1 can be re-written as:

$$K_t^* = vY_t \quad \text{--- 2}$$

Equation 2 expresses a private firm's desired capital stock as a proportion of the output in the current

period, where ' v ' is the factor of proportionality. The stability or otherwise of equation 2 depends on the value of ' v ', the actual value of which is a function of the time period within which the analysis is carried out. Longer time frame for the analysis makes the value of ' v ' approach zero. The second version of the fixed accelerator model can be derived by assuming that current net investment equals the value of the discrepancy between previous periods. Under this assumption, we have:

$$I_t = K_t^* - K_{t-1}^* = \Delta K \text{-----} 3$$

A net investment rate that guarantees the optimality of capital stock would yield:

$$K_{t-1} = K_t^* = vY_{t-1} \text{-----} 4$$

Substitution of equation 4 into 3 yields:

$$I_t = vY_t - vY_{t-1} = v\Delta Y_t \text{-----} 5$$

Equation 5 is the accelerator expressions. It relates net investment to a change in the level of output. It specifies net investment as being proportional to discrepancy between the actual level of income in the current period and the level of income in the immediate past period, the factor of proportionality being ' v ', the assumed fixed-capital-output ratio (Anyanwu, 1995). It is this constant that is known as the accelerator and provided it is positive, even small changes in output will have an accelerator effect on net investment opined, Jhingan (2002). The flexible accelerator theory removes one of the major weaknesses of the fixed accelerator principle that the capital stock is optimally adjusted without any time lag. The flexible accelerator theory (also known as capital stock adjustment model) assumes that there are lags in the adjustment process between the level of output and the level of capital stock. Jhingan (2002) discussed the lags in the adjustment between output and capital stock. He noted that if there is an increase in the demand for output, to meet it, the firm will first use its inventories and then utilize its capital stock more intensively. If the increase in the demand for output is large and persists for some time, the firm would increase its demand for capital stock. This is the decision making lag. Nnanna (2004) noted that there may be also administrative lag of ordering the capital. As capital is not easily available and in abundance in the capital market, there is financial lag in raising finance to buy capital. Finally, Nnanna (2004) further observed that there is also the delivery lag between the ordering of capital and its delivery. Assuming that different firms have different decisions and delivery lags, then in aggregate, the effect of an increase in demand on the capital stock is distributed over time. This implies that the capital stock at time ' t ' is dependent on all previous levels of output:

$$K_t = f(Y_t, Y_{t-1}, \dots, Y_{t-n}) \text{-----} 6$$

The acceleration theory of investment has been criticized on ground that the assumption is grossly unrealistic as firms do not necessarily operate under the condition of constant returns to scale implied by it. More so, Anyanwu (1995) argued that the theory ignored the possible effect of technological advancement can have on the capital-output ratio. Technological progress can have the effect of lowering the amount of capital needed for a specific level of output. Nnanna (2004) went ahead to point out that for an underdeveloped country like Nigeria, the assumption was even more unrealistic because apart from the tradition of installing plant size that follows for idle capacity in order to provide for flexibility in production, scarcity of raw materials, balance of payment difficulties and high cost of funds necessarily force private firms to operate at below installed capacity. The existence of idle capacity creates a gap between actual and potential output and so, breaks down the simple accelerator

principle.

2.3 Empirical Review

Numerous works has been done around interest rate policy and investment levels. For instance, Obamuyi (2009) carried out an Investigation on the Relationship between Interest Rates and Economic Growth in Nigeria, 1970 – 2006 and his analysis revealed that real interest rates have significant effect on the growth of Nigerian economy. There also exists a unique long-run relationship between economic growth and its determinants, including interest rate. The results imply that the behaviour of real lending rates is relevant for growth of an economy in view of the relationships between interest rates and investment and investment and growth. Thus, the formulation and implementation of financial policies that enhance investment-friendly rate of interest is necessary for promoting economic growth in Nigeria. Ekpo and Egwaikhide (1998) found that debt related uncertainty has adverse effects on private investment in Nigeria in the debt-overhang fashion. Busari and Olaniyan (1998) carried out a research on Aggregate Investment and Policy Uncertainty', Rekindling Investment for Economic Growth in Nigeria and found that fiscal shortages and increase in price levels uncertainties impact negatively and significantly on private investment decisions, while exchange rate uncertainty has a weak negative relationship with private investment. Literature abounds on the relationship between interest rate and economic variables such as inflation, savings, GDP, investments etc. Akinwumi (2010) further examined the inter-associations between interest rates, savings and investment in Nigeria within the periods of 1993 and 2010 with the aid of 2SL method of analysis and his result revealed with firm assertion that a marked decrease in the real lending rate would not result automatically into increased domestic investment. Similarly, a sizeable decline in the real deposit rate will not prevent a marked growth in total savings.

Fry (1998) further examined the structural effects of several macro-economic variables on aggregate savings using a pooled cross section time series samples of fourteen Asian developing countries over the period of 1961-1983. His results showed that one percentagelending rates in real deposit rate increased the savings rate by about 0.1 percent. Ndekwi (1989) also investigated the effects of the damages in lending rates on savings by examining the structures and growth of bank deposit since the deregulation of interest rates on savings and loans in 1987. His results showed that while high interest rates on savings stimulated the supply of savings to the banking system, the high cost of borrowing in the form of high lending rates discouraged borrowers, especially the private sector producers and investors. Thus, the high cost of borrowing working capital increased cost of production.

3. METHODOLOGY

The research design adopted for this research is the ex-post facto research design. It helps to tests hypotheses concerning cause-and-effect relationships; as well as combining theoretical consideration with empirical observation. Therefore, the use of this design will allow for the testing of expected relationships between and among variables and the making of predictions regarding these relationships. The paper adopted fully modified OLS (FMOLS). The model is specified as:

$$INV = f(MRR, MLR) \text{-----}(7)$$

Specifying equation (7) in a linear stochastic form, we have:

$$INV = \beta_0 + \beta_1 MRR + \beta_2 MLR + \nu \text{ --- (8)}$$

Where:

INV	=	investment levels
MRR	=	Minimum rediscount rates
MLR	=	Maximum lending rates
β_0	=	Intercept
β_1	=	coefficient of Minimum rediscount rates
β_1	=	coefficient of Minimum lending rates
ν	=	error term

4. RESULTS AND DISCUSSION

4.1 Unit Root Test Result

Stationarity test was conducted on each of the variables to avoid spurious regression results. This was conducted using the Augmented Dickey fuller (ADF) test.

Table 2: Unit root Test Results

Variable	ADF-statistics	Integration Order
MRR	-5.950686(-4.949133)*	I(1)
MLR	-6.607021(-5719131)*	I(1)
INV	-5.033600(-4.893950)***	I(1)

Note: *, ** and *** indicate asymptotic critical values of the ADF test at 1%, 5% and 10% levels respectively.

Source: Author's computations (2017)

From table 2, it could be observed that all the three variables were found stationary at first difference form, and are integrated at order one {that is I(1)}. These variables MLR, MRR and INV; at this order of integration, MLR test statistics of -6.607021 was found to be greater than the critical value of -5719131 at 1% level of significance. MRR also had its test statistics value of -5.950686 to be greater than the critical value of -4.949133 also at 1% significant level. Lastly, INV which was also found to be stationary at first difference and its test statistics value of -5.033600 was found to be greater than the critical value of -4.893950 at 10% significance level.

4.2 Co-integration Test

The paper also carried out a cointegration test to examine the long-run relationship that exist among the variables. The paper adopted Engel-Granger approach and the results is captured in table 2:

Table 2: Engel-Granger Cointegration Results

Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
INV	-3.066493	0.2607	-15.97687	0.1655

MRR	-5.379085	0.0031	-28.97466	0.0022
MLR	-5.654822	0.0017	-30.28737	0.0012

*MacKinnon (1996) p-values.

Source: Author's computations (2017)

From the results in table 2, it could be observed that the variables have a longrun associationship with each other. This was captured by MRR and MLR whose probability values of 0.0031 and 0.0017 are less than 0.05 or 5% level of significance.

4.3 Results and Discussion

The results of the Dynamic OLS is presented in table 3:

Table 3: Fully Modified Least Squares (FMOLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MRR	-0.608831	0.139099	-4.376959	0.0002
MLR	0.294658	0.133345	2.209732	0.0365
C	8.006196	2.509020	3.190966	0.0038
R-squared	0.594130	Mean dependent var		6.345909
Adjusted R-squared	0.527260	S.D. dependent var		2.055487
S.E. of regression	1.635036	Sum squared resid		66.83358
Long-run variance	5.447469			

Post-estimation Diagnostics: Serial LM: 0.2341; ARCH: 0.5544; JB: 0.0025

Source: Author's computations (2017)

The coefficient of determination (R-square) showed that interest rates has had a significant impact on level of investments in Nigeria between 1987 and 2015. It showed that 59.41 percent change in investment levels was explained by MRR and MLR, while 40.59 percent change was captured by the error term. The post estimation diagnostic test showed that the model is free of serial correlation. The serial LM probability value gave 0.2341 and its greater than 0.05 significant level. More so, the model is free of heteroscedasticity as shown by ARCH probability value of 0.5544. Finally, the model has a normal distribution going by the JB probability value that is less than 0.05.

4.4 Discussion of Findings

From the results in table 3, the parameter estimates of the minimum rediscount rate (MRR) showed that it relates negatively with INV but was found statistically significant. This is in-line with Ekpo and Egwaikhide (1998) who found that debt related uncertainty has adverse effects on private investment in Nigeria in the debt-overhang manner. Therefore, the preparation and execution of financial policies that enhance investment-friendly rate of interest is necessary for promoting economic growth in Nigeria. The result showed that when MRR increased by one percent (holding other variables constant), on the average, reduced the investment levels by 0.60 percent between 1987 and 2015.

However, the maximum lending rate (MLR) variable was found to be positively and significantly related to the investment in Nigeria between the periods under study. This finding agrees with Obamuyi (2009) who reported that real lending rates have significant effect on Nigeria's economy. There also exists a unique long-run relationship between economic growth and its determinants, including interest rate. The function thus showed that a unit change in MLR, on the average, increased the investment levels in Nigeria by (an infinitesimal amount of) 0.29 percent holding other variables fixed.

5. CONCLUSION AND RECOMMENDATIONS

The analysis implies that the behaviour of interest rate is important for Nigerian economy in view of the relationships between interest rates and investment and investment and growth. Thus, the formulation and implementation of financial policies that enhance investment-friendly rate of interest is necessary for promoting economic growth in Nigeria, taking into consideration those other factors which negatively affect investment in the country.

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CONTENT REVIEW OF INTERNATIONAL STANDARDS ON AUDIT 230 AND 300: A METHODOLOGICAL FRAMEWORK

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Abstract

The identifiable and specific problems of audit exercises across the globe, most especially in the light of recent cases of near absence and lack of adequate due diligence on the part of auditors, has given rise to renewed emphasis on corporate governance and effective due diligence. This has necessitated the need for controls to be much more standardised, better planned, and better documented for all forms of audit programmes. Through the formation of financial control groups across the globe such as the International Auditing and Assurance Standards Board (IAASB), the compliance and performance of extensive checks necessary for laying the solid foundation for effective audit and assurance exercises has been entrenched. The IAASB's objective is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. This article presents a content review of ISA 230 (Audit documentation) and ISA 300 (Planning an audit of financial statements), with a view to providing a methodological approach. The paper concludes that to strengthen the regulatory arrangements essential for the successful implementation of international standards; countries need to give greater attention to regulatory preconditions, while special efforts should be made to strengthen and leverage the linkages between the various standards and codes that affect the implementation of international accounting and auditing standards and to fill any gaps that remain.

Keywords: Auditing, Framework, Global, Regulatory, Standards.

Introduction

It is a generally acceptable fact that the world today is witnessing a dramatically changing environment in the form of globalization, increased complexity of business, improvements in the IT, corporate scandals etc., and as such audits standards are constantly evolving to be able to keep up with these changes (Fraser, 2010; Hayes, Dassen, Schilder, and Wallage, 2005; Smith, Sagafi-Nejad, & Wang, 2008). Hayes et al. (2005) talks about how the corporate scandals are a major part of the reason why so much attention is being paid to auditing regulation across the globe. This is also the case even in those parts of the world that are yet to witness such large scale scandal and bridge of public trust (Hayes et al., 2005). As a result of globalization and entrenchment of international trade across boundaries, both public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong globally accepted auditing standards (Wong, 2004, p. 1). Therefore, through the establishment of consistency in the preparation of financial statements and the adoption best practises in auditing across globe, there is bound to be a

greater comparability of financial information, greater willingness to invest across countries and lower cost of capital, to mention a few advantages of adopting a common stance (Wong, 2004).

National accounting and auditing standards often times differ across countries and this is due to a number of reasons. The most common factors that account for differences in national standards include those of legal, political, economic, social, ecological, technological and cultural environments factors (Tucker, 1998; Smith et al., 2008), just to mention a few. Having differences in the accounting and auditing standards across national boundaries is capable of generating structural rigidities as well as complicating all forms of controls, in addition to the fact that both the internal and external auditors' role in lending credibility to the financial statements may be compromised. Several international standard setting boards have therefore emerged in response to this position and have tried to reduce these differences by harmonizing their standards (Tucker, 1998). Much attention has also been given to the convergence of accounting standards, while there also have existed a much quieter revolution for the harmonization of the auditing standards (Morris & Thomas, 2011), hence punctuating the need for a strong and decisive international standards setting bodies (such as the International Auditing and Assurance Standards Board), which makes relevant audit pronouncements and set appropriate standards.

The International Auditing and Assurance Standards Board (IAASB) is an independent standards body which issues standards, like the International Standards on Auditing, quality control guidelines and other services, to support the international auditing of financial statements. It is a body supported by the International Federation of Accountants (IFAC). The Public Interest Oversight Board provides oversight of the IAASB, ensuring that the standards are in the public interest. To further ensure proposed standards are in the public interest the IAASB consults its Consultative Advisory Group, which is composed of standard setters, various international organizations from the private and public sectors, and regulators. Representatives include a balance of users and preparers of financial statements, and should to the extent practicable be balanced geographically. Founded in March 1978 as the International Auditing Practices Committee (IAPC), the IAASB's current strategic themes include three basic and dominant focal points namely; Strategic support for global financial stability, enhancing the role, relevancy and quality of assurance in an evolving world as well as facilitating adoption and implementation of the standards it sets.

The International Auditing and Assurance Standards Board (IAASB), functions as an independent standard setting body under the auspices of the International Federation of Accountants (IFAC). The IAASB works to establish high quality auditing, assurance, quality control and related services standards and to improve the uniformity of practice by professional accountants throughout the world, thereby strengthening public confidence in the global auditing profession and serving the public interest. Until 2002, the IAASB was known as the International Auditing Practices Committee (IAPC). The IAASB also makes pronouncements at regular intervals and as the need arises. These IAASB pronouncements are of several types and they include the following:

- i. International Standards on Auditing (ISAs) - apply to audits.
- ii. International Auditing Practice Statements (IAPSs) - also apply to audits.

- iii. International Standards on Quality Control (ISQCs) and the International Framework for Assurance Engagements - apply to all types of assurance engagements.
- iv. International Standards on Review Engagements (ISRSs) - apply to reviews.
- v. International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services - apply to assurance engagements other than audits and reviews.

IAASB pronouncements are developed following a due process that includes input from the general public, IFAC member bodies and their members, and a Consultative Advisory Group that represents regulators, preparers, and users of financial statements. IAASB projects are deliberated at meetings that are open to public observation.

Given the foregoing, it is imperative to note that a full and balanced combination of capacity and institutionalized incentives for the rigorous application of international accounting and auditing standards incentives (both positive and deterrent) is the key to successful implementation of these standards. Empirical results suggest that governments the world over, have primarily concentrated on adopting legislation mandating or allowing the use of international standards, and the private sector has sought to increase the competence of individuals and firms to apply international standards. However, governments, for the most part, have not addressed the need to put in place proper incentives to ensure that this competence is actually applied in practice. More so, recent accounting scandals in developed economies demonstrate that legal requirements and competence alone are not enough - the commitment to deploy such competence is also essential. Market forces provide certain positive incentives to comply with high standards, but experience in both developed and developing economies suggest that countervailing disincentives operate to discourage such compliance. More emphasis needs to be placed on the deterrent incentives of robust monitoring and enforcement regimes to achieve a full and balanced combination of capacity and incentives.

In addition, a number of challenges exist to necessitate a methodological framework of the ISA standards. This is especially important because effective accounting and auditing regulation is required to underpin such institutionalized incentives as earlier mentioned, but international accounting and auditing standards themselves do not set out requirements as to how such effective regulation should be exercised. As currently drafted, international accounting and auditing standards implicitly assume the existence of legal, institutional and policy conditions (preconditions) which are often undeveloped or absent in many countries. The structure of national economies, and the role played by high-quality external financial reporting, shape the extent to which these 'preconditions' present themselves, and efforts to promote the implementation of international standards need to have regard to these specificities.

Closely related to the above is the fact that, many stakeholders continue to have misunderstandings with respect to the very nature of international standards, which complicates efforts to plan, define and measure progress towards successful implementation.

Lack of human and financial resources is a significant impediment to the implementation of international standards. Mobilizing the necessary resources on a sustainable, long-term basis is a major challenge. Mechanisms for public oversight of the audit function, including the setting of auditing

standards and the assurance of audit quality, are almost entirely absent in a number of countries. Models recently introduced in more developed jurisdictions may not always be applicable in situations where the relative importance of the various stakeholder groups is different, and national regulators do not always have easy access to emerging international best practice and consensus. There are also inherent limitations to the extent of reliance that can be placed on the international audit firm networks and their individual national member firms to compensate for weaknesses in domestic regulatory regimes. Given the governance and management arrangements of the networks, and the fact that the networks themselves are not regulated (only their member firms are, at a national level), the main determinant of audit quality is the strength of the relevant domestic regulatory regimes, rather than network membership.

To strengthen the regulatory arrangements essential for the successful implementation of international standards, countries need to give greater attention to regulatory preconditions. The relevant international organizations need to work together to develop a consensus on a comprehensive framework of principles for the regulation of accounting and auditing, and to support the adoption of such a framework by the competent national authorities. Special efforts need to be made to strengthen and leverage the linkages between the various standards and to fill any gaps that remain. Such principles should explicitly consider the regulatory implications of the diversity of financial systems and market structures across countries. Thus, adopting a content analysis approach, this paper provides an overview of the International Standards on Auditing with a specific focus on ISA 210 (Agreeing the Terms of Audit Engagements) and 230 (Audit Documentation), so as to further provide a methodological framework.

Conceptual Review of Auditing and Audit Standards

Audit standards are a set of systematic guidelines used by auditors when conducting audits on companies' or other organisations' finances, ensuring the accuracy, consistency and verifiability of auditors' actions and reports. Audit standards are primarily concerned with the quality of the auditors' work, not with the quality of the organisations' finances. The key to understand ISA or any other audit standard is that they are a set of rules that is intended to help the auditor to perform his work in such a way that it produces assurance (which must not be absolute certainty) about the financial statements in the most efficient way, but auditing the right issue with the appropriate audit procedure to the appropriate extent. They are a tool to manage the audit risk. For reasonable assurance audits, such as foreseen for most organizations, the responsible auditor must apply all ISA relevant to the audit. Relevant ISAs are expected to be used in their entirety, including the code of ethics that deals with the professional behaviour of the auditor, issues of conflict of interests and independence, etc.

Thus, in any current business organisation, progress that a company is making is recorded as basis for, among a host of other essential things, decision-making and as a benchmark for measuring the firm's performance for the period under scrutiny. A financial situation analysis or evaluation is one such yardstick that documents current and future financial situation in an attempt to determine a financial strategy to help achieve organisational goals, thereby punctuating the need for auditing. Auditing refers to a systematic and independent examination of books, accounts, documents and vouchers of an organization to ascertain how far the financial statements present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required

by law. Auditing has become such a ubiquitous phenomenon in the corporate and the public sector that academics started identifying an 'Audit Society'. Auditor perceives and recognizes the propositions before them for examination, obtains evidence, evaluates the same and formulates an opinion on the basis of their judgement which is communicated through the audit report. Any subject matter may be audited. Audits provide third party assurance to various stakeholders that the subject matter is free from material misstatement. The term is most frequently applied to audits of the financial information relating to a legal person. Other areas which are commonly audited include: internal controls, quality management, project management, water management, and energy conservation, etc. As a result of an audit, stakeholders may effectively evaluate and improve the effectiveness of risk management, control, and the governance process over the subject matter.

Furthermore, auditing in any business encompasses the inspection and verification of the accuracy of financial records and statements. Private businesses and all levels of government conduct internal audits of accounting records and procedures. Internal audits are conducted by a company's own personnel to uncover bookkeeping errors and also to check the honesty of employees. In large companies, internal auditing is an on-going procedure. Moreover, an external audit is used to give the public a true statement of a company's financial position. It is made at least once a year by 'public' accountants who are not regular employees of the company. The auditors make sure that the company has followed proper accounting procedures in its financial records and statements. They compare the current financial statements with those of the previous year to determine whether the statements are calculated consistently basically because if the records are not correct, it will present a distorted picture of the company's financial position. The auditors also inspect real estate, buildings, and other assets to see if their value is overstated. Debts and other liabilities are checked to see if they have been understated.

Auditing practice has a much longer history than many of the other developments that can be considered and the large firms of accountants, in which many financial auditors work have become influential advisory institutions throughout the world. Thus, auditing has provided the model which has influenced the design of auditing practice in many other fields. Although environmental, medical, or value for money audits are conceived as distinct from financial auditing, the latter continues to exert its normative influence as a centre of gravity for debate and discussion. And it is in the context of auditing that the dependency of acts of verification on judgment and negotiation is most apparent. With this consideration, the paper of Ball & Shivakumar (2008) reviewed and estimated the importance of auditing in providing new information for an organization. Through auditing procedure, they found out from their subject company that entities have contributed more to return volatility in recent years, and that earnings has increased importance as a source of new information. On the other hand, Dye and Sunders (2001) posit that financial standards are also important with regards to auditing practices. From their paper, the illustration of entering competition in accounting standards is obvious. With this, they found out two contrasting points of view. The first one sees that financial statements in public firms are made by directors who see accounting standards as draw back and increase risks and so they chose to depend on existing standards. They scarcely have innovative accounting methods which makes hard to carry out analysis of social cost-benefit. Apparently, the second point of view

sees competition as a good matter which enhances firms to be more sensitive to their customers and to take necessary measures immediately and add value to firms.

Auditing is also subject to expectations and demands which are, justifiably or otherwise, often disappointed (Kealey, Lee & Stein 2007). Nevertheless, Malone & Roberts (1996) pointed out that the official procedural knowledge base of auditing has evolved in response to scandals and corporate failures. This is in such a way that in spite of the essential puzzle of what audits produces their effectiveness remains hidden from view as an article of faith. Consequently, they argued that financial auditing maintains itself as an institutionally credible system of knowledge. Notwithstanding crisis and scandal, it satisfies the aspirations and demands of a variety of regulatory programs. Particular audits may fail but the 'system' cannot. The possibility of effective auditing is necessarily presupposed by regulatory intentions. Traditionally, analytical auditing has applied itself to the domain of finance, but organisations are increasingly finding value from internal audits that monitor other aspects of their activities. Environmental and social audits, for example, have been championed by firms in response to the ethical concerns of both shareholders and the public in relation to the company's impact upon the locality. Analytical auditing is growing in importance too, partly in response to recent major scandals such as the collapse of banks, and also in order to monitor the increasingly complex demands being made upon accountants (Hogan & Jeter 1999).

Framework of the International Standards on Auditing

To understand the framework of the international standards on auditing, it is expedient to highlight the fact that the ISA envisages a number of outcomes, with high quality financial reporting predominant amongst them. The high quality financial reporting as envisaged contributes to promoting private and public sector growth and reducing volatility, through a number of ways including; strengthening countries' financial architecture and reducing the risk of financial market crises, together with their associated negative economic impacts; contributing to foreign direct and portfolio investment; helping to mobilize domestic savings; facilitating the access of smaller-scale corporate borrowers to credit from the formal financial sector by lowering the barrier of high information and borrowing costs; allowing investors to evaluate corporate prospects and make informed investment and voting decisions, resulting in a lower cost of capital and a better allocation of resources; as well as facilitating integration into global financial and capital markets.

The ISA is also a building block of a market-based monitoring of companies, which allows shareholders and the public at large to assess management performance, thus influencing its behaviour, in addition to contributing to improving the assessment and collection of taxes on corporate profits. Several countries currently have fundamentally different approaches to the relationship between accounting and taxation. At one extreme (total independence), income determination for accounting purposes is completely separate from income determination for tax purposes. At the other extreme (total dependence), either financial statements are prepared in accordance with tax rules, or income determination for tax purposes is determined by the choices made in financial statements. Consequently, the greater the level of dependence on financial reports (as facilitated by the ISA), the greater the level of importance and need for high-quality financial statements that will be required for the assessment and collection of taxes on corporate profits.

As stated earlier, the International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information. These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). ISA essentially guides the auditor in adding value to their various assignments, hence building confidence of investors. In March 2009, the IAASB completed its Clarity Project and released its full set of 37 clarified ISAs and the clarified International Standard on Quality Control (ISQC). These ISAs were enhanced relative to the general approach to the audit, to instil a focus on objectives, promote a thinking audit, and emphasize the importance of professional scepticism; and to focus on aspects of financial statements that generally have a higher risk of material misstatement in virtually all audits, estimates and fair values, related parties, and use of service organizations. In other to gain deep insight and achieve a systematic examination of the issue in question, the different ISAs (which are aligned along seven major sub-heads) are enumerated below, but specific emphasis in this review will be placed on ISA 230 (Audit Documentation) and ISA 300 (Planning an Audit of Financial Statements). They include the following:

A) Respective responsibilities – This encompasses nine standards which include:

1. ISA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.
2. ISA 210 - Agreeing the Terms of Audit Engagements.
3. ISA 220 - Quality Control for an Audit of Financial Statements.
4. ISA 230 - Audit Documentation.
5. ISA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
6. ISA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements.
7. ISA 260 - Communication with Those Charged with Governance.
8. ISA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
9. ISA 299 - Responsibility of Joint Auditors

B) Audit planning - This also encompasses four standards namely:

10. ISA 300 - Planning an Audit of Financial Statements.
11. ISA 315 - Identifying and assessing the risks of material misstatement through understanding the entity and its environment.
12. ISA 320 - Materiality in planning and performing an audit.
13. ISA 330 - The auditor's responses to assessed risks.

C) Internal Control – Also encompassing two standards including the following:

14. ISA 402 - Audit Considerations Relating to an Entity Using a Service Organization.

15. ISA 450 - Evaluation of Misstatements Identified during the Audit.

D) Audit evidence – Includes seven standards namely:

16. ISA 500 - Audit Evidence.

17. ISA 501 - Audit Evidence; that is Additional Considerations for Specific Items.

18. ISA 505 - External Confirmations.

19. ISA 510 - Initial Engagements - Opening Balances.

20. ISA 520 - Analytical Procedures.

21. ISA 530 - Audit Sampling and Other Means of Testing.

22. ISA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.

23. ISA 550 - Related Parties.

24. ISA 560 - Subsequent Events.

25. ISA 570 - Going Concern.

26. ISA 580 - .Written Representations.

E) Using work of other experts - This captures three standards namely:

27. ISA 600 - Special Considerations; Audits of Group Financial Statements (Including the Work of Component Auditors).

28. ISA 610 - Using the Work of Internal Auditors.

29. ISA 620 - Using the Work of an Auditor's Expert.

F) Audit conclusions and Audit report - This encompasses five standards:

30. ISA 700 - Forming an Opinion and Reporting on Financial Statements.

31. ISA 705 - Modifications to the Opinion in the Independent Auditor's Report.

32. ISA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.

33. ISA 710 - Comparative Information; Corresponding Figures and Comparative Financial Statements

34. ISA 720 - The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

G. Specialized areas: Including three standards:

35. ISA 800 - Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.

36. ISA 805 - Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

37. ISA 810 - Engagements to Report on Summary Financial Statements

38. International Standard on Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.

Content Review of International Standards on Auditing 230 (Audit Documentation)

The content review of ISA 230 will be made along the framework of the scope, nature and purpose of audit documentation, objective of ISA 230, definition of terms relative to ISA 230, requirements for timely preparation of audit documentation, documentation of the audit procedures performed and audit evidence obtained, documentation of significant matters and related significant professional, documentation of discussions of significant matters with management and those charged with governance and assembly of the final audit file.

Scope of ISA 230

This International Standard on Auditing (ISA) deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. The Appendix lists other ISAs that contain specific documentation requirements and guidance. The specific documentation requirements of other ISAs do not limit the application of this ISA. Law or regulation may establish additional documentation requirements.

Nature and Purposes of Audit Documentation

Audit documentation that meets the requirements of this ISA and the specific documentation requirements of other relevant ISAs provides:

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor.
- (b) Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

Audit documentation equally serves a number of additional purposes, including the following:

- Assisting the engagement team to plan and perform the audit.

- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA 220.2.
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of quality control reviews and inspections in accordance with ISQC 13 or national requirements that are at least as demanding.
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Objective ISA 230

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report.
- (b) Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

Definition of terms relative to ISA 230

For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Audit documentation: The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as 'working papers' or 'work-papers' are also sometimes used).
- (b) Audit file: One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
- (c) Experienced auditor: An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of the following:
 - Audit processes;
 - ISAs and applicable legal and regulatory requirements;
 - The business environment in which the entity operates;
 - Auditing and financial reporting issues relevant to the entity's industry.

Requirements for Timely Preparation of Audit Documentation

ISA 230 requires that the auditor shall prepare audit documentation on a timely basis with appropriate documentation of the audit procedures performed and audit evidence obtained. The auditor is also expected to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the relevant content as it relates to:

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements.
- (b) The results of the audit procedures performed, and the audit evidence obtained.
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

However, in documenting the nature, timing and extent of audit procedures performed, the auditor is expected to record as a matter of priority:

- (a) The identifying characteristics of the specific items or matters tested.
- (b) The person who performed the audit work and the date such work was completed.
- (c) The person who reviewed the audit work performed and the date and extent of such review.

In addition to the foregoing, the auditor is equally expected to document discussions of significant matters with management, especially those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. If the auditor identifies information that is inconsistent with the final conclusion regarding a significant matter, the auditor is required to document how the inconsistency was addressed. Also, if in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in an ISA, the auditor is expected to document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure. On the other hand, if in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor will need to document:

- (a) The circumstances encountered.
- (b) The new or additional audit procedures performed, audit evidence obtained and conclusions reached, and their effect on the auditor's report.
- (c) When and by whom the resulting changes to audit documentation were made and reviewed.

Documentation of the audit procedures performed and audit evidence obtained

In ensuring a reliable process of documentation of the audit procedures performed and audit evidence obtained, the form, content and extent of audit documentation depend on a number of factors. Some of these factors include:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include; audit programs, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists and correspondence (including e-mail) concerning significant matters. The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation, however, is not a substitute for the entity's accounting records. The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents. Also oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the

auditor reached, but may be used to explain or clarify information contained in the audit documentation.

In principle, compliance with the requirements of this ISA will result in the audit documentation being sufficient and appropriate in the circumstances. Other ISAs contain specific documentation requirements that are intended to clarify the application of this ISA in the particular circumstances of those other ISAs. The specific documentation requirements of other ISAs do not limit the application of this ISA. Furthermore, the absence of a documentation requirement in any particular ISA is not intended to suggest that there is no documentation that will be prepared as a result of complying with that ISA. Audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Furthermore, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

Documentation of significant matters and related significant professional Judgement

Judging the significance of a matter requires an objective analysis of the facts and circumstances. In this instance, examples of significant matters include:

- Matters that give rise to significant risks (as defined in ISA 315).
- Results of audit procedures indicating that the financial statements could be materially misstated, or a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter paragraph in the auditor's report.

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment. Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits when reviewing matters of continuing significance (for example, when performing a retrospective review of accounting estimates). The auditor may also consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Furthermore, the preparation of such a summary may assist the auditor's consideration of the significant matters. It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant ISA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives.

Documentation of discussions of significant matters with management and those charged with governance

The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity and external parties, such as persons providing professional advice to the entity. In addition, the requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.

Assembly of the Final Audit File

The auditor is thereafter required to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. After the assembly of the final audit file has been completed, the auditor is not to delete or discard audit documentation of any nature before the end of its retention period. In circumstances other than those envisaged where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:

- (a) The specific reasons for making them.
- (b) When and by whom they were made and reviewed.

Overall, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. This is because the completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include; deleting or discarding superseded documentation, sorting, collating and cross-referencing working papers and signing off on completion checklists relating to the file assembly process. The documentation requirement applies only to those that are relevant in the circumstances. A requirement is not relevant only in the cases where the entire ISA is not relevant or the requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

In view of the content review of ISA 230 as outlined above, it is important to note that the overall requirements of the ISAs are designed to enable the auditor to achieve the objectives specified in the ISAs, and thereby the overall objectives of the auditor. Accordingly, other than in exceptional

circumstances, the ISAs call for compliance with each requirement that is relevant in the circumstances of the audit.

Content Review of ISA 300 (Planning an Audit of Financial Statements)

The content review of ISA 300 will be made along the framework of the scope, the role and timing of planning, objective of ISA 230, requirements and involvement of key engagement team members, preliminary engagement activities, planning activities, documentation procedure, additional considerations in initial audit engagements, the audit plan, changes to planning decisions during the course of the audit, direction, supervision and review, characteristics of the engagement,

Scope of ISA 300

This International Standard on Auditing (ISA) deals with the auditor's responsibility to plan an audit of financial statements. This ISA is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

The Role and Timing of Planning

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by auditors of components and experts.

However, the nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. Planning is not a discrete phase of an audit, but rather a continual and interactive process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as; the analytical procedures to be applied as risk assessment procedures; obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework; the determination of materiality; involvement of experts; as well as the performance of other risk assessment procedures.

The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

Objective of ISA 300

The main objective of the auditor is to plan the audit so that it will be performed in an effective manner.

Requirements and involvement of key engagement team members

The engagement partner and other key members of the engagement team are required to be involved in planning the audit, including planning and participating in the discussion among engagement team members. The involvement of the engagement partner and other key members of the engagement team in planning the audit draw on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.

Preliminary engagement activities

The auditor is expected undertake a number of activities at the beginning of the current audit engagement and some of these activities includes the following:

- (a) Performing procedures required by ISA 220 regarding the continuance of the client relationship and the specific audit engagement.
- (b) Evaluating compliance with relevant ethical requirements, including independence, in accordance with ISA 220.
- (c) Establishing an understanding of the terms of the engagement, as required by ISA 210.

Performing the preliminary engagement activities at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to plan and perform the audit engagement. Performing these preliminary engagement activities enables the auditor to plan an audit engagement for which the auditor maintains the necessary independence and ability to perform the engagement, establish that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement and that there is no misunderstanding with the client as to the terms of the engagement.

The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur. Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

Planning Activities

The auditor is equally required to establish an overall audit strategy that sets the scope, timing and direction of the audit, and those which guides the development of the audit plan. In establishing the overall audit strategy, the auditor is required to:

- (a) Identify the characteristics of the engagement that define its scope.
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.
- (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Furthermore, the auditor is equally expected to develop an audit plan that shall include a description of; the nature, timing and extent of planned risk assessment procedures, as determined under ISA 315, the nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330; and other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. The auditor can also update and change the overall audit strategy and the audit plan as necessary during the course of the audit, while planning the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters include:

- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters.
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas.
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates.
- How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.

Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit

objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

Documentation Procedure

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit. The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs or audit completion checklists, tailored as needed to reflect the particular engagement circumstances. A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

Thus, for the purpose of achieving effective documentation, the auditor will include the following items in the audit documentation:

- (a) The overall audit strategy.
- (b) The audit plan.
- (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

Additional considerations in initial audit engagements

The auditor can undertake the additional activities prior to starting an initial audit; performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement; and communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangement is to be made with the predecessor auditor, mainly to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.

- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.

Other procedures required by the firm's system of quality control for initial audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

The Audit Plan

The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

Changes to planning decisions during the course of the audit

As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

Direction, supervision and review

The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, some of which includes:

- The size and complexity of the entity.
- The area of the audit.
- The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).
- The capabilities and competence of the individual team members performing the audit work.

ISA 220 contains further guidance on the direction, supervision and review of audit work.

Characteristics of the Engagement

The major characteristics which are unique to the ISA 300 - Planning an audit of financial statements includes the following:

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit coverage, including the number and locations of components to be included.
- The nature of the control relationships between a parent and its components that determine how the group is to be consolidated.
- The extent to which components are audited by other auditors.
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- The availability of the work of internal auditors and the extent of the auditor's potential reliance on such work.
- The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them.
- The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- The availability of client personnel and data.

Methodological Framework

As posited severally, the standard on audit documentation is called ISA 230, it regulates what the auditor is required to document when conducting an audit on financial statements (ISA 230.1). ISA 230 clearly states that the documentation shall be exhaustive enough for an experienced auditor with no previous involvement in the audit to understand it. In the application material to ISA 230, it is emphasized that the audit documentation must be understood by an experienced auditor even when audits on smaller entities are made (ISA 230.A16). It is further stated that the scope of the working papers is a matter of professional judgment and that it may be useful to consider what information an auditor without any experience about the specific engagement would need in order to understand what audit procedures that have been performed and the basis for important decisions. It is, however, stated that no details about the audit is needed.

Paragraph 2 and 3 in ISA 230 states what the purpose with audit documentation is. First, it is stated that documentation serves as evidence for the conclusion of whether the auditor has achieved the overall objective of the audit and evidence for that the audit has been planned and performed in accordance with ISA and other applicable laws and requirements. Some other purposes are to make

the planning and the performance of the audit easier, to make it easier to supervise and direct the audit work, to make future audits easier and to enable quality controls and external inspections to be conducted (ISA 230.2-230.3).

In the application material to ISA 230 it is further clarified that the requirements on documentation have increased. It is, for example, stated that an oral explanation from the auditor is not enough support for the work that has been performed. It can, however, be used together with the audit documentation in order to clarify it (ISA 230.A5).

Besides the requirements in ISA 230, other standards contain special requirements and guidelines regarding audit documentation (ISA 230.1). In an appendix to ISA 230, other standards containing requirements on documentation are listed (ISA 230). Many of these standards did not contain requirements on documentation in previous standards, for example ISA 210, ISA 220, ISA 315 and ISA 550.

From the issues that have been brought under review with respect to ISA 300 which encompasses the planning an audit of financial statements, the implementation of the ISAs meant some fundamental changes for the auditors - although the way an audit is done has not changed much. The auditors have, however, experienced that the implementation has meant some changes in the audit process, mainly that more procedures need to be performed. Some of the changes are that the requirements on documentation have increased, the requirements on the group engagement partner have increased and the auditor's report is more complicated and more time consuming to formulate.

Many of these changes meant that the different audit firms' methodologies had to be adjusted. Depending on how well aligned the methodology was to ISA, before ISA became domesticated and legally binding across the globe, the extent of the adjustments differed between different audit firms. Despite how much the methodologies had to be adjusted, the adjustments meant extra costs for the audit firms. While these adjustments of the methodology meant first time costs, the implementation of ISA has given rise to some recurring costs as well. Due to that more procedures need to be performed in each audit, the audits are more costly to perform. Auditors, however, agree that the increased number of procedures performed have increased the audit quality, as both the auditors and the audited company's stakeholders will benefit from more procedures being performed. This means that though the audited companies will have to pay more for the audits, there is a commensurate benefit in terms of the quality of the audit work.

The special role of the international audit firm networks

The successful implementation of international accounting and auditing standards is very dependent on local conditions. At the same time, various stakeholders – such as users of financial statements prepared by companies seeking access to developing countries financial and capital markets, investors wishing to diversify their portfolios internationally, and parent companies requiring assurance on the financial statements prepared by foreign subsidiaries - may wish to compensate for national weaknesses, in order to be able to rely on financial information for decision-making purposes. Purely domestic stakeholders may also hope to 'import' assurance by turning to auditors which they consider to offer a degree of audit quality that goes beyond that which one could expect from the operation of

local regulatory and enforcement mechanisms. This explains the emergence of international audit firm networks, which operate using a common brand name globally. Since, as noted earlier, a third party user is usually unable directly to determine whether international standards have been complied with by an auditor, users place reputational reliance on these network brand names, even though the constituent member firms of these networks are typically owned, managed, controlled and regulated at national level, and the networks themselves are not subject to any regulatory oversight or supervision.

Despite the expectations that flow from the use of their global brands, the audit failures over recent years in several jurisdictions would suggest that international audit firm networks do not deliver consistent, high-quality audit services across the globe. International audit networks have not made explicit the service delivery assertion which underlies the use of a common network or firm name by different practices in different jurisdictions around the world, nor have they made clear how users of audit reports produced by these different practices are supposed to obtain assurance that this assertion is being delivered upon. In the aftermath of recent audit failures, the networks have undertaken a number of initiatives to respond to the criticisms that ensued. Among these was the creation of the Forum of Firms (FOF), in January 2001. The FOF is an organization of international firms that perform audits of financial statements that are or may be used across national borders (transnational audits). Members of the Forum voluntarily agree to meet certain requirements as detailed in the FOF Constitution. These include a commitment to the FOF 'Quality Standard', which requires member firms to:

- Have policies and methodologies used for conducting transnational audits (but not other audits which are nonetheless 'branded' with the same network name) which as a minimum require compliance with International Standards on Auditing in addition to relevant national standards on auditing.
- Comply as a minimum with the applicable sections of the IFAC Code of Ethics as determined by the Transnational Auditors Committee (TAC) of IFAC for inclusion in the Quality Standard, in addition to relevant national codes of ethics.
- Maintain training programs, as appropriate, to keep partners and staff who perform transnational audits aware of international developments relevant to financial reporting including auditing and ethics.
- Maintain appropriate quality control standards in accordance with International Standards on Auditing and International Standards on Quality Control, as issued by the IAASB, in addition to relevant national quality control standards. In addition, conduct regular globally-directed internal quality assurance reviews to monitor compliance with the Member Firm's policies and methodologies for conducting transnational audits.

Conclusions

To strengthen the regulatory arrangements essential for the successful implementation of international standards, countries need to give greater attention to regulatory preconditions. The relevant international organizations should work together to develop a consensus on a comprehensive

framework of principles for the regulation of accounting and auditing, and to support the adoption of such a framework by the competent national authorities. Special efforts should be made to strengthen and leverage the linkages between the various standards and codes that affect the implementation of international accounting and auditing standards (these include those related to the supervision of banking, securities markets and insurance, as well as corporate governance) and to fill any gaps that remain. Such principles should explicitly consider the regulatory implications of the diversity of financial systems and market structures across countries.

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VOLATILITY OF STOCK MARKET PRICES AND MACROECONOMIC VARIABLES IN NIGERIA

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Abstract

This study is an inquiry into the link between stock market prices volatility and macroeconomic variables' volatility in Nigeria. This was motivated due to irrefutable conclusion as inferred from previous work on the subject matter. The research work make use of monthly data for a period of January 1990 – December 2015 and employed GARCH(1,1) models, and the relationship between stock market prices volatility and macroeconomic volatilities has been examined using bi-variate and multivariate VAR Granger causality tests as well as through regression analysis. However, the stance of the study is not far from the view of previous studies as only three out of five macroeconomic variables being studied have a relationship with stock market prices volatility base on the result from GARCH (1,1) model, the volatility in GDP, inflation and money supply were not found to Granger-caused, and not significantly related to stock market prices volatility but only volatility in interest rate and exchange rate does Granger -cause stock market prices volatility; while from the regression analysis, only interest rate volatility and exchange rate are significantly related to stock market prices volatility. This finding is admissible in the case of developing countries with the supremacy of non-institutional investors and the existence of information asymmetry problem among investors which could account for the weak relationship between stock market prices volatility and macroeconomic variables' volatility.

Keywords: Stock prices volatility, macroeconomic variables, VAR-Granger Causality.

1. INTRODUCTION

Developed and developing countries' believe in stock market as a catalyst for economic growth and development cannot be contended. A deep-seated stock market is always providing the opportunity for savings and investments and its key objective is to facilitate the savers and the borrowers, as it collects the savings from different pools (surplus entities) and provide the platform to convert them into fruitful investment (deficit entities). A stock market is also helpful for reallocation of funds in different sectors of the economy. It acts as a means where many factors jointly work together to drive the wheel of the economy of any country. The prominent role stock market play in a country's macroeconomic development springs up the interest in examining the relationship between the stock market and real economic activities. Zakaria and Shamsuddin (2012) asserted that, following the theoretical view, stock market should be closely related with the macroeconomic variables of the country, simply because stock prices are the discounted present value of expected future cash flows. Based on a simple discount model, the fundamental value of a corporate stock is equal to the present value of expected future dividends, thus the future dividend must eventually reflect the real economy activity. Hence, the volatility of stock prices should also depend on the volatility of expected future cash flows and future discount rates. Since the value of corporate equity at the aggregate level depend on the state of economic activity, it is likely that any changes in the level of uncertainty of future macroeconomic conditions would cause a change in stock return volatility. In other words, stock markets may be volatile simply because real economic activities fluctuate.

In recent years, inquiry into the link between nominal stock market prices and their volatility has produced a number of stylized facts in the literature. For instance, alluding to the fact that the stock market performance depends on not only the overall fitness of the financial markets and external market, but macroeconomic stability as well, mushrooming evidences suggest volatility clustering, that is, large (small) shocks tend to follow similar large (small) shocks. Volatility may impair the smooth functioning of the financial system and adversely affect economic performance (Rajni and Mahendra, 2007; Mollah, 2009). Volatility measures variability, or dispersion about a central tendency. It is simply a measure of the degree of price movement in a stock, futures contract or any other market. It measures dispersion around the mean or average return of a security and the range of an asset price about its mean level over a fixed amount of time (Abken and Nandi, 1996). It follows that volatility is linked to the variance of an asset price. If a stock is labeled as volatile, then the price will vary greatly over time. Conversely, a less volatile stock will have a price that will deviate relatively little over time. Volatility is calculated as the standard deviation from a certain continuously compounded return over a given period of time. It is an important measure of quantifying risk, for example, a security with a volatility of 50% is considered very high risky because it has the potential to increase or decrease up to half its value. Volatility is a measure of risk based on the standard deviation of the asset return. It is a variable that appears in option pricing formulas, where it denotes the clustering of the underlying asset return from now to the expiration of the option (Karolyi, 2001; Mordi, 2006). One of the major problems associated with price volatility is the lack of evidence of their origins. The literature follows two main streams: the first stream in the literature claims that price

volatility primarily originate in news announcements. This stream is represented by Lee and Mykland (2008) or Lahaye, Laurent and Neely (2009), where the authors claim that the main source of price volatility are corporate statements or macro-economic news announcements, for example. In addition, many authors, e.g., Hanousek, Kocenda and Kután (2008), claim that news announcements cannot be perceived absolutely, but rather only relatively with respect to market expectations. The second stream, on the other hand, states that the main source of price volatility is the lack of liquidity on either the bid or the ask side. Joulin, Lefevre, Grunberg and Bouchaud (2008) and Bouchaud, Kockelkoren and Potters (2004), two representative works, study the so-called excess liquidity and its impact on the formation of price volatility. In addition, this stream opposes the explanation that the primary source of price volatility is revealed news. Hence, the need to study and empirically analyze the stock market prices volatility in line with the first stream by examining the relationship between stock market volatility and macroeconomics news announcements.

Understanding the origin of stock market volatility and its links with macroeconomic volatility is imperative for the investors, policy makers and market practitioners. It helps the investors in discovering how macroeconomic variables' volatility could help them to correctly forecast stock prices movements which is believe can help them in managing their investment portfolios if it can be used reliably as indicators for the stock market volatility (Zakaria and Shamsuddin, 2012). Also, Policy makers would want to know the main determinants of stock market volatility and its spill-over effects to the real economy (Corradi et al., 2006:2). Such knowledge would be worthwhile if policymakers hope to formulate policies that ensure financial and macroeconomic stability. In the same vain, Market practitioners, particularly investment bankers and fund managers, would find this knowledge to be of interest since stock market volatility affects asset pricing and risk. This knowledge would enable them to formulate hedging strategies using plain vanilla options and exotic derivatives (Corradi et al., 2006:2). On the other hand, if stock market volatility does not lead macroeconomic volatility, it is not wise for a policy maker to focus on stock market volatility in order to reduce macroeconomic volatility. Hence, it is worthwhile to determine whether macroeconomic volatility can explain stock market volatility, or vice versa. Therefore, this study pursue analysis of the relationship between stock market prices volatility and volatility of macroeconomic variables in a developing country like Nigeria. The rest of this paper is ordered as follows: section 2 reviews numerous previous studies on the relationship between stock market volatility and macroeconomic variable volatility; section 3 provides methodology, description of the data and estimation strategy used in this study; in Section 4, the empirical results are presented; and followed by the conclusion in Section 5.

2.1 LITERATURE REVIEW

Analysis of the stock market volatility and macroeconomic variables' volatility cannot be done in isolation of the previous work that had established relationship between stock market prices volatility and some economic variables. Such facts established in the past which is of great impact to the present are reviewed and presented below. The foremost work on stock market volatility and macroeconomic variables provides a good insight on the study. Such works are; Lee (1992) analyzed the causal relationships and dynamic interactions among asset returns, real economic activity, and inflation in the postwar US using a VAR approach and found that stock returns assist to explain the real economic activity; however, stock returns elucidate little about the variation in inflation. Dropsy and Nazarian-

Ibrahimi (1994) examined the influence of underlying macroeconomic policies on stock returns using monthly data from 1970 to 1990 for 11 industrialized countries, concluding that predictable macroeconomic policies failed to predict stock returns. Ibrahim (1999), investigated the dynamic interactions between seven macroeconomic variables and the stock prices in Malaysia by using cointegration and Granger causality tests. He found that the stock prices are Granger-caused by changes in the official reserves and exchange rates in the short run.

Park and Ratti (2000) analyzed the dynamic interdependencies among real economic activity, inflation, stock returns, and monetary policy, using a VAR model. They used monthly U.S. data from 1955 to 1998 and concluded that shocks due to monetary tightening generated statistically significant movements in inflation and expected real stock returns, and that these movements are not found in opposite directions. Wongbangpo and Sharma (2002) examined the relationship between the stock returns for the ASEAN-5 countries and five macroeconomic variables and found that in the long term all five stock price indexes were positively related to growth in output and had negative relationship with the aggregate price level. Mukhopadhyay and Sarkar (2003) ran a systematic analysis of Indian stock market returns prior to and after market liberalization and the influence of macroeconomic factors on returns. The result suggests for the post liberalization period (since 1995), real economic activity, inflation, money supply growth, foreign direct investment, and the NASDAQ index were significant in explaining variations in Indian stock returns.

In the same vain, Fabozzi et al (2004), examine the determinants of stock market development for OECD and some emerging markets, studying 27 countries in total. They find, apart from macro stability and legal rights, that the size of the institutional investor bases positively affects stock market development, and report evidence of a causal times series relation between institutional investors and stock market development. Caporale, Howells and Soliman (2004), investigate the development of stock markets in a panel of transition economies and highlight the role of privatization for stock market development in this sample of countries. The nature and economic significance of the relationship between stock market development and growth vary according to a country's level of economic development with a larger impact in less developed economies (Abugri, Benjamin A. (2008). Raju and Ghosh (2004) in attempting to calculate the volatility of stock prices for a number of countries came into conclusion that both in Indian and Chinese stock market volatility is higher compared to other emerging economies. The proponents of positive relationships between stock market development and economic growth based their argument on the fact that the stock market aids economic growth and development through the mobilization and allocation of savings, risk diversification, liquidity creating ability and corporate governance improvement among others. Chowdhury and Rahman (2004) investigated the relationship between the volatility of macroeconomic variables and the stock returns in Bangladesh. By using VAR models, they found that macroeconomic volatility significantly cause stock market volatility. Döpke et. al. (2005) using monthly data of Germany concluded that volatility in the stock market be explained by the performance of major macroeconomic indicators which have influence on business cycles.

Also, Chinzara and Aziakpono (2009) find that stock returns and volatility in South Africa are linked to major world stock markets with Australia, China and the U.S. having the most impacts and that

volatility exhibits asymmetry and stability over time, and that there is lack of evidence of the risk premium hypothesis. Mahmood and Dinniah (2009) used the Engle-Granger test and Johansen and Juselius maximum likelihood procedure to test relationship between stock price and three macroeconomics variables which consist of inflation, output and exchange rates of six countries in Asian-Pacific region. The study provides evidence of long-run relationship between these variables in all countries, thus support the cointegration hypothesis with exception of Malaysia. Analysis rejected existence of short-run relationship between all variables in all selected countries except between foreign exchange rates and stock price in Hong Kong and between real output and stock price in Thailand. Rahman, et al., (2009) explored the interaction between selected macroeconomic variables and stock prices for the case of Malaysia in a VAR/VECM framework. They found that changes in Malaysia stock market index do perform a cointegrating relationship with changes in money supply, interest rate, exchange rate, reserves and industrial production index.

Alagidede and Panagiotidis (2010) investigate the relationship between the stock price and inflation for selected African stock markets. For South Africa, they reveal that the elasticity of the stock price with respect to the consumer price is 2.264 and that the stock price shows a transitory negative response to the consumer price in the short run and a positive response in the long run. Hence, stocks are a hedge against inflation in the long run. Arjoon, Botes, Chesang and Gupta (2010) analyze the relationship between stock prices and inflation for South Africa. They find that real stock prices are not affected by a permanent change in the inflation rate in the long run and that any deviation in real stock prices in the short run will be adjusted toward real stock prices in the long run. Xiufang Wang (2010) investigates the time-series relationship between stock market volatility and macroeconomic variable volatility for China using exponential generalized autoregressive conditional heteroskedasticity (EGARCH) and lag-augmented VAR (LA-VAR) models and found evidence that there is a bilateral relationship between inflation and stock prices, while a unidirectional relationship exists between the interest rate and stock prices, with the direction from stock prices to the interest rate. However, a significant relationship between stock prices and real GDP was not found.

In the recent time, Gupta and Modise (2011) estimate the predictive power of selected macroeconomic variables for South Africa. They report that for in-sample forecasts, interest rates, the money supply and world oil production growth have some predictive power in the short run, that for out-of-sample forecasts, interest rates and the money supply exhibit short-run predictability, and that the inflation rate shows a strong out-of-sample predictive power. Chinzara (2011) studies macroeconomic uncertainty and stock market volatility for South Africa. He indicates that stock market volatility is significantly affected by macroeconomic uncertainty, that financial crises raise stock market volatility, and that volatilities in exchange rates and short-term interest rates are the most influential variables in affecting stock market volatility whereas volatilities in oil prices, gold prices and inflation play minor roles in affecting stock market volatility. Wang (2011) investigates the time-series relationship between stock market volatility and macroeconomic variable volatility for China using E-GARCH and lag-augmented VAR models. He found evidence on the existence of a bilateral relationship between inflation and stock prices, and a unidirectional relationship between the interest rate and stock prices. His study also found that the relationship between stock prices and real GDP is not significant.

In the context of Nigeria economy, works on the relationship between stock market volatility and macroeconomic variables was not found wanting, such works includes; Amadi, Oneyema and Odubo (2000) employed multiple regressions to estimate the functional relationship between money supply, inflation, interest rate, exchange rate and stock prices. Their study revealed that the relationship between stock prices and the macroeconomic variables are consistent with theoretical postulation and empirical findings in some countries. Though, they found that the relationship between stock prices and inflation does not agree with some other works done outside Nigeria. Nwokoma (2002), attempts to establish a long-run relationship between the stock market and some of macroeconomic indicators. His result shows that only industrial production and level of interest rates, as represented by the 3-month commercial bank deposit rate have a long-run relationship with the stock market. He also found that the Nigeria market responds more to its past prices than changes in the macroeconomic variables in the short run. Oseni and Nwosa (2011) used the same methodology as Wang (2011), investigated the relationship between stock market volatility and macroeconomic variables volatility in Nigeria. They found a bi-causal relationship between market volatility and real GDP. However, they did not find evidences on the causal relationship between stock market volatility and the volatility in interest rate and inflation rate. In conclusion, many authors in developed and developing countries have examined the relationship between stock market volatility and macroeconomic variables and considering an emerging economy like Nigeria, scholars have also dealt with the topic but with little variation expect that of Oseni and Nwosa (2011), which looked into the relationship between stock market prices volatility and macroeconomic variables' volatility. This study focuses on this cause but differs in its approach by converting the monthly raw data covering the periods of 1990 – 2013 to their volatility form or nature and use the volatility data in furtherance of our analysis.

2.1.1 Theoretical Framework

There are five schools of thought on stock price behaviour. These are the fundamentalist schools, the technical school, the random walk hypothesis school, the behavioural School of finance and macro-economic hypothesis school and they are explained below. The fundamentalist believe that the value of a corporation's stock is determined by expectations regarding future earnings and by the rate at which those earnings are discounted. The fundamentalists apply present value principles to the valuation of corporate stock, using dividends, earnings, assets and interest rate to establish the price of stock. The technical school opposes the fundamentalists' arguments, and claims that stock price behaviour can be predicted by the use of financial or economic data. They submit that stock prices tend to follow definite pattern and each price is influenced by preceding prices, and that successive prices depend on each other. According to Smith (1990), technical analysts engage themselves in studying changes in market prices, the volume of trading and investors' attitude.

With respect to the Random Walk Hypothesis School, both the "technical" and "fundamental" analyses have been challenged by scholars who subscribe to the random-walk hypothesis, which sees stock price movements in terms of a probability distribution of different possible outcome. The random-walk hypothesis is based on efficient market assumption that investors adjust security rapidly to reflect the effect of new information. Believers in the efficient capital market hypothesis argue that stock prices are essentially random and therefore, there is no chance for profitable speculation in the stock market. An interesting feature of random walk is the persistence of random shocks. The

behavioural school of finance holds that market might fail to reflect economic fundamentals under three conditions. When all three apply, the theory predicts that pricing biases in financial markets can be both significant and persistent. The first behavioural condition is irrational behavior; it holds that investors behave irrationally when they don't correctly process all the available information while forming their expectations of a company's future performance. The second is systematic patterns of behaviour, which hold that even if individual investors decided to buy or sell without consulting economic fundamentals, the impact on share prices would be limited. Lastly, limits to arbitrage in financial markets ascertain that when investors assume that a company's recent strong performance alone is an indication of future performance; they may start bidding for shares and drive up the price. Some investors might expect a company that surprises the market in one quarter to go on exceeding expectations (Business Day, 2009). The macroeconomic hypothesis approach attempts to examine the sensitivity of stock prices to changes in macroeconomic variables. The approach posits that stock prices are influenced by changes in money supply, interest rate, inflation and other macroeconomic indicators. It employs a general equilibrium approach, stressing the interrelations between sectors as central to the understanding of the persistence and co-movement of macroeconomic time series, based on the economic logic, which suggests that everything does depend on everything else.

3.1 Methodology

Model Specification

The analysis of the relationship between stock market prices volatility and macroeconomic variables' volatility is built on the theoretical framework above and as adapted from (Zakaria and Shamsuddin, 2012). According to macroeconomics hypothesis stock market prices are influenced by changes in money supply, interest rate, inflation and other macroeconomic indicators. The macroeconomic variables used in this paper are Industrial Production Index, IP (proxied by GDP), Consumer Price Index, CPI (proxied by inflation rate), money supply, MS (measured by broad money, M2), exchange rate, EXC (Naira/USD), and base lending rate BLR (proxied by interest rate), hence stock market prices will be proxied by all share index. Taking into cognizance the above theories of stock market prices behaviour, the model of volatility can be expressed as:

$$SMPV = f(GDP, INF, EXCH, INT, MS) \text{-----eqn(3.1)}$$

Where,

SMPV = Stock market prices volatility, GDP = Gross domestic product, INF = Inflation rate

EXCH = Exchange rate, INT = Interest rate and MS = Money supply

Conversion of Macroeconomics Variables to Their Volatility Form

The process of converting macroeconomic variables to their volatility form is given below:

- (i) Let the macroeconomics variable represent Y_t
- (ii) Let the log of macroeconomics variable represent Y_t^*
- (iii) Take the first difference or lag Y_t^* by one i.e. Y_{t-1}^*
- (iv) Find the relative change in the variable $(dY_t^*) = Y_t^* - Y_{t-1}^*$

(v) Find the mean of the relative change in the variable i.e. $d\bar{Y}_t^*$

(vi) Then we have $X_t = dY_t^* - d\bar{Y}_t^*$

Hence, X_t is the mean-adjusted relative change in the macroeconomics variables. Now we can use X_t^2 as a measure of volatility.

Measures for Volatility

In this research work, the volatility in stock market prices and macroeconomic variables is estimated by using GARCH models. The GARCH models introduced by Bollerslev (1986) have been the most commonly employed class of time series models in the recent finance literature for studying volatility. The power of irresistible attraction of the models is its ability to capture both volatility clustering and unconditional return distribution with heavy tails. Since the GARCH methodology is well known, this paper will only provide a brief description of the models and their application to the variables being studied. In general, the GARCH (p, q) can be presented as follow:

$$Y_t = \lambda_0 + \sum_{i=1}^k \lambda_i Y_{t-i} + \varepsilon_t \text{-----(eqn 3.2)}$$

Where, $\varepsilon_t \sim N(0, \sigma_t^2)$

$$\sigma_t^2 = \rho + \sum_{i=1}^q \alpha_i \varepsilon_{t-i}^2 + \sum_{j=1}^p \beta_j \sigma_{t-j}^2 \text{----- (eqn3.3)}$$

The estimation of GARCH model involves the joint estimation of a mean and conditional variance equation. Equation (3.2), the conditional mean equation, is an autoregressive process of order k (AR(k)). Parameter λ 's is the constant, k is the lag length, ε_t is the heteroscedastic error term with its conditional variance (σ_t^2). Equation (2) is the conditional variance equation specified as the GARCH (p, q) model where p is the number of ARCH terms, and q is the number of GARCH terms. Several literature show that (for instance, study by Akgiray, 1989; Connaly, 1989; Baillie and DeGennaro, 1990; Bera and Higgins, 1993; Floros, 2008, among others), a simple GARCH model is parsimonious and generally gives significant results. Therefore, this paper will use AR(1)-GARCH(1,1) models to estimate the predicted volatility of the stock market prices and all macroeconomic variables lending rate) being studied.

3.3 Estimation Techniques

The first thing is to conduct a test of time series properties of the variables that will be examined. The classical econometric theory is anchored on the assumption that the observed data come from a stationary process, that is, a process whose means and variances are constant over time. Any series that is not stationary is said to be non-stationary. The rationale behind stationarity test is the fact that most economic variables evolve, grow and change over time in both real and nominal terms. This is so because a substantial part of economic theory generally deals with long-run equilibrium relationships generated by market forces and behavioural rules. Consequently, running a regression among such economic variables with the false assumption that they are stationary will result in spurious regression. (Granger and Newbold, 1974; and Chhiber and Wijnbergen, 1988). It therefore follows that any analysis, forecast and policy recommendation based on such results would be

meaningless. These problems are avoided by determining the order of integration of the variables. To conduct this stationary test, several approaches are employed in applied econometrics, prominent among these are the Philip-Perron (PP) test and Augmented Dickey Fuller (ADF) test. If the variables are non-stationary in levels, they are differenced at least once to make them stationary. However, differencing a variable may lead to a loss of long-run information. Thus, to determine whether a long run relationship exists between the dependent variable and the explanatory variables, co integration test is conducted.

After this, the relationship between stock market prices volatility and macroeconomic variables volatility will be examined using a two-variable vector autoregressive (VAR) model as shown in the Equation (3.4) and Equation (3.5).

$$SMPV_t = \delta_0 + \sum_{i=1}^i \alpha SMPV_{t-1} + \sum_{j=1}^j \beta MVV_{jt-1} + \mu_{1t} \text{-----} (eqn3.4)$$

$$MVV_t = \theta + \sum_{i=1}^k \alpha VM_{t-1} + \sum_{i=1}^l \beta SMPV_{t-1} + \mu_{2t} \text{-----} (eqn3.5)$$

In the equation above SMPV and MVV are the conditional volatility in the stock market and macroeconomic variables, respectively. These regressions will determine whether or not conditional stock market volatility can be predicted by conditional macroeconomic volatility and also, the reverse: the ability of conditional stock market volatility to predict conditional macroeconomic volatility. For this purpose, VAR Granger causality tests will be conducted to test the causality relationship between stock market prices volatility and macroeconomic variables volatility individually. In all estimation processes, the lag length for VAR models will be determined using Akaike Information Criterion (AIC). The Wald statistics will be used to test the following hypothesis; the volatilities of macroeconomic variables do Granger cause stock market prices volatility in Nigerian stock market. Following the above is the regression analysis using OLS estimation techniques which will be carried out to identify the direction of relationship between stock market prices volatility and macroeconomic variables. Hence eqn 3.1 which is in its implicit form can be expressed in explicit form as thus:

$$VASI = \alpha_0 + \alpha_1 VGDP + \alpha_2 VINP + \alpha_3 VINT + \alpha_4 VEXCH + \alpha_5 VMS + \mu \text{-----} (eqn3.6)$$

Where,

VASI = Volatility All share index

Other is as defined previously

In the model represented by equation (3.6) above, the alphas are the parameters to be estimated and μ is the error term that captures other variables not explicitly included in the model.

To test the reliability of our regression estimates, various diagnostic statistics will be used. These include the R^2 (i.e. coefficient of multiple determination), the R-2 (i.e. the adjusted coefficient of multiple determination), the F-test and Durbin-Watson (D.W test). Moreover, the significance of individual variables will be tested using the t-test. Finally, a test of volatility of the various variables used in the research work using GARCH (1,1) model in order to calculate the predicted volatility for all series will be conducted. The sources of these data include: Central Bank of Nigeria database (online), Nigerian Stock Exchange Fact book (various issues) and IMF- International Financial Statistics (online).

4. Estimation and Analysis of Results

4.1 Unit Root Test

This study commence its empirical analysis by first testing the properties of the time series used for analysis. We perform a unit root test on each of the variables since the variables are time series in nature. This enables us to avoid the problems of spurious results that are associated with non-stationary time series models. The test is conducted using two different unit root models. That is, the Augmented Dickey Fuller (ADF) model and the Phillips-Perron (PP) model. During estimation, we estimated two models from the general framework where the first model suppresses the trend element, and take on the constant term and the second model estimates the general framework to account for both the constant and trend. The essence of using all these testing procedures is for confirmatory purpose and the result of the unit root test is shown in table 1 below:

Table1: Unit Root Test for Stationarity

VARIABLE	Augmented Dickey-Fuller (ADF) Test			Phillip-Perron (PP) Test		
	CONSTANT	CONSTANT & TREND	STATUS	CONSTANT	CONSTANT & TREND	STATUS
VLASI	-3.975571*	-4.242234*	I(0)	-4.060840*	-4.264087*	I(0)
VLGDP	-8.265983*	-8.422011*	I(0)	-8.693079*	-9.367844*	I(0)
VLINT	-7.488180*	-7.423483*	I(0)	-7.497189*	-7.431249*	I(0)
VLINF	-5.107574*	-6.145650*	I(0)	-5.037632*	-6.610882*	I(0)
VLEXCH	-6.435333*	-6.387781*	I(0)	-6.408609*	-6.357433*	I(0)
VLMS	-5.151880*	-5.242474*	I(0)	-3.976888*	-3.956045**	I(0)

SOURCE: Authors' Computation

Notes: * indicates significant at one percent or a rejection of the null of no unit root at the one percent level

** indicates significant at five percent or a rejection of the null of no unit root at the five percent level

- In the model without trend: Level form: -3.6067 (1%), -2.9378 (5%) and -2.6069 (10%). In the model with trend: Level form: -4.2092 (1%), -3.5279 (5%) and -3.1949 (19%).

From the result presented in table 1 above, it was observed that the null hypothesis of non-stationarity is rejected at 5% and 1% critical value for ADF and PP with trend and without trend respectively. This means that the variables are stationary at levels, which is integrated of the same order. After establishing stationarity, next is the examination of the co-integration relationship among the variables.

4.2 Co-integration Test

Having established the unit root properties of the variables, the combination of two or more nonstationary variables could however be stationary if these series share a common long-run equilibrium relationship. In this case, these variables are said to be cointegrated. Thus, given the time series characteristics of the variables, this study further investigates employing (Trace Statistics) and (Maximum Eigenvalue) using methodology proposed by Johansen and Juselius (1990). Hence, the result of the co-integration test (that is the existence of a long term linear relation) is presented in Table 2 below:

Table 2: Result of Johanson Cointegration

Sample (adjusted): 2000Q2 2012Q4
Included observations: 51 after adjustments
Trend assumption: Linear deterministic trend

Series: VLASI VLEXCH VLGDP VLINF VLINT VLMS						
Lags interval (in first differences): 1 to 2						
TRACE STATISTIC						
Unrestricted Cointegration Rank Test (Trace)						
Hypothesized No. of CE(s)	Eigenvalue (5%)	Trace Statistic(5%)	0.05 Critical Value	Eigenvalue (1%)	Trace Statistic(1%)	0.01 Critical Value
None *	0.631955	136.9476	95.75366	0.928729	240.3477	104.9615
At most 1 *	0.494534	85.97053	69.81889	0.429237	103.0019	77.81884
At most 2 *	0.354629	51.17451	47.85613	0.391263	73.84131	54.68150
At most 3*	0.222409	28.84009	29.79707	0.340708	48.03016	35.45817
At most 4 **	0.171715	16.01084	15.49471	0.278925	26.36753	19.93711
At most 5 **	0.117979	6.402536	3.841466	0.164776	9.362862	6.634897
* denotes rejection of the hypothesis at the 5%(1%) level						
Trace test indicates 3 cointegrating eqn(s) at the 0.05 level						
Trace test indicates 6 cointegrating eqn(s) at the 0.01 level						
MAX-EIGEN STATISTIC						
Hypothesized No. of CE(s)	Eigenvalue (5%)	Maxi-Eigen Statistic (5%)	0.05 Critical Value	Eigenvalue (1%)	MaxiEigen Statistic (1%)	0.01 Critical Value
None **	0.631955	50.97708	40.07757	0.928729	137.3458	45.86900
At most 1 *	0.494534	34.79602	33.87687	0.429237	29.16063	39.37013
At most 2	0.354629	22.33442	27.58434	0.391263	25.81115	32.71527
At most 3	0.222409	12.82925	21.13162	0.340708	21.66264	25.86121
At most 4	0.171715	9.608304	14.26460	0.278925	17.00466	18.52001
At most 5 **	0.117979	6.402536	3.841466	0.164776	9.362862	6.634897
*(**) denotes rejection of the hypothesis at the 5%(1%) level						
Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level						
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.01 level						
SOURCE: Authors' Computation						

From Table 2 above, it is observed that the Trace test statistic indicates three cointegrating equations at the 5% level of significance and six cointegrating equations at 1% significant level. While the Max-Eigenvalue test indicates two co integrating equations at the 5% level of significance and one cointegrating equations at 1% significant level. Based on the evidence above, we can safely reject the null hypothesis (H_0) which says that there are no cointegrating vectors and conveniently accept the alternative hypothesis of the presence of cointegrating vectors. Thus, we can conclude that a long run relationship exists among the variables. This result means that in Nigeria's case, the hypothesis of no cointegration among the variables (VLASI, VLDGP, VLINT, VLINF, VLEXH and VLMS) should be rejected.

4.3 Causality Estimate

This section present the causal relationship between volatility of stock market prices proxy with all share index of the stock exchange and volatility of macroeconomic variables as suggested for the likely transmission channels of volatility of stock market prices in Nigeria. Causality does not necessarily imply correlation in the sense that the result obtained may not explain whether the relationship is positive or negative. However, stock market prices volatility and Volatility of macroeconomics variables, as widely suggested by many scholars in the literatures are construed to be related both negatively and positively, in other words, the dimension of the relationship is unclear.

In testing for Granger causality, two variables are usually analyzed together, while testing for their interaction. All the possible results of the analyses are four:

- (i) Unidirectional Granger causality from variable Y_t to variable X_t .
- (ii) Unidirectional Granger causality from variable X_t to Y_t

- (iii) Bi-directional causality and
- (iv) No causality

In estimating the two-variable autoregressive model (VAR) stock market prices volatility and volatility of macroeconomic variables being studied, the Akaike information criterion (AIC) was used in determining the lag length of the respective VAR model. And, based on the estimated VAR model, the Granger causality tests have been carried out.

Here, we present the main results obtained from the Wald Granger-causality analysis done in the study. Fifteen pairs of variables were modeled as seen in table 4.3 below: The six variables considered are represented as follows:

- (i) Stock market prices volatility proxy ASI (VLASI) – A
- (ii) Industrial production index proxy GDP (VLGDP)- B
- (iii) base lending rate proxy Interest rate VLINT- C
- (iv) Consumer Price Index proxy inflation VLINF- D
- (v) Exchange rate, VLEXCH- E
- (vi) Money Supply (VLMS)- F

Table 3 Results of Wald Granger Causality Tests

WALD TEST	OBS	CHI-SQUARE	WALF P-VALUE	DECISION	TYPE OF CAUSALITY
A↗B	51	1.143020	0.7667	DNR H0	No causality
B↗A	51	1.451979	0.6934	DNR H0	No causality
C↗B	51	0.815160	0.8458	DNR H0	No causality
B↗C	51	5.895781	0.1168	DNR H0	No causality
D↗B	51	1.070462	0.7842	DNR H0	No causality
B↗D	51	0.763768	0.8581	DNR H0	No causality
E↗B	51	1.181106	0.7575	DNR H0	No causality
B↗E	51	1.276630	0.7347	DNR H0	No causality
F↗B	51	2.059920	0.5601	DNR H0	No causality
B↗F	51	2.077968	0.5564	DNR H0	No causality
C↗A	51	8.898274	0.0258	Reject H0	Uni-directional causality
A↗C	51	5.550502	0.1356	DNR H0	No causality
C↗D	51	1.031182	0.7937	DNR H0	No causality
A↗D	51	3.726916	0.2925	DNR H0	No causality
E↗A	51	10.19513	0.0126	Reject H0	Bi-directional causality
A↗E	51	11.31845	0.0101	Reject H0	Bi-directional causality
F↗A	51	2.251417	0.4107	DNR H0	No causality
A↗F	51	8.828616	0.0317	Reject H0	Uni-directional causality
D↗C	51	2.588372	0.4595	DNR H0	No causality
C↗D	51	1.031182	0.7937	DNR H0	No causality
E↗D	51	0.782523	0.8536	DNR H0	No causality
D↗E	51	0.648540	0.8852	DNR H0	No causality
F↗E	51	1.249431	0.7412	DNR H0	No causality
E↗F	51	72.03394	0.0000	Reject H0	Uni-directional causality

C↗E	51	0.477983	0.9237	DNR H0	No causality
E↗C	51	1.349680	0.7174	DNR H0	No causality
C↗F	51	7.811588	0.0411	DNR H0	Uni-directional causality
F↗C	51	1.114223	0.7736	DNR H0	No causality
D↗F	51	3.146265	0.3696	DNR H0	No causality
F↗D	51	0.828317	0.8427	DNR H0	No causality

SOURCE: Authors' Computation

Alpha (α) = 0.05

Decision rule: reject H0 if Wald P-value < 0.05.

Key: DNR = Do not reject;

↗ = does not Granger cause.

Table 3 above presents the Granger causality tests from the bi-variate VAR model for testing the extent to which conditional stock market prices volatility can be predicted/predict conditional macroeconomic variables' volatility. The Wald statistics for testing the power of the macroeconomic variables volatility in predicting stock market prices volatility is also presented. Based on Wald statistics, it is stated that only the volatility of two macroeconomic variables, VLEXCH and VLINT significantly Granger cause the volatility in stock market prices in Nigeria. Meanwhile, in terms of the ability of stock market volatility prices to predict macroeconomic variables' volatility, it was revealed that volatility of stock market prices Granger cause volatility in exchange rate and money supply. The result also has shown that, volatility in interest rate and exchange rate Granger cause volatility in money supply at the 5% level.

The limitation of Granger causality test is that it does not provide the sign of relationship, which is very important in order to have a clear perception on the direction and the significant of the relationships between the variables. To overcome this, further analysis was conducted using regression analysis.

4.4 Regression Result Analysis

In the regression analysis, the volatility of stock market prices are regressed with all macroeconomic variables' volatilities as discussed previously under this study as independent variables.

Table 4: Estimation results on the OLS regression between stock market prices volatility and macroeconomic variables volatilities.

Independent Variables	Coefficient	t-Statistic	Prob.
Constant	0.018298	2.955356	0.0048
VLGDP	0.045057	0.151404	0.8803
VLINT	-0.213449	-0.369054	0.0037
VLINF	-0.000299	-0.418588	0.6774
VLEXCH	10.27652	5.094577	0.0000
VLMS	0.000224	1.716850	0.0925

SOURCE: Author's Computation

$R^2 = 0.574544$; Adjusted $R^2 = 0.519809$; F-statistics = 8.669844(Prob. = 0.000007)

*Significant at 5% level, Durbin-Watson Stat= 1.928335

Table 4 above presents the finding from the regression analysis of conditional stock market prices volatility on all the macroeconomic variables' volatilities. We found that only volatility in exchange rate, interest rate and volatility in money supply is statistical significance at 5%, 5% and 10% level of

significance respectively. This is in contrast with the Granger causality tests where we found out that VLEXCH and VLINT are statistically important for VLASI. As expected, all coefficients of macroeconomic variables' volatilities are positive except VLINF and VLINT.

However, In terms of magnitude of effect, a unit increase change in exchange rate of naira vis-à-vis U.S dollar (VLEXCH), industrial production (VLGDP) and percentage increase in changes in money supply (VLMS) will increase the stock market prices volatility of the Nigerian Stock Exchange (NSE) by 10.2765, 0.0450 and 0.00022 respectively. The coefficient of VLEXCH is relatively large compared to other coefficients. This indicates that VLEXCH volatility is an important factor in determining the volatility in stock market prices in Nigeria.

Also, other incorporated determinants of stock market prices volatility such as, interest rate (VLINT) and consumer's prices index volatility (VLINF) shows that a unit decrease in their volatility will increase stock market prices volatility by 0.2134 and 0.0003 respectively.

Although, the F-statistic result shows that all the volatility in macroeconomic variables-(i.e. exchange rate volatility (VLEXCH), consumer price index (VLINF), interest rate (VLINT), broad money supply (VLMS) and industrial production (VLGDP))-incorporated are simultaneously significant at 5% critical level given the F-value from table 4.4 as 0.000007.

Meanwhile, in term of explanatory power, the result shows that the overall coefficient of determination (R^2) shows that the equation has a good fit with 57 percent of dependent variable explained by the explanatory variables in the equation. The reason for being a good fit is that it is statistically above the bench mark of 50 percent. As the adjusted (R^2) tends to purge the influence of the number of included explanatory variables, the (R^2) of 0.519 shows that having removed the influence of the explanatory variables, the model is still of good fit and the dependent variable explained by the equation by 51 percent, hence, in terms of the goodness of fit we can say that the test is fair. The Durbin Watson (D.W) statistics of 1.93 as it is not significantly farther from the bench mark, we can conclude that there is no auto- correlation or serial correlation in the model specification; hence the assumption of linearity is not violated.

4.5 Measurement of Volatility

Here, the result of eqn 3.2 and 3.3 estimated is presented; it is intended to model the volatility of the stock market prices and the volatilities of macroeconomics variables affecting it. The result is presented in the below table 5

Table 5: Estimation results of GARCH (1,1) model and diagnostics

Variable	Coefficient	Std Error	Z-Statistic	Prob.
Mean Equation				
$C(\lambda_0)$	0.010211	0.013960	0.731464	0.0000
$VLASI(-1) \lambda_1$	0.524557	0.202137	2.595056	0.0095
Variance Equation				
$C(P)$	0.001128	0.001229	12.91754	0.0000
$Resid(-1)^2 (\omega_i)$	0.140157	0.289937	8.483405	0.0288
$Garch(-1) (\beta_j)$	0.561602	0.512459	8.195897	0.0131
VLGDP	-0.013271	0.016041	-0.827291	0.4081
VLINT	-0.014641	0.040908	11.35790	0.0004
VLINF	-4.28E-05	4.77E-05	-0.897289	0.3696

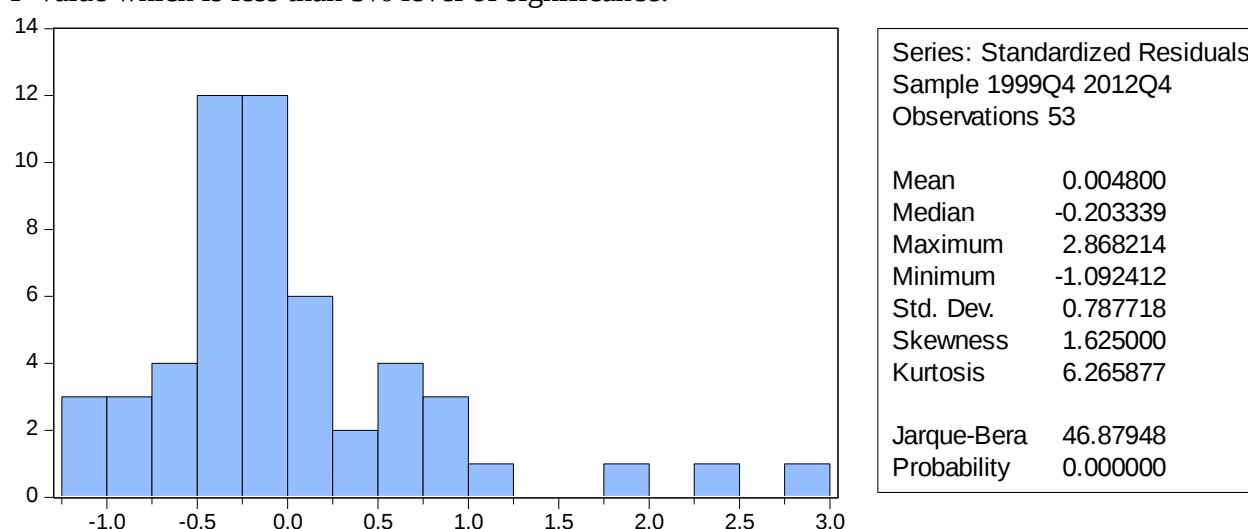
VLEXCH	0.004466	0.227241	11.01965	0.0003
VLMS	-1.36E-05	1.61E-05	7.842966	0.0392
Residual Diagnostic				
Test	Hypothesis	Decision	Result	Conclusion
Q-Statistic	H0: There is no serial correlation. H1: There is serial correlation.	Accept H0 if p-value >5% & vice versa	P-values>5%	No serial correlation
ARCH LM-Test	H0: There is no ARCH Effect H1: There is ARCH Effect	Accept H0 if p-value >5% & vice versa	P-value>5%	No ARCH Effect
Normality Test	H0:Residuals are normally distributed H1: Residuals are not normally distributed	Accept H0 if p-value >5% & vice versa	P-value<5%	Not normally distributed

SOURCE: Author's Computation

From table 5 above, using the normal Gaussian distribution, ARCH effect is found significant. It means that information about previous values of stock market prices influence today's stock market prices volatility i.e σ_t^2 in eqn 3.3. Also, GARCH is also found significant meaning that previous period volatility in stock market prices can influence today's stock market prices volatility. It then means that stock market prices volatility is influenced by its own ARCH and GARCH factors of its own shocks. Volatility in exchange rate, interest rate and money supply are also significant meaning that volatility in exchange rate, interest rate and money supply or outside shock influenced the volatility in stock market prices in Nigeria.

Volatility in gross domestic product and inflation are not significant meaning that volatility in gross domestic product and inflation cannot be transmitted to volatility in stock market prices.

Residual diagnostic test result also from table 4.5 above shows that null hypothesis of no serial correlation and no ARCH effect is accepted given their respective P-value which is greater than 5% level of significance. While the normality test shows that alternative hypothesis is accepted given the P-value which is less than 5% level of significance.



4.6 Summary of Findings

The results from bi-variate VAR Granger causality tests show that out of five macroeconomic variables' volatility examined, only volatility in EXCH and INT significantly Granger-caused the volatility in stock market prices. Between the two variables that was found significant, only in the case

of VLEXCH that the causality relationship runs from VLASI to VLEXCH therefore showing a Bi-directional relationship between exchange rate and stock market prices. In the case of VLMS, the direction of causality is from interest rate volatility, exchange rate volatility and stock market prices volatility. Consistent with Granger causality tests, the results from regression analysis also found that only VLEXCH and VLINT out of five macroeconomic variables' volatility studied is statistically significant at 5% level. Based on the regression analysis, the variables which have a significant relationship with stock market prices volatility in Nigeria is exchange rate volatility and interest rate volatility. The relationship between stock market prices volatility and exchange rate volatility is positive and the size of the coefficient is relatively high indicating a significant influence of exchange rate volatility on stock market volatility in Nigeria. The low explanatory power from the regression analysis indicates that the volatilities of all macroeconomic variables used in regression played very minor role in the volatility of stock market prices in Nigeria. From the measurement of volatility result, it can be deduced that both ARCH and GARCH factors influenced stock market prices volatility and shows that stock market prices volatility result from its own shock. Exchange rate, interest rate and money supply are outside shock that influenced stock market prices volatility while volatility in gross domestic product and inflation shows no connection with stock market prices volatility. Hence, the diagnostic test shows no serial correlation and no ARCH effect which are a good signal of a good model but it shows that the residuals are not normally distributed which is the weakness of this model. However, it has been suggested by scholars that non-normality in the residual may not be a serious problem as the estimators are still consistent.

5. Conclusion and Recommendation

In conclusion, we can infer from our findings that evidence in support of the existence of the relationship between stock market volatility prices and macroeconomic variables' volatility has been established in developing countries like Nigeria. However, irrefutable decision cannot be drawn as only three out of five macroeconomic variables being studied have a relationship with stock market prices volatility given the result from GARCH (1,1) model. The volatility in GDP, inflation and money supply were not found to Granger-caused, and not significantly related to stock market prices volatility. Only volatility in interest rate and exchange rate does Granger -cause stock market prices volatility; while from the regression analysis, only interest rate volatility and exchange rate are significantly related to stock market prices volatility. This finding is admissible in the case of developing countries with the supremacy of non-institutional investors and the existence of information asymmetry problem among investors which could account for the weak relationship between stock market prices volatility and macroeconomic variables' volatilities. Hence, on the basis of the F-Statistic result, the null hypothesis that "macroeconomics variables' volatility has no significant relationship with stock market prices volatility in the Nigerian stock market" is rejected at 5% significance. Therefore, we conclude that some of the macroeconomics variable's volatility granger-cause stock market prices volatility in Nigeria. The explanatory power and Durbin-Watson test also depict that the test is very fair.

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EFFECT OF BANK CREDIT ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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Abstract

The need for growth and development amongst countries of the world have become imperative, thereby causing government to explore strategic programmes and policies to aid the process of actualizing such goals. This effort is not limited to developing countries alone, because even the developed ones are working hard to sustain their height of development and also go beyond. In this line of reasoning the researcher became worried on the status of Nigeria's development. It is factually worrisome that despite our numbers and endowment in Agriculture, oil and Mineral resources, we are still bedeviled with economic challenges as unemployment, poverty, low gross domestic products, low per capital income, poor standard of living and low life expectancy among others, these challenges should ordinarily be addressed through effort in Small and Medium Scale Enterprises (SMEs) sub sector but the reverse is the case.

Keywords: Bank credit, Small and Medium Scale Enterprise, Strategic programmes

INTRODUCTION

For any developing country to grow and develop economically, greater attention and concentration must be given to Small and Medium Scale Enterprises' sector", this is also similar to Central Bank of Nigeria (2011) assertion that SMEs are critical to the development of any economy, as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. Similarly, Kpelai (2009) stressed that, SMEs are the engine room for economic growth for developing economies, the contribution of the SMEs sub-sector to job creation is even more important. SMEs account for about three-quarters of total employment in manufacturing (Ayyagari, 2007). Enhancing Financial Innovation and Access (2012) posited that SMEs foster equitable growth amongst low-

skilled individuals that may otherwise face unemployment; generate less tangible benefits by nurturing an entrepreneurial spirit; encourage innovation and help to develop a group of individuals with basic business skills from which a new set of corporate entities may emerge in the future. Similarly, Kadiri (2012) established that SMEs serve as catalyst for employment generation, National growth, poverty reduction and economic development. Kuteyi (2013) posited that Small and Medium Scale Enterprise drives their country's development as they create employment and contribute to the gross domestic product (GDP).

Over the years, National economic challenges such as unemployment, poverty, poor standard of living, low life expectancy, low gross domestic product (GDP), low per capital income among others have risen significantly. This situation has sent sizable Nigerians into confusion with emerged questions as; what happened to the acclaimed role of Small and Medium Scale Enterprises as engine for economic growth base on their potential to address economic challenges? What happened to the policies of government meant to promote Small and Medium Scale Enterprises? Efforts to find answers to the raised questions led to exposition that the major challenge to SMEs' contribution to the Growth of Nigerian Economy is "Bank Credit". This challenge was equally observed by Kadiri (2012) that even though bank credit plays a crucial role in providing external financing to SME's in Nigeria, the major source of finance for SMEs in the country is apparently non-functional. Accordingly, Duro (2013) asserted that SMEs have been growing in leaps and bounds and are beset with a myriad of challenges which are in no small measure affecting their growth and the most pronounced, however, is access to funds. Similarly, Sacerdoti (2005), observed that, even banks with retained liquidity levels in excess of what is required by law have shown reluctance in extending loans to SMEs, especially on long term basis as they are considered highly vulnerable with high credit risk. Should we go by the assertions of Kadiri (2012), Duro (2013) and Sacerdoti (2005) we may be tricked to accept that they apparently confirmed why SMEs do not have the muscle to compete with the multinationals in terms of marketing because of what it takes in real terms to market a product among others.

Despite various views on the gap between Bank Credit financing and SMEs' contribution to the Growth of Nigerian Economy, it is still evidenced that government has established programmes to address SMEs financing challenge. For instance, as part of the developmental role, the Central Bank of Nigeria (2010) established the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) to promote access of credit for SMEs development in Nigeria. So far, the guidelines for the N200 billion re-financing and restructuring of banks loans to the manufacturing sector has been issued. It is worrisome that despite policies and programmes by the Nigerian government to address finance issues for SMEs to contribute maximally in Economic growth, such effort is yet to yield meaningful result. For instance, unemployment rate rose for the seventh straight quarter to 13.9 percent in the third quarter of 2016 from 13.3 percent in the previous period. It was the highest level since 2009, as the number of unemployed rose by 5.2 percent to 11.2 million, employment rose at a much slower 0.6 percent to 69.5 million and the labour force increased from 1 percent to 80.7 million. Meanwhile, youth unemployment rate increased to 25 percent from 24 percent in the previous period. A year earlier, the unemployment rate was recorded at 9.9 percent. Unemployment Rate in Nigeria averaged 9.52 percent from 2006 until 2016, reaching an all time high of 19.70 percent in the fourth quarter of 2009 and a record low of 5.10 percent in the fourth quarter of 2010 respectively. (Trading economics, 2017)

The situation above appears to be a major concern to the researcher, viewing from two perspectives; first, Government has initiated programmes to make funds available to SMEs through banks as loan. Second, SMEs have continued to lament poor access to funds. The importance of this study is underscored by the observed role of SMEs in the development of Nigerian economy, especially, as evidenced by their contribution to gross domestic product (GDP), capacity utilization and employment generation.

The situation above propelled the researcher to ascertain the level of relationship between funds disbursed as loans to SMEs since the last 2005 capital base / banking sector consolidation policy, the eligibility criteria for Nigerian commercial banks and SMEs level of contribution to GDP, SMEs' level of capacity utilization and SMEs' level of employment generation. In this study, SMEs' contribution to GDP, SMEs' capacity utilization and SMEs' level of employment generation are proxies for SMEs' contribution to the growth of Nigerian Economy. The study intends to provide answer to the following questions:

- i. What effect has bank credit on SMEs' productivity in Nigeria?
- ii. What effect does bank credit has on SMEs capacity utilization in Nigeria?
- iii. To what extent has bank credit affected SMEs level of employment generation in Nigeria?

The overall objective of this study is to evaluate the Effect of Bank Credit on Small and Medium Scale Enterprises' growth in Nigerian Economy. The specific objectives are to;

- i. Evaluate the effect of bank credit on SMEs' productivity in Nigeria.
- ii. Analyze the effect of bank credit on SMEs capacity utilization in Nigeria.
- iii. Investigate the extent to which bank credit has affected SMEs level of employment generation in Nigeria.

Hypotheses for this research are stated in null form as shown below:

H₀₁: Bank credit has no significant Effect on SMEs' productivity in Nigeria.

H₀₂: Bank credit has no significant Effect on SMEs' capacity utilization in Nigeria.

H₀₃: Bank credit has no significant Effect on SMEs' employment generation in Nigeria.

LITERATURE REVIEW

Concepts of Bank Credit

Bankers Association of Zimbabwe (2014) referred to Bank credit as the amount of funds that individuals or businesses are able to borrow from one or more lending institutions. In effect, it is a measure of how much in the way of cash loans may be issued, based on the credit history and the assets of the companies or persons who have the capacity to borrow. Investopedia (2016) referred to Bank credit as the aggregate amount of credit available to a person / business from a banking institution or the total amount of funds financial institutions provide to an individual or business. Owing to the submissions of Banker Association of Zimbabwe (2014) and Investopedia (2016), on bank credit, both are characterized with amount of funds channeled from financial institution to individual(s) or

businesses with terms of repayment. It is obvious that whoever accesses bank credit, most meet certain requirement before being qualified for such. Usually, lending terms will require that the borrower presents collateral and also accept penalties where repayment conditions are violated. It is also obvious that the role of advancing finance as credit is a key role of financial institutions. Nwanyanwu (2012) noted that the banking sector help to make credit available by mobilizing surplus fund from depositor who have no immediate needs of such money and channel it in form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. Eniola and Ektebang (2015) asserted that “bank credit is important for the take-off and efficient operation of any commercial enterprise, they added that Bank credit influences SMEs’ firm performance positively which transmit to the tier of economic activity in the state.

Concepts of Small and Medium Scale Enterprises

There is no single universally acceptable definition of Small and Medium Scale Enterprises (SMEs) due to certain economic features that differ countries from others. Thus, Arowomole (2000) cited in Dada (2014) affirmed that a single universally acceptable definition of SMEs has not been easy, as different countries have different criteria for defining SMEs. Adding that many countries have defined it in terms of manpower, management structure and capital investment limit. He further maintained that experts in this field have also contributed to the diversity in SMEs definitions. Similarly Musa (2013) noted that definition and criteria for classification of an enterprise as small, medium or large varies from one country to another, depending on whether it is a developed or a developing country. This study shall examine certain definitions and subsequently adopt one that suits its context.

SME sector is categorized into three namely; micro, small and medium enterprises or businesses. The micro SMEs are the smallest among the three categories. In the word of Darren (2009) “they are businesses that employ up to 9 employees in UK, while in Australia they employed fewer than 5 employees including non-employing businesses”. And according to US Census Bureau, micro businesses are categorized as SOHO meaning Small Office-Home Office. Therefore, micro businesses should be seen as the small form of SME that may employ fewer than 9 employees or on the other hand may not have employees at all. As regard the small businesses, they are businesses bigger than the micro businesses in terms of size, number of employees, structure, capital investment and economic contributions. Thus, the Nigerian Industrial Policy defined small scale business as industries with total investment of between N100, 000 and N2 million, exclusive of land but including working capital. Lastly, the medium business as the name suggests are bigger than both micro and small businesses in terms of operations, manpower capacity or number of employees, structure, capital investment and size. Central Bank of Nigeria (2010) defined Small and Medium Scale Enterprises (SMEs) as enterprises that have asset base (excluding land) of between N5million –N500 million and labour force of between 11and 300.

In Nigeria, the national Policy on micro, small and medium enterprises defines SMEs along the lines of international criteria. The policy mainly uses the employment base and asset size to categorize SMEs into micro, small and medium. Accordingly, any business Enterprise employing less than 10 workers and has an asset Base of less than N5 million could be viewed as a micro enterprise. For small scale enterprises, the employment base should be between 10 and 49 with asset base of Over N5 Million but

less than N50 million. Medium scale Enterprises are those that employ between 50 and 199 workers, with asset base of over N50 Million but less than N500 million. Importantly, the assets admitted for these classifications exclude land and buildings. Small and Medium Industries Equity Investment Scheme (2001) defined small-and-medium-scale enterprises (SMEs) as; any enterprise with a maximum asset base of N200 million, excluding land and working capital, with the number of staff employed by the enterprise not less than 10 and not exceeding 300. This study therefore, adopts in total the definition of SMEs according to Small and Medium Industries Equity Investment Scheme as contained above, due to its conciseness and acceptability by CBN whose data the study relies strongly.

Concept of Gross Domestic Product (GDP) in relations to SMEs

Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity. More specifically, GDP represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time. Investopedia (2016) defined Gross domestic product (GDP) as the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly). Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. Hence GDP is a monetary measure of all goods and services within a country for a particular period, mostly a year. The 2012 Enterprise Baseline Survey revealed that there are 17 million Small and Medium Scale Enterprises in Nigeria, employing 32.41 million persons and makes a contribution of about 46.54 per cent to the nation's Gross Domestic Product in nominal terms. The survey conducted by the Pro-Poor Growth and Promotion of Employment Programme in collaboration with Small and Medium Enterprises Development Agency of Nigeria, SMEDAN, with support from the German Development Agency was aimed at establishing a clear data-driven basis for policy to support the Small and Medium Scale Enterprises segment of the economy.

It is unambiguous from what several scholars have said that Small and Medium Scale Enterprises (SMEs) worldwide are engines for employment generation, poverty reduction, GDP enhancing, innovation creation and rising of living standard among others. It has equally being posited that SMEs account for well over half of the total share of employment, sales and value added within an economic system (Soludo, 2008). SMEs is the creativity and ingenuity of entrepreneurs in the utilization of the abundant non-oil, natural resources of this nation which provide a sustainable platform or springboard for industrial development and economic growth as is the case in the industrialized and economically developed societies (Eniola and Ektebang, 2014). SME provides over 90% of employment opportunities available in the manufacturing sector and account for about 70 % of aggregate employment created per annum (Ebiringa, 2011; Eniola & Ektebang, 2014). Similarly, the report of United Nations Industrial Development Organization (UNIDO, 2012) showed that SMEs make up over 90 percent of entrepreneurs of the world and account for 50 to 60 percent of employment generation; and also play important role in poverty alleviation. Eniola & Ektebang (2014) asserted that

Small and Medium Scale Enterprises have been acknowledged to have a prodigious potential for sustainable Development. The surplus of workforce who lost their jobs from bigger firms were reinstated back to the employment, mainly through the growth of SMEs. Oluba (2009) asserted that SMEs contribute to economy, especially developing ones through: Greater utilization of raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

It is however regrettable that despite wide views of scholars on SMEs roles in economic development amongst countries of the world, bank credit has consistently been mentioned as the biggest challenge. Abiola (2011) stated that in spite of the important role of SMEs to the development of Nigeria's economy, it is still been constrained by so many factors such as inadequate capital, stringent conditions on bank credit facility, poor management and faulty implementation of government policies on SME's which retards the development of the sector. Accordingly, Eniola & Ektebang, (2015) asserted that the phenomenon of SMEs financing difficulty exists in many countries in the world, even in the developed countries with relatively sound financial system, but this phenomenon in Nigeria is particularly prominent. Similarly, World Bank (2012) asserted that SMEs in Sub-Saharan Africa are more financially constrained than in any other developing region. They added that only 20 percent of SMEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks, as against 23 percent in Eastern Europe and Central Asia.

Central Bank of Nigeria (2012), bulletin's information showed that commercial bank loan to SMEs as percentage of total credit was 0.85% and 0.14% in 2007 and 2010 respectively, while 2012 recorded 0.15%. Perhaps we draw link between this worrisome situation of decline in credit supply by banks to consolidation policy of 2005. This is with credence to the conclusion of earlier studies that bank consolidation has an adverse effect on delivery of credit to SMEs. Owing to the perception that SMEs sub sector is very risky given their lack of formal financial history and adequate collateral, the Deposit Money Banks are generally averse to giving credit to SMEs. In addition, the fragile economic environment and absence of requisite infrastructure have rendered SMEs practice costly and inefficient, thereby worsening their credit competitiveness (Luper, 2012) It is clear at this stage that among several challenges that hinder SMEs' growth, finance has repeatedly dominated discussions by various scholars. It can therefore be summarily put that government must make sustainable policy decision that will favour SMEs financially, such that their challenges can be overcome among others. It is imperative to recognize that SMEs' contribution to the growth of any economy must be measured through defined variables. It is not out of place if SMEs' rate of contribution to GDP, SMEs' rate of employment generation and SMEs' rate of capacity utilization represent or proxy SMEs contribution to the growth of Nigerian Economy

Theoretical Framework

The finance led growth theory believes that the activities of the financial institutions serve as a useful tool for increasing the productive capacity of SMEs. They argue that countries with better-developed

financial system tend to grow faster. Similarly, the monetarist schools of thought opines that, change in the money supply leads directly to a change in the real magnitude of money. In effort to buttress this assertion, Friedman and Schwartz, 1963 as reported in Onyeiwu (2012) that an expansive open market operations by the Central Bank, increases stock of money, which also leads to an increase in Commercial Bank reserves and ability to create credit and hence increase money supply through the multiplier effect. Credit is an important aspect of financial intermediation that provides funds to those economic entities that can put them into the most productive use. Theoretical studies have established the relationship that exists between financial intermediation and economic growth which is hypothesized under the finance led growth theory. For instance, Schumpeter (1973) also stressed the role of credit in financing innovation to bring about development. In his theory, economic development arises as a result of innovation which is attributed to entrepreneur but without credit the benefits may not be realized by the society and there lies the argument for continuous financial support for SMEs to realize its full potential.

It is imperative to recall that much on the importance of financial institutions to the growth of SMEs has been widely discussed on the earlier reviewed literature. For instance, Eniola & Ektebang (2015) asserted that “bank credit is important for the take-off and efficient operation of any commercial enterprise, they added that Bank credit influences SMEs’ firm performance positively which transmit to the tier of economic activity in the state. Similarly, Nwanyanwu (2012) reported that the banking sector help to make credit available by mobilizing surplus funds from depositor who have no immediate needs of such money and channel it in form of credit to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute the ideas. Also in a study by Edirisuriya (2008) reported that financial sector reforms are expected to promote a more efficient allocation of resources and ensure that financial intermediation occurs as efficiently as possible. In a similar study, Bencivenga & Smith (1991) explained that development of banks and efficient financial intermediation contributes to economic growth by channeling savings to high productive activities and reduction of liquidity risks. They therefore concluded that financial intermediation leads to growth.

Based on this assertion, this study evaluates the Effect of Bank Credit on Small and Medium Scale Enterprises’ Contribution to the Growth of Nigerian Economy. This also means that it will be practically impossible for this study to meet its objective except there is relationship between banks and Small and Medium Scale Enterprises. Furthermore, SMEs cannot meet their goals except financial institutions are up and doing, in terms of meeting up with credit demand of SMEs. This theory clearly shows that the availability of financial resources within the financial institutions will determine to a large extent the amount of credit that can be accessed by SMEs. This therefore, provides opportunity to test the degree of Effect bank credit has on SMEs’ contribution to the growth of Nigerian economy.

METHODOLOGY

This study examined the effect of Bank Credit on the Growth of Small and Medium Scale Enterprises’ (SMEs) In Nigeria within the period 2006 to 2016. The research design adopted for this study is the non-experimental research design. The reason is that non-experimental research design combines the theoretical exposition with empirical observation. In other words, the research method to adopt for this

study is content analysis which entails relying on data comprehensively stocked by the appropriate authorities, extracted and analyzed in the study. The data to be used in carrying out this study is time series based for the period 2006 – 2015 collected from secondary sources. The data will be collected mainly from Central Bank of Nigeria (CBN), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (NBS)' statistical bulletin / database, covering the study's duration.

The ordinary least square (OLS) linear regression model will be used to estimate the variables. This involves estimation of the model in order to examine the effect of Bank Credit on SMEs productivity in Nigeria. The linear estimation technique aims at achieving unique parameter estimates that would enable us to interpret the regression coefficients and consequently give a slightly better fit. Following finance led growth theory; the econometric model was built in this study to evaluate the effect of Bank Credit on SMEs productivity in Nigeria. The study adopted the previous empirical model specification of Imoughele & Ismaila (2014) with some modification. The model employed for this study is simple linear regression analysis (Bivariate) involves model which involves two explanatory variables and three independent variables. Therefore the following model specification to test the three formulated hypotheses, are as follows:

$$SP = \beta_0 + \beta_1 BC + \mu_t \text{-----} 1$$

$$SCU = \beta_0 + \beta_2 BC + \mu_t \text{-----} 2$$

$$SE = \beta_0 + \beta_3 BC + \mu_t \text{-----} 3$$

Where;

SP	=	SMEs contribution to GDP
BC	=	Bank credit to SMEs
SE	=	SMEs employment generation
SCU	=	SMEs capacity utilization

Unit root test was conducted on the variables using the Augmented Dickey Fuller (ADF) test. Unit root test is a test of stationary or non-stationary of time series data used in the model. This is to find out if the relationship between economic variables is spurious or nonsensical. The estimation will be conducted using the econometric computer software package, E-Views version 9.0.

Conclusion and Recommendation

It is an established fact that there exist an inverse relationship between the growth and development of small and medium scale business in Nigeria and the availability of bank credit for use by business persons. It is not a secret that over the period under review; 2006-2016 SME has contributed to the emergence of new jobs, wealth creation, poverty reduction and accelerated development or advancement in key section of the Nigerian economy both at the urban and rural areas.

Bank credits are the catalyst for enhanced growth and development in this sector and greater attention must be given to ensuring the availability of bank credit. The study recommends that

- i. To maintain accelerated growth and development there should be prompt intervention by financial regulators to ensure gross availability of bank credit to support SME in Nigeria.

- ii. Bank credit should be rendered at relatively low rate, this will kick-start the small and medium industry by enlarging the pool of business that will readily be assisted. This will establish and sustain growth geometrically.

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DETERMINANTS OF EARNINGS MANAGEMENT IN QUOTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

This paper examined the determinants of earnings management in quoted consumer goods firms in Nigeria. Secondary data sourced from the financial statements and annual reports of seven consumer goods firms quoted on the Nigeria stock exchange for 2009-2016 financial years were used for the study. Earnings management was measured using Discretionary accruals with modified Jones model, while, corporate governance measured using Board size and Audit committee financial expertise and auditor type were explanatory variables. Firm size and Leverage were control variables. Ordinary Least Square (OLS) regression analysis was adopted to examine the impact of the explanatory variables on earnings management. Findings indicate the existence of significant relationship between earnings management, Audit committee financial expertise and auditor type of quoted consumer goods firms in Nigeria. The study recommended that more attention be given to the financial expertise of directors recommended to the audit committee. Also, firms must ensure they engage credible auditors that have track record of delivering accurate reports.

Keywords: Earnings management, Auditor Type, Corporate Governance

Introduction

In order for the financial statements not to be misleading, disclosure and presentation of accurate information is needed by users of financial statements. Managers, therefore, owe it a duty to the various stakeholders especially, investors to prepare accounting reports that express the true and fair view of the business transactions for the period specified (Agbeye & Nweze, 2016). Sometimes, managers tend

to employ accounting techniques in an unjustified way aimed at improving the performance of their firms when performing poorly. This is one of the reasons why different accounting information can be generated from the same business data when the accounting numbers are manipulated. To distort accounting information to achieve a desired purpose is earnings management. Earnings management is any action taken by management to manipulate accounting information that generates a commendable view from the market to suit the interest of the firm which does not reveal the true value of the firm. Uwuigbe (2014) described it as efforts of management to manipulate reported earnings by using certain accounting methods or changing methods, recognizing non-recurring items, deferring or speeding up expenses or revenue, or using other techniques designed to influence short-term earnings. When firms engage in earnings management, the accounting information contained in the assessment of a firm's financial performance reports will be distorted and not show the true view of the business transactions it purports to represent. The Nigerian corporate environment has experienced the presence and negative effect of earnings management on credibility of financial reporting and corporate failure has also been experienced. In November 2006, the corporate scandal in Cadbury Nigeria Plc. raised more questions about earnings management practice which has been increasing in recent years in Nigeria to attract unsuspecting investors by presenting an exaggerated deceptive state of financial affairs.

Enegebe, and Atu (2016) found that the tendency for earnings management has been witnessed amongst companies in Nigeria and it suggests earnings management is fast becoming a key challenge for stakeholders in the Nigerian Corporate setting. The banking sector challenges which saw the Economic and Financial Crimes Commission (EFCC) summoning the top management of the banks as a result of fraudulent financial reporting, which has affected the stability of the financial system suggest to us that the threat of earnings management already lurks around. Investors, shareholders and other stakeholders become doubtful on the credibility of financial reporting reports of companies in Nigeria. Studies. In Nigeria, despite the reported cases of financial scandals in the consumer goods sector, there are no clear cut investigations that examine the determinants of earnings management of the consumer goods sector in Nigeria. Hence, most of the studies Lanuwar (2013), Abaoub, Homrani and Gamra (2013), Fakhfakh and Nasfi (2012), that have tried to assess determinants of earnings management are foreign based. This study is therefore, an attempt to fill the existing gap by examining the determinants of earnings management in quoted consumer goods firms in Nigeria. The main objective of this study is to investigate the determinants of earnings management in quoted consumer goods firms in Nigeria. The pertinent questions that this paper is set to answer are:

- (i) What is the relationship between corporate governance and earnings management and of quoted consumer goods firms in Nigeria?
- (ii) What is the relationship between auditor type and earnings management in quoted consumer goods firms in Nigeria?

Specifically, the study is aimed at achieving the following; to:

- (i) Examine the relationship between corporate governance and earnings management of quoted consumer goods firms in Nigeria.
- (ii) Examine the relationship between auditor type and earnings management in quoted consumer goods firms in Nigeria.

The study hypotheses stated in null form are stated below:

H01: There is no significant relationship between board size and earnings management in quoted consumer goods firms in Nigeria.

H02: There is no significant relationship between Audit committee financial expertise and earnings management in quoted consumer goods firms in Nigeria.

H03: There is no significant relationship between Auditor Type and earnings management in quoted consumer goods firms in Nigeria.

This study will be relevant to Investors and analysts in identifying why quoted consumer goods firms in Nigeria engage in earnings management. Nigeria Regulatory authorities of financial reporting may find it useful as it provides empirical justification on earnings management and support future decisions regarding financial statement reforms. The study will also add to existing literature on earnings management.

Literature Review

Concept of Earnings Management

Earnings management is defined in this study as any action taken by management, in their interest to manipulate accounting information that generates a commendable view from unsuspecting investors which does not reveal the true value of the firm. Healey and Wahlen (1999) are of the view that earnings management occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company to influence contractual outcomes that depend on reported accounting number. Scott (2003), states that earnings management is the choice of a manager among accounting policies which allow achieving some specific objectives. Filed, Sullivan and Lin (2001), state that earnings management is witnessed when managers exercise their discretion over accounting numbers, with or without restrictions. Such discretion can be either firm value maximizing or opportunistic. Thus, there are two types of earning management, opportunistic and informative. Opportunistic creative accounting practices means that managers seek to mislead investor by pursuing the management's interests.

Concept of Corporate Governance

The role of corporate governance is instrumental in reducing the occurrence of earnings management accounting practices and improving the financial reporting process because of the monitoring roles of corporate governance. The Central Bank of Nigeria code of Corporate Governance (2006, para. 1.3) observes that "specifically for financial sector, poor corporate governance was identified as one major factor in all known instances of financial distress in the country." Hence, poor corporate governance provides an impetus for earnings management. Corporate governance variables such as CEO duality, directors' shareholding, board size, board composition, quality of audit committee have been found to relate to measures of earnings management (Bello, 2011). Financial reporting quality is dependent function of effective corporate governance system. The premise for this assertion is that the

opportunistic tendency of managers to engage in unethical practice is reduced in the presence of effective corporate governance structure.

Board Size and Earnings Management

Board size is often linked to board of directors' effectiveness, which is necessary for increased firm performance. Jensen (1993) argues that an "overcrowded" board is less likely to function effectively and is easier for the CEO to control. His argument is consistent with the view in the organizational behaviour theory that workers' productivity declines in larger work groups. However, Eisenberg, Sundgren & Wells (1998) report a negative correlation between board size and profitability for mid and small capitalized Finnish firms. The implication is that if board size improves performance, it would reduce earnings management.

Audit Committee Financial Expertise and Earnings Management

Xie, Davidson and Dadalt (2001) find that board and audit committee members with corporate or financial backgrounds are associated with firms that have smaller discretionary current accruals. They also find that board and audit committee meeting frequency is also associated with reduced levels of discretionary current accruals. They conclude that board and audit committee activity and their members' financial sophistication may be important factors in constraining the propensity of managers to engage in earnings management. Audit committees, as corporate governance mechanisms play central role in the financial monitoring of firms and also provide oversight roles over accounting policies and judgments, as well as on the quality of the overall financial statements (Security and Exchange Commission Code (SEC), 2011).

The financial expertise of the audit committee in Nigeria has left much to be desired. Okpara (2000) asserts that board members are picked from the pool of high-profiled retired senior military officers and civil servants without expertise in basic finance and business operations. Therefore, the need to have an audit committee with financial expertise cannot be over-emphasized. As noted in extant literature, for instance, Abbott, Parker and Peters (2004), and Dhaliwal, Naiker & Navissi, (2007) document lower instances of earnings restatements, higher demand for audit services and lower occurrence of financial fraud in firms with financial expertise in audit committees.

Auditor Type and Earnings Management

External audit is intended to ensure financial statements' reliability and sincerity. According to DeAngelo (1981), audit quality depends on the probability of detecting errors and deficiencies in financial statements. It also depends on the independence of auditor in order to avoid influences on his judgments. Empirical studies that examine the size of audit firms and the extent of earnings management by companies are contradictory. Craswell and Taylor (1992) found a positive relationship between auditor and the tendency for earnings management identified through low reserve disclosure in the Australian oil and gas industry. It is assumed that size (Big 4) of audit firm suggest reputation, international affiliation, and integrity which are reflected in the audit report on the accounts of their clients. Lennox (1999) looked at the two explanation of why the presence of a BIG 4 audit firm may deter the practice of earnings management. The first explanation was in regards to the "reputation" hypothesis suggested by DeAngelo (1981). The explanation is that large auditors have more incentives

to be accurate because they have more client-specific rents to lose if their reports are not accurate. The second explanation is referred to as the “deep” pockets hypothesis used by Dye (1993) who argued that large auditor will be more accurate because they have greater wealth that is exposed to risk in case of any litigation.

Theoretical Framework: Agency Theory

The agency theory is based on the relationship between the principal (owners) and the agent (Managers). The separation of ownership from management in modern corporations provides the context for the function of agency theory. Modern organizations have widely dispersed ownership, in the form of shareholders, who are not normally involved in the management of their companies. In these instance, an agent is appointed to manage the daily operations of the company. This distinction between ownership and control creates the potential for conflicts of interest between agents and principals, which result in costs associated with resolving these conflicts (Jensen & Meckling, 1976). If the principal is too busy to neither verify work of the agent nor monitor the agent’s work, but rely on reward system to ensure that the agent discharges his work ‘faithfully’, the same reward proposed may induce the agent to manipulate accounting figures. This is so when performance is below the bench-mark set for the rewards to be earned by the managers. Dechow and Skinner (2000) argued that a more fruitful way to identify firms whose managers practice earnings management is to focus on managerial incentives. There is information asymmetry where the principal lacks the knowledge to understand the agent’s reports, the agent may take advantage of his superior knowledge to present information that will suit his interest. This view was expressed by Healy and Wahlen (1999) in their definition of earnings management as: ‘manager’s use of judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers’.

Empirical Reviews

Abaoub et al (2013) studied the determinants of earnings management: empirical evidence from Tunisian banking industry. The study covered 1999 to 2010. 10 Tunisian banks were sampled. Findings reveal that there is a significant and positive relationship between earnings management and operational risk, while loan loss provisions are inversely related to earnings management. Jatiningrum, Hamid and Popoola (2015) examined the impact of disclosure quality on corporate governance and earnings management: evidence from companies in Indonesia. The data obtain from listed Indonesian manufacturing companies using moderated regression analysis method complete the analysis of the interaction effects. The results reveal a significant effect of disclosure quality on the relationship between corporate governance mechanisms and earnings management. Abbadi, Hijazi and Al-Rahahleh (2016) examined corporate governance quality and earnings management: evidence from Jordan. Panel data set of all industrial and service firms listed on Amman Stock Exchange (ASE) during the period 2009-2013 was used for the study. The results show that earnings management is affected negatively by board of director, board meeting, Audit and nomination and compensation committee. The limitation of the study arises from the fact that the Jordan and Nigerian economies differ, thus, findings from the study are not likely to apply to the consumer goods sector in Nigeria.

In Nigeria, Dabor and Ibadin (2013) focused on the evaluation of the implication of earnings management determinants in the banking industry in Nigeria. The study covered a period of 2005-2010. The Pearson Product Moment Correlation was used to identify the determinants of earnings management. The results showed that audit committee size, audit fee, bank asset quality, bank size and board size were all negatively correlated with abnormal loan loss provisions. The study focused on the banking sector which is highly regulated. Atu et al (2016) examined the determinants of earnings management in quoted companies in Nigeria from 2007-2014. The cross-sectional research design was employed. Data was analysed OLS regression model. The study finding indicates the existence of negative significant relationship between board size, audit firm type and earnings management. In addition, they study also found the existence of a non-significant relationship between firm size, ROA and earnings management. Zayol, Adzembe, and Akaa (2017) examined the determinants of earnings management in listed oil and gas firms in Nigeria. Data was analysed using multiple regression analysis through Stata. Results show that external sector specialization has positive and significant effect on earnings management of listed oil and gas firms while external audit tenure and audit committee gender have negative and significant relationship with earnings management of listed oil and gas firms in Nigeria. The study however, did not focus on the consumer goods sector.

Methodology

This study used the cross-sectional research design and Secondary data obtained from published financial statements of 7 quoted consumer goods firms for year 2009-2016 was used. This research design is considered most appropriate since the study evaluates the determinants of earnings management. According to Atu et al (2016), cross-sectional research design is most appropriate where the independent variable is not controlled or manipulated because the situation for study already exists or has already taken place. The desired population consist of all consumer goods firms quoted on the Nigerian Stock Exchange (NSE). There were 22 consumer goods firms from the list of quoted consumer goods firms provided by NSE. 7 firms were sampled and used for the study. The choice of these periods arises based on the fact that it is plagued with a number of corporate frauds arising from firms in Nigeria and other developed economies due to poor corporate governance practice and institutional failures. Modified Jones Model was employed in determining discretionary accruals. Multi-collinearity tests were conducted to examine the effects of correlation among the variables on the results. The study will make use of multiple Ordinary Least Square (OLS) regression analysis as the data analysis method. In this study we adopted OLS regression techniques to examine how the explanatory variables (corporate governance and Audit type) impact earnings management. The OLS multiple regressions was adopted because it is the appropriate techniques for examining the relationship between variables (Gujarati, 2009). To ensure that our model is statistically valid, we conducted diagnostic test such as goodness fit (R-squared, F-test, t-test etc), heteroskedasticity test. However, preliminary analysis such as the descriptive statistics and correlation analysis will also be conducted.

Table 1: Measurement of variables

Variable	Type	Measurement
Earnings Management	Dependent	DACC represents discretionary accruals.
Board Size	Independent	BSIZE represents the size of the board.

Audit Committee Fin Independent expertise		AUDEXP is the proportion of audit committee members with financial expertise.
Auditor Type	Independent	AUDTYP represents if “BIG4” or “NON-BIG4”
Firm Size	Control	Size of the firm
Leverage	Control	LEV is the total debts/total assets

Source: Researcher's computation, 2017

Based on the above variables, this study adopts the modified Jones (Dechow et al., 1995) since it has universal recognition in terms of ability to measure earnings management. The model is stated below:

$$TACC_{it}/Ait-1 = \beta_1 1/Ait-1 + \beta_2 (\Delta REV_{it} - \Delta AC R_{it})/Ait-1 + \beta_3 PPE_{it}/Ait-1 + \epsilon_{it} \quad (1)$$

Using the residuals as proxy for discretionary accruals, the above model is restated as follows:

$$DACC_{it} = TACC_{it}/Ait-1 - [\beta_1 1/Ait-1 + \beta_2 (\Delta REV_{it} - \Delta AC R_{it})/Ait-1 + \beta_3 PPE_{it}/Ait-1] \quad (ii)$$

When the variables of the study are incorporated, the model becomes:

$$DACC_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 AUDEXP_{it} + \beta_3 AUDTYP_{it} + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + \epsilon_{it}$$

Where

TACC_{it} = total accruals for firm i in year t

Ait-1 = total assets for firm i in year t deflated by 1

ΔREV_{it} = change in net revenues for firm i in year t

ΔACR_{it} = change in accounts receivables for firm i in year t

PPE_{it} = gross property, plant and equipment for firm i in year t

ε_{it} = error term (discretionary accruals for firm i in year t)

DACC = Modified Jones Discretionary accruals used as proxy for earnings management.

BSIZE_{it} = Board Size of the firm i in time t

AUDEXP_{it} = Audit committee financial expertise for firm i in time t

AUDTYP_{it} = Auditor type for firm i in time t

FSIZE_{it} = Firm size for firm i in time t

LEV_{it} = Financial leverage for firm i in time t

β₀ = Intercept/constant of the model

β₁ – β₈ = coefficients of the study model.

Results and Discussion

Descriptive Statistics

Table 1 provides some descriptive statistics about sample firms.

Table 1: Descriptive Statistics

Variable	Mean	Maximum	Minimum	STD	Observation
DACC	.2482892	.734079	-0.02011	.5745059	56
AUDTYP	.5	1	0	.504525	56
BSIZE	10.41071	13	8	1.187462	56
AUDEXP	.3928571	1	0	.4928054	56
FSIZE	6.239129	8.22939	0	2.926789	56
LEV	.7261035	10.75515	0.24983	1.416854	56

Source: Researcher's Computation (2017)

Descriptive statistics is always used for depicting the characteristics of sample size. From Table 1, DISACC has a mean value of .2482892 with maximum and minimum values of .734079 and -0.02011 respectively. The standard deviation measuring the spread of the distribution stood at .5745059. The mean value for AUDTYP is 0.50 which suggest that about 50% of the firms selected were audited by the Big-4(KPMG, PWC, AKINTOLA WILLIAMS & DELIOTTE and ERNEST & YOUNG). The results above also showed that the average BSIZE for our sampled companies is about ten (10) board of Director Members with a minimum and maximum number of 8 and 13 respectively. AUDEXP has a mean value of .3928571 which suggest that 39% of Audit committee members have financial expertise. The mean for FSIZE stood at 6.239129 and LEV at .7261035.

Table 2: Pearson Correlation Result

VARIABLE	DACC	AUDTYP	BSIZE	AUDEXP	FSIZE	LEV.
DACC	1					
AUDTYP	-0.2957	1				
BDIRECTORS	-0.0023	-0.1062	1			
AUDEXP	0.1771	0.2925	0.0300	1		
FSIZE	-0.2652	0.1898	-0.2083	0.1717	1	
LEV	0.1087	-0.1425	-0.0158	-0.0558	0.1004	1

Source: Researcher's Computation (2017)

The above result shows the correlation matrix between the variables. It shows the degree of relationship between each variable compared with other variables. As can be observed, the correlations are generally low, implying that there is no problem of multicollinearity. From the table, the values on the diagonal are all 1.000 indicating that each variable is perfectly correlated with itself. AUDTYP have a negative relationship with (DACC) as depicted by the correlation coefficient (-0.2951) indicating that, a decrease in quality of AUDTYPE leads to increase in DACC. BSIZE also shows negative correlation with DACC (-0.0023) indicating that a decrease in the number of non-executive directors leads to an increase in DACC. AUDEXP and LEV are positively correlated with DACC (0.1771) and (0.1087) respectively indicating that a decrease in AUDEXP and LEV results to an increase in DACC. However, FSIZE shows a negative relationship with DACC (-0.2652). Heteroscedasticity test was performed using Breusch-Pagan/Cook-Weisberg test for heteroscedasticity to evaluate the hypothesis of non-existence of equal variance in the error term. The result of the test indicates that the model is fitted. The correlation coefficient results show that none of the variables are strongly correlated and this indicates that the problem of multicollinearity is unlikely and hence the variables are suitable for conducting regression analysis.

Table 3: Regression Result

Dependent Variable: DACC				
Variable	Coefficient	Std. Err.	T-statistics	Prob.
Constant	.6533494	.6919434	0.94	0.35
AUDTYP	-.376115	.1501084	-2.53	0.015
BSIZE	-.0517209	.0611023	-0.85	0.401
AUDEXP	.3893833	.1514619	2.57	0.013
FSIZE	-.0573789	.0254612	-2.25	0.029
LEV	.0435772	.507381	0.86	0.395
R-Squared	0.2470			

Adjusted R-Squared	-0.1717
F-Statistics	3.28
Prob. Value	0.0122

Source: Researcher's Computation (2017)

Table 3 above shows the ordinary least squares regression result conducted using SATA13.0. Based on the regression result presented in table 3, Hypotheses on the relationship between corporate governance and discretionary accrual are tested at 0.05 significance level. Corporate governance variables hypotheses H1 and H2 on board size of directors and relationships with Discretionary Accrual are found not to be significantly given the P-value of 0.401. Therefore, the relationship between BSIZE is not significant indicating that the Board size has not impacted significantly on earnings management in the consumer goods sector of the Nigerian economy. Therefore, **we accept H1**. However, the relationship between AUDEXP and DACC is significant at 5% as the coefficient of AUDEXP is -.3893883 and p-value is 0.013. Therefore, this finding is consistent with the finding of Yusof (2010) who submitted that audit committee with higher proportion of financial expertise mitigates earnings management. This result is also consistent with the previous study by Jatiningrum et al (2016), Shen and Chih (2007) that firm with good corporate governance tend to engage less in earnings management thus we **reject H2**. Finally, AUDTYP on DISACC appears to be negative and also significant at 5% ($\beta_1 = -.376115$, $p = 0.015 < 0.05$). The finding is in line with Abdul Rahman and Ali (2006), Baxter and Cotter (2009) which indicate a significant association between audit firm type and DACC. Also in line with the study finding is the work of Abbott et al. (2004). The estimates for Auditor type is significant and thus we **reject H3**. For control variables, leverage and firm size are significant. The Multi-collinearity results showed that all the variables have variance inflation factor (VIF) less than 10 and tolerance greater than 0.1. The means that the correlation among the variables is not sufficient to distort the outcome of the multiple regression.

Conclusion and Recommendations

This paper provided empirical study on the implication of the determinants of earnings management in quoted consumer goods firms in Nigeria. The findings of this study indicate that the level of earnings management, measured by discretionary accruals, is affected negatively by corporate governance and auditor type. This indicates that firms with good corporate governance tend to engage less in earnings management. Also, firms audited by BIG4 have better chances of detecting managers engaged in earnings management. Regarding control variables, the results showed that large companies are less likely tend to engage earnings management practices which may possibly refer to their benefits from their economies of scale; companies that have high leverage are more likely to be motivated to use discretionary accruals and restate their financial statements (which may possibly suggest that these companies are trying to show a margin of safety to their creditors and to avoid debt covenant violation). Findings from this study call for some recommendations.

- i. There is the need for consumer goods firms in Nigeria to pay attention to the number of audit committee members with financial expertise in order to assist in detecting when managers are involved in the act of earnings management.

- ii. Consumer goods firms in Nigeria must ensure credible auditors that have a track record of delivering reports that show the actual state of affairs of the firm are engaged.
- iii. Regulatory Agencies should enact laws that ensure stiffer penalties to firms caught engaging in the act of earnings management.

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**PERCEIVED RELATIVE ADVANTAGE OF ISLAMIC BANKING AMONG AGE GROUPS
IN ANAMBRA STATE, NIGERIA**

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Abstracts

Islamic banking customers' segment was studied using the age groups in Awka, Anambra state, Nigeria to determine if there are significant differences in their mean perception of the relative advantage of Islamic banking concept. Crosstab was used to study the relationship between the demographic factors that made up the participants of the study. ANOVA was used in order to show the

mean significant difference of the groups that were hypothesized and T-Test was computed to know how the categories rated the relative advantage of Islamic banking. The age groups in Awka, Anambra state, Nigeria showed significant difference among their perceptions of relative advantage of Islamic banking at .00 significant levels. T-Test shows that The “under 25yrs” and “above 50” categories rated the perceived relative advantage of Islamic banking low, looking at their mean of 2.30 and 2.68 respectively, while “26-50yrs” categories rated the perceived relative advantage high, looking at their mean of 3.20. The study recommends that Islamic bank that wants to enter Anambra State should target the age bracket “26 – 50yrs” as innovator.

Key words: Islamic banking, Perceived relative advantage, Religious groups

1. INTRODUCTION

Islamic banking has been defined as banking in consonance with the ethos and value system of Islam (Gerrard & Cunningham 1997). The concept of Islamic banking has been gaining ground worldwide with the exception of some countries, where the system is still new (Bala and Nafis, 2007). It is a financial institution whose statutes, rules and procedures expressly states its commitment to the principles of Islamic shari’ah (Jurisprudence) and forbids of the receipt and payment of interest on any of its transaction (Kalaithasan & Mohamed, 2007) but share in the profit or loss. The principles of Islamic banking were postulated by Fakiyesi (2011), Bala and Nafis (2007), as Prohibition of Interest/Usury, Profit and Loss Sharing, Ban on Uncertainty, Prohibition of Unethical Investment, and Asset backing. Personal characteristics have been widely applied in different types of studies in order to identify its potential impact on usage and adoption of diverse type of products; however, despite this high level of attention, their impact on adoption and usage discussion are frequently conflicting (Lee, Cho, Xu, & Fairhurst, 2010). One can argue that the reason for these conflicting results could be the cultural differences of investigated society, since these differences could influence desires of consumer to use a particular product or service. Demographic factors are powerful in explaining the adoption and usage intention of different products; age could be a factor in determining the relative advantage of Islamic banking in Awka, Anambra state, Nigeria.

Boyd, Leonard, and White (1994) investigated the importance of bank selection criteria in terms of the age of the head of the household. They found that for the age group under 21 years, a bank's reputation plays a major role in determining their bank selection, followed by location, hours of operation, interest on savings accounts and the provision of convenient and quick services. The least important factors for this age group were found to be the friendliness of bank employees and the modern nature of their facilities. One can argue that consumers in different age group who want to buy a new product or service expect that the benefit they will receive from the product or service exceeds the cost of obtaining the new product or service. When evaluating a new product for possible adoption, consumers weigh the benefit against the cost of adoption based on their personal attributes, and if the perceived benefit overweighs the perceived cost, consumers are more likely to adopt. However, innovation has been defined from different perceptive, that is continuous, dynamically continuous, discontinuous innovation (Kotler, 2003). In this study, Islamic banking in Awka, Anambra State, Nigeria was operationalized under dynamically continuous innovation.

Kotler (2003) defined discontinuous innovation as a new product but not a major technological advance. Looking at Islamic banking concept, it is a discontinuous innovation from conventional banks in Nigeria. Some banks in Awka have “Islamic window” for example Mainstreet bank, Stanbic IBTC, United Bank for Africa, etc. Based on these, one can argue that Islamic banking is no longer regarded as a business entity striving only to fulfill the religious obligations of the Muslim community, but more significantly, as a business that is ineluctably in need for winning over customers and at the same time retaining the old ones like the conventional banks. Also, Bley and Kuehn, (2005) argued that Islamic financial services sector is growing at double digit rates and demography of the consumer will help in its segmentation. In this time of economic transformations and bank reformation in Nigeria, it is vital for the Islamic Banking service providers to know the perception of different age groups in Awka, capital city of Anambra State to Islamic banking in order to segment based on age groups. Islamic banking services are currently available in Nigeria, although not in Anambra State which made it an innovative concept.

Rogers and Shoemaker identified five characteristics which may increase the rate of acceptance and rejection of a new product; they are relative advantage, compatibility, simplicity, observability and trialability. Many researchers have seen relative advantage as the most important factor that may drive acceptance (Akabogu, 2013, Haron, Thambiah, Nathan & Eze, 2008). On this note we highlighted relative advantage as a factor that may be used to rate the acceptance of Islamic banking concept in Awka, Anambra state, Nigeria among different age groups. Many researchers have studied customer perceptions towards Islamic banking, to help Islamic financial providers to market their products effectively (Haron, Ahmad & Planisek, 1994; Dusuki & Abdullah, 2006; Thambiah, Nathan & Eze, 2008). But none has studied Islamic banking customers’ segment using the age groups in Awka, Anambra state, Nigeria. The problem in this study focused on this gap in literature.

This study measured the perceived relative advantage of Islamic banking by the age groups in Awka, capital city of Anambra state, Nigeria. And to determine if there are significant differences in the perception of the relative advantage of Islamic banking by the consumer segments that emerge based on age groups. To explore and assess the perception of Islamic banking concept in Anambra State, this study targets Awka City residents as survey participants. In order to achieve the intended objectives of the study and to address the research problem properly, a research question was designed accordingly. In light of this, the research ponders to answer this research question: Are there significant differences in the perception of the relative advantage of Islamic banking by the consumer segments that emerge based on age? The null hypotheses are the one that are always tested by statisticians and market researchers (Hair, Bush and Ortinau 2006). In order to achieve the intended objectives of this study, the following null hypothesis was developed and tested:- There are no significant differences in the perception of the relative advantage of Islamic banking by the consumer segments that emerge based on age.

This study will be a practical guideline for the Islamic bank managers, especially in taking decisions on the funding and marketing strategy for attracting, maintaining and satisfying Islamic bank customers’ segment, as it concern age groups. We hope that this study will add value to the existing body of literature on Islamic banking in academic field. It will assist in developing Islamic banking consumer segment. Also, the recommendations therein if well implemented will have enormous

potentials in giving insights on the consumers' segment of Islamic bank in Nigerian and the global economy. It is expected that the outcome of this research will go a long way in ensuring a turnaround of Nigeria's Islamic banking and will also serve as a basis for other researches in similar area.

The scope of this work was determined by the topic "Islamic banking in Nigeria: Perception of its Relative Advantage among age groups in Awka, Anambra State, Nigeria". The subject scope is delimited to the areas of accepting and rejecting innovative concept (Islamic banking concept), in relation to consumer behavior in marketing. The variable scope is delimited by the religious groups. The innovation attribute considered in this study is the perceived relative advantage and other attributes were not used in this study. The influence of this attribute of innovation were treated as continuous variables, while the segments are nominal classes representing the consumer segments that emerged as a result of perceived relative advantage of the Islamic banking concept in Awka, Anambra State, Nigeria. The geographical scope of the study is Awka, a commercial city which is also the capital of Anambra State, Nigeria was created in 1991 and has a lot of different social and cultural inter-relations. The study unit scope is made up of consumers who reside in Awka at the time of the study and currently bank with any of the banks in Awka or have intention of banking with any bank in Awka. In the course of eliciting information for this work, some respondents did not co-operate, some collected questioners but failed to return them, which may be due to the literacy level in Nigeria. Nonetheless, the constraints and limitations were prudently and efficiently managed so as to have uncompromised findings and conclusion from the study.

2. LITERATURE REVIEW

Kangis and Voukelatos (1997) on their work "Private and public banks: a comparison of customer expectations and perceptions" found that younger clients (age 18-24) appreciated the good appearance of staff and the lower queuing time. Young adults (25-34) appreciated the modern equipment, problem solving, willingness of staff to help, explanations of the services given, friendliness, courtesy, professional knowledge of the staff and the location of the branch. Mature adults (35-45) as well as the other older age groups, showed inconsistencies in their perceptions for most dimensions, other than commonly seeking a reduction in queuing time. Stafford (1996), found that age is inversely related to credit card use; younger adults use credit cards significantly more than older adults.

Owusu-Frimpong (1999) in a separate study on the patronage behavior of Ghanaian bank customers considered age, sex, and occupation as three important variables in the customers' demography. They found a significant portion of their customers belonging to the age group of 30 to 50 years of age. In a related study in the context of internet usage and adoption, older adults (50-81) years old in China and the influence of demographic items (age and gender) on usage intention and adoption of the internet was looked into by Pan and Marsh (2010). Outcome of study illustrated that number of male for adopting internet was higher than females among these Chinese older adults. Concerning age of respondents, this item had negative impact on adoption of internet by older adult respondents. In a study in Hong Kong, the following demographic variables were considered to be important ones in customers' adoption behavior in banking: gender, age, household income, educational level, and occupation (Wan, Luk, & Chow, 2005). In a study, Cohen, Gan, Yong, and Choong, (2006) asserted that customers' age groups and level of education contributed to explaining respondents' propensity to

stay with their current banks. Metwa and Almossawi (1998) in a study on behavior of Islamic bank customers in Bahrain considered age, income, level of education, and nationality as important socio-demographic variables in associated with customer behaviors.

However, Metawa and Almossawi (1998) and Naser, Jamal and Al-Khatib (1999) found adherence to Islamic tenets the primary criterion for selecting Islamic banks in Bahrain and Jordan. Likewise Kader (1995), Othman and Owen (2002), and Wakhid and Efrita (2007) share the same findings in their studies in Malaysia, Kuwait and Indonesia respectively. Dusuki and Abdullah (2006) explained that Islamic bankers can no longer depend on promoting the Islamic factor but also service quality. Their survey among 750 respondents found the three most important factors were competence, friendliness and customer service quality. But no researcher has studied the perceived relative advantage of Islamic banking among age bank segments in Awka, Anambra State, Nigeria, which this study addresses.

3. METHODOLOGY

This study examines the Perception of Islamic bank's Relative Advantage by age groups in Awka, Anambra state, Nigeria. The population of the study consists of the customers of banks operating in Awka, Anambra State, Nigeria. Awka town was used in this study because it is the capital of Anambra state. The researcher believed that Awka being the capital city must have been considered by government in various ways before given it the capital. On that note we decided to concentrate in Awka, believing that with an in depth survey, the result will have a good view of Anambra state. There was no database of people in Anambra State, at the time of this study that uses bank services. Consequently, no sampling frame was available. Where no sampling frame exists, probability sampling techniques may not be used, and Malhotra (2007) suggests the use of a convenience sample of about 200 for a study such as this. For this study, a convenience sample of 450 respondents was used. A sample of 450 respondents was conveniently selected for this study. The participants are the users of conventional banks. A structured questionnaire was developed to record the responses of customers of banks operating in Awka. Bank customers were selected conveniently to collect data by self-administrated questionnaires at various banks in Awka, Anambra State, Nigeria.

The Cronbach's alpha internal consistency reliability test was used to test the internal consistency reliability of the interval scales. A relatively high Cronbach's alpha of .69 was obtained, pointing to a high internal reliability of the instrument. A convenience sample of 30 bank customers in Awka was used to pretest the questionnaire, and Cronbach's alpha was computed from the pretest data, using the SPSS computer software. The content validity of the study instrument was evaluated by a statistician and by interviewing five marketing professionals in Awka who indicated that the study instrument were valid for study. The researchers explained the questionnaire and concept of Islamic banking to the respondents before administering the instrument.

4. DISCUSSION OF FINDINGS

This section presents the statistical analysis of respondents on perceived relative advantage of Islamic banking among age groups in Anambra State, Nigeria. It concerns data presentation, analysis and interpretation.

4.1 Descriptive Statistics

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
under 25 yrs	120	2.30	1.274	.116	2.07	2.53	1	5
26-50	164	3.20	1.473	.115	2.97	3.42	1	5
above 50	112	2.68	1.370	.129	2.42	2.94	1	5
Total	396	2.78	1.434	.072	2.64	2.92	1	5

Source: Authors computation

The above descriptive table shows that the means perceived relative advantage are not equal, “under 25yrs” has lower mean perceived relative advantage at 2.30 follow by the “above 50 yrs” at mean of 2.68 but “26 – 50 yrs” have a higher mean perceived relative advantage at 3.20. But the general mean shows that they rated the relative advantage of Islamic banking low at 2.78

4.2 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	57.060	2	28.530	14.843	.000
Within Groups	755.385	393	1.922		
Total	812.444	395			

The above Analysis of Variance of consumer segment that emerged based on age categories showed significant difference among their perceptions of relative advantage of Islamic banking at .00 significant level. Then, we reject the null hypothesis and accept the alternate.

4.3 Duncan Table

Duncan^{a,,b}

age group	N	Subset for alpha = 0.05		
		1	2	3
under 25 yrs	120	2.30		
above 50	112		2.68	
26-50	164			3.20
Sig.		1.000	1.000	1.000

From the Duncan table above, it showed that all the age categories are not comparable among their mean perception of relative advantage of Islamic banking. The “under 25yrs” and “above 50” categories rated the perceived relative advantage of Islamic banking low, looking at their mean of 2.30 and 2.68 respectively, while “26-50yrs” categories rated the perceived relative advantage high, looking at their mean of 3.20.

6. CONCLUSION

From the findings, the following can be adduced about the relative advantage of Islamic Banking concept among age groups; There is significant difference among the perceptions of relative advantage of Islamic banking at .000 significant levels among the age groups. In addition, majority of the Anambra population that is under 25yrs or above 50yrs will not be willing to support the introduction and growth of Islamic banks because they see it as not being beneficial. However, the younger population 26-50 yrs in Awka, Anambra State will patronize Islamic banking looking at their mean score on its relative advantage. The Islamic bank should introduce their product in Anambra state, Nigeria targeting the 26-50 age groups as their innovator.

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**IMPACT OF TAX REVENUE MANAGEMENT ON THE GROWTH OF NIGERIAN
ECONOMY: 1999 – 2016**

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Abstract

Taxation as a major source of revenue has made it so important for researchers to establish a link between taxation and growth of the country. However, despite the revenue generated from tax at all levels of government in Nigeria, the majority of the population still wallow in abject poverty with majority of the population living below (\$1) one US Dollar per day. The study thus examines the impact of tax revenue on the growth of Nigerian economy between 1999 and 2016 using Ordinary least square (OLS) regression method. Unit root test was conducted on each of the variables to determine their level of stationarity to avoid spurious regression results; while the cointegration test revealed that there is long run relationship between tax revenues and economic growth. Findings from the analysis showed that value added tax (VAT) have had significant effect on the growth of Nigerian economy. It was however observed that petroleum profit tax (PPT) has negative and insignificant relationship with the growth of Nigeria economy. The activities of oil marketers and other petroleum product investors are found to evade tax payments through over invoicing and cutting corners. The activities of oil marketers are not usually documented for tax collection due to the corrupt activities going on in the petroleum sector. In addition, Custom and Excise Duties (CED) was found to have negative and insignificant effect on economic growth in Nigeria. The study thus recommends that more awareness is needed on petroleum profit tax collection and appropriate sanctions be placed on tax defaulters. Stringent penalties should be meted to people who evade and avoid tax payments; this will discourage tax evasion and tax avoidance. Political climate of Nigeria must be improved upon with strict adherence to the rule of law so as to stimulate economic growth.

Keywords: Taxation, Custom duties, Value added tax, Petroleum profit tax, Economic growth

1. Introduction

Government needs money to execute their social obligations which include provision of infrastructure and social services. Murkur (2001) observed that meeting the needs of the society calls for huge funds which an individual cannot contribute alone. Therefore, one medium through which needed fund for infrastructural development can be derived is through taxation.

Taxation as a major source of revenue has made it so important for researchers to establish a link between taxation and growth of the country. However, despite the revenue generated from tax at all levels of government in Nigeria, the majority of the population still wallow in abject poverty, with majority of the population living below (\$1) one US Dollar per day. The gap between the rich and the poor widens day by day. The country is still ranked among the economically less advanced states.

The problem with Nigerian economy have been traced to failure of successive governments to use oil revenue and excess crude oil income effectively in the development of other sectors of the economy (Ogundele, 1999). Overall, there has been poor performance of national institutions such as power, energy, road, transportation, politics, financial systems, and investment environment have been deteriorating and inefficient. Despite the fact that crude oil has been the source of Nigerian economy, the economy is facing high rate of unemployment, wide spread oil spillage, increasing poor standard of living as a result of decreasing gross domestic product, per capita income, high rate of inflation and

high level of interest rate which has led to the effect of the economic growth. This study is therefore motivated to lend a voice to the hue and cry in Nigeria for a sustainable way out of the current economic quagmire by investigating the potentials of tax revenue as alternative source of income to government and contribution to economic growth process. In most countries, tax system is seen as an embodiment of contention and controversy whether in its policy formulation, legislation or administration (Bariyama & Gladson 2009). There is huge scale of corrupt practices prevalent in Nigeria, under the administration of tax in Nigeria. Ayua (1996) pointed out that the major problem lies in the procedures, machinery and approaches adopted in collection, assessment and corrupt practices of tax officials in implementing the tax system. Ayua (1996) opines that the tax system is grossly inadequate as it is characterized with tax evasion, avoidance and record falsifications which account for the consistent low tax yields. The problems associated with an enquiry into the tax administration in Nigeria are pretty numerous but little or no studies have been done to comprehensively examine the system in a manner that attempts to relate the tax administration to tax laws and policies in Nigeria.

Consequently, the main objective of this study is to assess the impact of tax revenue on economic growth in Nigeria. Based on the above stated problems, answers were provided to the following research questions:

- i. What effect does Value Added Tax (VAT) has on economic growth in Nigeria?
- ii. To what extent has Customs and Excise Duties (CED) impacted on the growth of Nigerian economy?
- iii. What influence does Petroleum Profit Tax (PPT) has on the growth of Nigerian economy?

Also, based on the research questions, the following null hypotheses were tested:

- H₀₁:** Value Added Tax(VAT) has no significant effect on economic growth in Nigeria
- H₀₂:** Customs and Excise Duties (CED) has not significantly impacted on the growth of Nigeria economy
- H₀₃:** Petroleum Profit Tax (PPT) has no significant influence on the growth of Nigeria economy.

2. Literature Review

2.1 The Concept of Taxation and Economic Growth

Taxation has always been an issue for the government and taxpayers alike from the early years of civilization. The issue of taxation has generated a lot of controversy and severe political conflicts over time. According to its importance, several economic theories have been proposed to run an effective system. Atawodi & Ojeka (2012) see taxation as the process by which the sovereign, through its law-making body, raises revenues used to defray expenses of government, a means of government in increasing its revenue under the authority of the law, purposely used to promote welfare and protection of its citizenry, and the collection of the share of individual and organizational income by a government under the authority of the law. Iwuji (2011) defines tax as a statutory compulsory contribution imposed by government exacted from a person's or entity's income, property or transaction for the purpose of funding governance. A tax can either be of three basic structures; proportional, regressive or progressive. Tax is said to be proportional when the taxpayer is levied an amount that is an indirect proportion of his income. A regressive tax is one that charges a higher rate to persons receiving lower income, and finally a progressive tax levies a higher rate to higher income earners.

Nigeria runs a tripartite tax administration system where tax assessment and collection is presently carried out through the revenue collection agencies of the State and Federal Governments of Nigeria: The State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) and the tax administration in Nigeria is basically imposed through Acts of the National Assembly. Taxation is also seen as a burden which every citizen must bear to sustain his or her government because the government has certain functions to perform for the benefit of those it governs. A précised definition of taxation by Farayola (1987) is that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities. Ochiogu (1994) defines tax as a levy imposed by the government against the income, profit or wealth of the individuals and corporate organizations. According to Adams (2001) taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income. Taxation is seen by Aguolu (2004), as a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits, capital gains and capital transfer. Whereas, Ojo (2008) stresses that, taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which is required to be paid by every citizen. It is generally considered as a civic duty. The imposition of taxation is expected to yield income which should be utilized in the provision of amenities, both social and security and creates conditions for the economic well-being of the society.

Okon (1997) states that income tax can be regarded as a tool of fiscal policy used by government all over the world to influence positively or negatively particular type of economic activities in order to achieve desired objectives. The primary economic goals of developing countries are to increase the rate of economic growth and hence per capita income, which leads to a higher standard of living. Progressive tax rate can be employed to achieve equitable distribution of resources. Government can also increase or decrease the rates of tax, increase or decrease the rate of capital allowances (given in lieu of depreciation) to encourage or discourage certain industries (e.g. in the area of agriculture, manufacturing or construction) or may give tax holidays to pioneer companies. Income tax therefore can be used as an agent of social change if employed as a creative force in economic planning and development.

The concept of economic growth is critical to the understanding of the dependent variable of this study. Conventionally, economic growth is the incremental changes in the economic performance of a country, measured by the index of gross domestic product. According to Dwivedi (2004), economic growth is a sustained increase in per capita national output or net national product over a long period of time. It implies that the rate on increase in total output must be greater than the rate of population growth. Another quantification of economic growth is that national output should be composed of such goods and services that satisfy the maximum want of the maximum number of people. Economic growth can be determined by four important determinants namely, human resources, national resources, capital formation and technological development.

2.2 Theoretical Review

2.2.1 Diffusion Theory of Taxation

According to diffusion theory of taxation, under perfect competition, when a tax is levied, it gets automatically equitably diffused or absorbed throughout the community. Advocates of this theory, describe that when a tax is imposed on a commodity by state, it passes on to consumers automatically. Every individual bear burden of tax according to his ability to bear it. Advocates of this theory assume perfect competition in the market but in world of reality, it is imperfect competition which prevails (Sadmo, 2004). If tax gets automatically diffused through the community, then most of worries of finance minister will be over. He will simply impose tax and collect money from people without worrying about final resting place of a tax. In actual practice we find that taxes do not get distributed equally. Some taxes remain where they are imposed first and some are partly or wholly shifted on to me consumers. Diffusion theory of taxation has however been criticized. The diffusion theory of taxation has never gained any importance in the world of reality. It has never been seen that a tax gets automatically equitably distributed among people. It is true that in some taxes, diffusion or absorption does take place but that too is not throughout the community. Accordingly, another criticism of the theory of taxation is that there are few taxes like income tax, inheritance tax, toll tax in which there is no absorption at all.

2.3 Empirical literatures

Several studies have examined taxation as an instrument of economic growth in different countries with diverse techniques. The outcome of the investigations however, shows degree of relatedness in the results. The tax reform in Nigeria is spearheaded by the Federal Inland Revenue service which is geared to achieving greater revenue collection, voluntary and willing compliance and breaking the long piercing phobia between taxpayers and tax collectors. For instance, in a study by Wambai and Hanga (2013) on taxation and social development in Nigeria: tackling Kano's hidden economy, they found that the attitude of the government on taxation need to change. Chiumia and Simwaka (2012) analysed the effect of taxation in sub-Saharan Africa. They found that taxes levied on personal and corporate income reduces economic growth. From their study, tax structure is largely irrelevant in less developed economies, but embedded in an effective tax system are benefits for both the taxpayers and the government. Tosun and Abizadeh(2015) studied economic growth and tax charges in OECD countries from 1980 to 1999; their study revealed that economic growth measured by GDP per capital has significant effect on tax mix of GDP per capita. The study recorded a decline in shares of payroll, goods and services and positive growth from personal and property taxes.

Adereti, Sami and Adesina(2011) explored value added tax and economic growth in Nigeria using correlation method, their result found no causality existing between GDP and VAT revenue, and a positive and significant correlation between VAT revenue and GDP. Their study however failed to show how other tax components such as CED and PPT influences economic growth. Okafor (2012) examined the relationship between Federally Generated Revenue and economic development in Nigeria using Gross Domestic Product (GDP) for the period of 1981 to 2007. The result of the study showed a positive and significant relationship between Income Tax Revenue and economic development of Nigeria. Adegbie and Fakile (2011) concentrated on the relationship between Income Tax Revenue and Nigeria Economic Development. Their study based on finding was that there is a significant association between company income tax and economic development of Nigeria. Xing

(2011) examine the effects of revenue-neutral tax structure and changes on the long-run level of income per capita using panel data for 17 OECD countries over the period 1970-2004. The study did not obtain compelling evidence in favour of consumption taxes over income taxes or personal income taxes over corporate taxes. The robust result appears to be that shift in tax revenue towards property taxes are associated with a higher level of income per capita in the long run. Poulson and Kaplan (2008) studied the impact of tax policy on economic growth in the states within the framework of an endogenous growth model. The study applied the regression analysis to estimate the impact of tax on economic growth in the state from 1964 to 2004. The study found a significant negative impact of higher marginal tax rate on economic growth. This analysis however, underscores the importance of controlling for regressivity, convergence, and regional influences in isolating the effect of taxes on economic growth in the states.

Looking at other related studies, Akintoye and Tashie (2013) examined the effect of tax compliance on Economic Growth and Development in Nigeria, taking comparative analysis of two (2) large states of the Federation; Lagos and Oyo. They used chi-square technique to measure the difference between willingness to pay tax by citizens. It was discovered that many Nigerians are complying with tax payment and that the willingness of citizens to pay tax in Lagos is significantly higher than that of Oyo State. Otu and Adejumo (2013) investigated the effect of tax revenue on Economic growth in Nigeria (1970-2011). The study used Ordinary Least Square (OLS) regression technique and established that the revenue has positive effect on economic growth in Nigeria. Taking a Macroeconomic Approach to examine Tax Revenue and Economic Development in Nigeria, Worlu and Nkoro (2012) used the three stage Least Square Estimation Technique, the results showed that tax revenue stimulates economic growth through infrastructural development and foreign direct investment to positively respond to increase in output. Recently, Afuberoh and Okoye (2014) studied the Impact of Taxation on Revenue Generation in Nigeria with specific attention on FCT and selected States. The study tested the hypothesis of the study using regression analysis computed with the aid of SPSS version 17.0, they discovered among others that taxation has a significant contribution to revenue generation and also taxation has a significant contribution on Gross Domestic Product (GDP).

From the foregoing, related empirical studies are enormous with varying discoveries that are either positive or negative which attested to the peculiarities of every economy and the effectiveness of tax administration mechanism which are usually countries-specific in nature.

3. Research Methodology

3.1 Research Design

The research design adopted for this research was the *ex-post facto* research design. The *ex-post facto* research design was used to determine cause-effect relationship between the dependent and independent variables with a view to establishing a causal link between them. It also tested the hypotheses concerning cause-and-effect relationships, as well as combining the theoretical consideration with empirical observation.

Annual time series data used in this study was obtained from CBN Statistical Bulletin and Annual Reports (for various years)

3.2 Procedure for Data Analysis

For the purpose of this research, the ordinary least square (OLS) multiple regression model was used to estimate the variables. There are three steps involved in estimating the relationships. The first step is to test the stationarity of the series or their order of integration to avoid spurious regression results. The second step is to examine the presence of a long run relationship among all variables in the equation. The long run coefficients were estimated using the associated co-integration model, proposed by the Johansen (1999). The third step is the linear estimation of the regression coefficients

3.3 Model Specification

Taking inference from the empirical findings and theories, the study adopted the diffusion theory of taxation theoretical model framework proposed and utilized by Otu and Adejumo (2013). The model specifications here are formulated to tests the three hypotheses and they are as follows:

$$GDP = f(VAT, CED, PPT) \quad (1)$$

Thus, linearizing equation (1), we obtain:

$$GDP = \beta_0 + \beta_1 VAT + \beta_2 CED + \beta_3 PPT + \mu_t \quad (2)$$

Where;

β_0 = The intercept or autonomous parameter estimate

β_1 to β_3 = are the slope of the coefficients of the independent variables to be determined

VAT = value added tax

CED= Customs and excise duties.

PPT= Petroleum profit tax

GDP = Gross domestic Product

μ = Error term (or stochastic term).

4. Results and Discussion

4.1 Pre-Estimation Tests

4.1.1 Unit Root Test

Time series data are generally characterized by stochastic trend which can be removed by differencing. Unit root test therefore is a test of stationarity or non-stationarity of series data used in the model. As is the case with similar studies, the Augmented Dickey-Fuller (ADF) test was used to ascertain whether the four variables of the study exhibit unit root property. This is to find out if the relationship between economic variables is spurious or nonsensical.

Table 1: Summary of Unit Root Test Results

Variables	ADF Test Statistic(and Critical Values)	Order of Integration
GDP	-4.046221(-3733200)**	I(1)
VAT	-2.229545(-1.966270)**	I(0)
PPT	-3.433184(-3.342253)***	I(0)
CED	-3.604579(-3.310349)***	I(1)

Source: Authors Computation, 2017 (Eview-9.0): Note: The tests include intercept with trend; * significant at 1%; ** significant at 5%;*** significant at 10; Mackinnon critical

From the table 1 above, it was discovered that two out of the four the variables used in the analysis were found stationary at levels. VAT and PPT were found stationary at levels and at 5% and 10% level of significance respectively; while GDP and CED were found stationary at first difference at 5% and 10% respectively. The next specification test that was computed is the co-integration test.

4.1.2 Co-integration Estimate

If two or more-time series are not stationary, it is important to test whether there is a linear combination of them that is stationary. Economically, variables are cointegrated if they have a long term, or equilibrium relationship between them. It is a pretest to avoid spurious regression situations. Since the variables were not found to be stationary at levels, it was safe for us to employ and proceed with Johansen co-integration test. From the co-integrated result below in table 2, the trace test indicates four cointegrating equation at 5% level. Thus, the model shows that there exists a relationship among the four variables used in the analysis. It shows that the variables move together in the long run.

Table 2: Summary of Co-integration Estimates

Series: GDP VAT CED PPT				
Lags interval (in first differences): 1 to 1				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.985653	108.3457	47.85613	0.0000
At most 1 *	0.692277	40.43809	29.79707	0.0021
At most 2 *	0.580447	21.58122	15.49471	0.0053
At most 3 *	0.381378	7.684166	3.841466	0.0056

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
 * denotes rejection of the hypothesis at the 0.05 level
 **MacKinnon-Haug-Michelis (1999) p-values

Source: Authors Computation, 2017 (Eview-9)

4.3 Estimated Regression Model

In order to obtain the numerical estimates of the coefficients of the model, the estimation of the model requires the use of various econometric methods, their assumptions and the economic implications of the estimates of the parameters.

In the earlier stated simple linear regression model, we have

$$GDP = \beta_0 + \beta_1VAT + \beta_2CED + \beta_3PPT + \mu_t \quad (3)$$

Table 3: Regression Model Result

Dependent Variable: LOG(GDP)
 Method: Least Squares
 Date: 06/27/17 Time: 09:17
 Sample: 1999 2016
 Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.587801	0.245476	34.98429	0.0000
VAT	2.80E-06	9.67E-07	2.890871	0.0119
CED	1.29E-06	1.96E-06	0.655577	0.5227
PPT	-8.06E-09	4.47E-08	-0.180250	0.8595

R-squared	0.959438	Mean dependent var	10.11032
Adjusted R-squared	0.950746	S.D. dependent var	1.048866
S.E. of regression	0.232778	Akaike info criterion	0.115668
Sum squared resid	0.758599	Schwarz criterion	0.313529
Log likelihood	2.958986	Hannan-Quinn criter.	0.142951
F-statistic	110.3824	Durbin-Watson stat	1.519979
Prob(F-statistic)	0.000000		

Source: Authors Computation, 2017 (Eview-9)

$$GDP = 8.58 + 2.80VAT + 1.29CED - 8.06PPT \quad (4)$$

$$SEE = (0.24) (9.67) \quad (1.96) \quad (4.47)$$

$$t^* = 34.98 \quad 2.89 \quad 0.65 \quad -0.18$$

$$F^* = 110.38$$

$$\text{Prob}(F\text{-statistic}) = 0.000000; R^2 = 0.9594; \overline{R^2} = 0.9507; DW = 1.51$$

The F-statistic

The F-statistic examines the overall significance of a regression model. Thus, it could be observed that the model has a better fit. This was captured by the probability F-statistic value of 0.0000 which was less than 0.05.

The R^2 (R-square)

The coefficient of determination (R-square) which was used to measure the goodness of fit of the estimated model, indicates that the model is reasonably fit in prediction. That is, 95.94 percent change in GDP was due to VAT, CED and PPT collectively, while 4.06 percent of unaccounted variations was captured by the white noise error term. It showed that tax revenue had strong significant impact on the growth of the Nigerian economy.

Durbin Watson (DW) statistic was also used to test for the presence of serial correlation or autocorrelation among the error terms.

The null hypothesis is:

$H_0 : \rho = 0$ That is, the μ 's are not autocorrelated with first order scheme. This hypothesis is tested against the alternative hypothesis;

$H_1 : \rho \neq 0$ That is, the μ 's are autocorrelated with a first-order scheme.

Therefore, if there is no autocorrelation, $\rho = 0$ and $DW \approx 2$.

The model also indicates the alternative hypothesis (H_1) is accepted, indicating that there is no autocorrelation among the variables as captured by Durbin Watson (DW) statistic of 1.51(approximately 2). It shows an unbiased estimate and the model could be used for policy decisions.

4.4 Statistical Test of Hypothesis

The three hypotheses formulated in this paper were approached with the aid of *t-statistics*; while the level of significance for the study is 5% for the two-tailed test. The decision rule for accepting or

rejecting the null hypothesis for any of these tests will be based on the Probability Value (PV). If the PV is less than 5% or 0.05 (that is $PV < 0.05$), it implies that the variable in question is statistically significant at 5% confidence level; otherwise, it is not significant at that level. **Thus;**

H₀: $\beta_0 = 0$ (Null hypothesis)

H₁: $\beta_1 \neq 0$ (Alternative hypothesis)

Hypothesis one

H0₁: Value Added Tax (VAT) has no significant effect on economic growth in Nigeria.

From the regression result in Table 3, the P-value for VAT was found to be 0.01 and its less than 0.05 (at 5% level of significance). It therefore falls in the rejection region and hence, we reject first the null hypothesis. The conclusion is that Value Added Tax(VAT) has a significant effect on economic growth in Nigeria between 1999 and 2016.

Hypothesis two

H0₂: Customs and Excise Duties (CED) has not significantly impacted on the growth of Nigeria economy

However, the regression result in Table 3 showed that the P-value for CED was found to be 0.522 and its greater than 0.05 (at 5% level of significance). It therefore falls in the acceptance region and hence, we accept the second null hypothesis and conclude that Customs and Excise Duties (CED) has not significantly impacted on the growth of Nigeria between 1999 and 2016

Hypothesis three

H0₃: Petroleum Profit Tax (PPT) has no significant influence on the growth of Nigeria

Finally, the regression result in table 3 further showed that the P- value for PPT was found to be 0.85 and its also greater than 0.05 (at 5% level of significance). It thus falls in the acceptance region and hence, we also accept the third null hypothesis. The conclusion is that Petroleum Profit Tax (PPT) has no significant influence on the growth of Nigeria between 1999 and 2016

4.5 Discussion of Research Findings

It was discovered from the results that Value added tax (VAT) has had significant effect on the growth of Nigerian economy. This is in-line with the findings of Adereti, Sami and Adesina (2011) who found that even though there is no causality between GDP and VAT revenue, and a positive and significant correlation however exist between VAT revenue and GDP. It was however observed that petroleum profit tax (PPT) has negative and insignificant relationship with the growth of Nigeria. The activities of oil marketers and other petroleum product investors are found to evade tax payments through over invoicing and cutting corners. The activities of oil marketers are not usually documented for tax collection due to the corrupt activities going on in the petroleum sector. This is in-line with the findings of Chiumia and Simwaka (2012) who found that taxes levied on personal and corporate income reduces economic growth. Their study further revealed that tax structure is largely irrelevant in less developed economies, but embedded in an effective tax system could benefits both the taxpayers and the government. The function thus showed that a change in PPT, on the average, showed that Nigeria lost about 0.36 million annually to petroleum tax evaders.

In addition, Custom and Excise Duties (CED) was found to have negative and insignificant effect on economic growth in Nigeria. It shows that amount generated from tax placed on imported and exported

goods in Nigeria has not hugely influenced economic growth in Nigeria. This is contrary to the findings of Otu and Adejumo (2013) who established that tax revenue especially CED has positive and significant effect on economic growth in Nigeria. The function thus showed that a one percent change in CED, on the average (holding other factors constant) reduced GDP by 0.03billion between 1994 and 2016.

5. Conclusion and Recommendations

Apparently, the place of taxation in nation building has been described as irreplaceable. According to economic analysts, taxation remains a strong socio-political and economic tool for economic growth and national prosperity. Although the issue of tax leakages is of global concern, the Nigerian situation seems inimitable when viewed against the scale of corrupt practices prevalent in Nigeria. The following policy recommendations were proffered from the findings of this study.

- i. More awareness is needed on petroleum profit tax collection and appropriate sanctions be placed on tax defaulters. Stringent penalties should be meted to people who evade and avoid tax payments; this will discourage tax evasion and tax avoidance. Political climate of Nigeria must be improved upon with strict adherence to the rule of law so as to stimulate economic growth.
- ii. Well-equipped database on tax payers should be established by the federal, state and local governments with the aim of identifying all possible sources of income of tax payers for tax purpose especially customs and excise duties. It is possible to track down those who are evading tax with the establishment of the well-equipped database and to check mate the issues of tax evasions and multiple tax problems.

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**IMPACT OF OWNERSHIP STRUCTURE ON FIRM PERFORMANCE: EVIDENCE FROM
LISTED MANUFACTURING FIRMS IN NIGERIA**

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Abstract

Ownership structure of any company has been a serious agenda for corporate governance and that of performance of a firm. How ownership affect firm performance, has been a topic investigated by researchers for many decades and the debate is still on-going. This article intends to contribute to the debate by examining the impact of share ownership in the Nigerian manufacturing sector. The research used the descriptive cross sectional survey design. Data was collected by secondary method. Ten firms were sampled for analysis using audited annual reports and accounts for eleven years covering 2005 to 2015. The fixed effect model of the regression analysis was found most suitable and employed in estimating the variables of the study. We found that there is no significant effect between the institutional and individual shareholders and the financial performance of manufacturing firms in Nigeria. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other firms, that firm's shareholding will not be widely dispersed. The government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

Keywords: Ownership structure, Financial performance, Corporate Governance, Firms

1. Introduction

There are two forms of ownership distribution; first, dispersed ownership, and second, concentrated ownership. Ownership structure of any company has been a serious agenda for corporate governance and that of performance of a firm. It is a serious concern for both business leaders and regulators all over the world. Who owns the firm's equity and how ownership affect firm performance, has been a

topic investigated by researchers for many decades. Shareholders (principal) are always regarded as the owners of the business while directors are their agents or representatives who are supposed to allocate business resources in a way to increase their wealth. The motivation of many shareholders for investment in businesses is profit not control (Kadivar, 2006). The principles of corporate governance include issues like measure of management, level of control and manner of interaction between the large and little shareholders. Though the modern organization emphasizes the divorce of management and ownership; in practice, the interests of the group managing the company can differ widely from the interests of those that supply the capital to the firm. This notion originally derives from Berle and Means, (1932) and has been much propagated after the seminal work by Jensen and Meckling (1976).

Shareholders of publicly held companies are so widely dispersed that they are unable to effectively control the decisions of the management team, and thus cannot be assured that the team represents their interests. Many solutions to this problem have been proffered, and these include inter alia; the disciplining effect of the takeover market, the positive incentive effects of the management shareholding stake and the benefits of large monitoring shareholders. A different problem, however, arises in firms with concentrated shareholders. Since a large controlling shareholder has both the incentives and the power to control the management team's actions, management's misbehaviour becomes a second order problem when such a large shareholder exists. Instead, the main problem becomes controlling the large shareholder's abuse of minority shareholders.

In other words, holders of a majority of the voting shares in a company, through their ability to elect and control a majority of the directors and to determine the outcome of shareholders' votes on other matters, have tremendous power to benefit themselves at the expense of minority shareholders. Thus, the type of owners as well as the distribution of ownership stakes will undoubtedly have an impact on the performance of firms. However, most studies on ownership structure was conducted in developed economies, and their results generalized without paying much attention to contextual idiosyncrasies. The contextual settings of developed countries such as the USA and the UK differ vastly from those of emerging markets (Nam and Nam, 2004). There is an increasing awareness that the theories originated based on the evidence collected on developed countries may have limited applicability to emerging market due to the vast differences in political, socio-cultural and business contexts between the developed and developing countries. In general emerging markets have distinct political, economic, cultural and institutional characteristics which limit the application of an empirical model originated in developed markets.

Recent studies on corporate governance suggest that social, economic and cultural factors of a country affect corporate ownership structure which in turn impacts on a firm's performance (Zeitun and Gary, 2007). Very little is known about the performance implications of ownership structure in emerging markets, and there is a dearth of studies in this area. This issue, combined with the divergent results produced by similar previous studies conducted in developed economies, creates a vacuum in the academic literature on corporate governance practices in emerging markets. This study helps to fill this gap by examining the impact of ownership structure. This will provide invaluable information to top policy makers and assist the government on the restructuring of the Nigerian manufacturing sector.

2. Literature Review

Governance issues arise when ownership of a legal entity is separated from its management (Tricker, 2000). This intensifies the need to search for good governance practices, as identified by Berle and Means (1932). Jensen and Meckling, (1976), pointed out that potential conflicts of interest arise between corporate managers and dispersed shareholders when managers do not have an ownership interest in the firm. As such shares held by the managers in a firm helps to align the interests between shareholders and managers. Central to this analysis is agency theory. Jensen and Meckling (1976) argue that relative to the amount of ownership held by insiders, managers are provided with incentives to pursue activities to serve their own benefits, which in turn are aligned also to enhance the firm value. According to their hypothesis, both a firm's value and its performance increase with the level of insider ownership. The market based economies are largely characterized by the existence of a widely dispersed ownership structure, highly liquid stock markets due to good investor protection and control of companies by professional managers on behalf of scattered shareholders (Bhasa, 2004). In these economies, corporate management has more power to make decisions, and these decisions may frequently be in their own interest, which may give rise to an agency cost. Agency theory argues that ownership concentration may improve firm performance by decreasing agency costs (Shleifer and Vishny, 1986).

Theoretically, it can be argued that the ownership concentration may improve performance by decreasing monitoring costs or decline due to the possibility that large shareholders use their control rights to achieve private benefits (Shleifer and Vishny, 1986). The relationship between ownership structure and firm performance has been investigated by many researchers among whom are; Mak and Kusnadi (2005), Krivogorsky (2006), Kapopoulos and Lazaretou (2007) and Cho and Kim (2007). Thomsen et al., (2006) and Zeitun & Gary, (2007) also posit that performance can decline if large shareholders use their control rights to achieve private benefits. Gugong, Arugu and Dandago (2014) find that ownership structure has a positive impact on firm performance.

Jensen and Meckling (1976) claim that agency costs consist of three different components: monitoring costs, bonding costs and residual loss. Monitoring costs are the control costs incurred by the principal to mitigate the deviant behaviour of the manager. Bonding costs are incurred to ensure that the manager takes decisions beneficial to the principal. Residual loss is a political cost that occurs when both the above kind of costs fails to control the divergent behaviour of the manager. Further, Jensen and Meckling (1976) showed formally how the allocation of shares among insiders and outsiders can influence the agency cost and value of the firm. Since then, the relationship between ownership and firm performance has attracted special attention. The institutional ownership of shareholding is another internal governance factor held to have a monitoring role on the management of firms. Shares owned by other companies, investment Trusts, cooperatives, pension funds and other similar organisations are jointly called institutional owners. Shareholding can be classified according to the quantum of shares held or the category of shareholders. These are; concentrated shareholding, dispersed shareholding on the one hand and Institutional shareholding and Individual shareholding on the other. It is noteworthy that the institutional shareholders are usually large investors. They play an effective role at monitoring management than the individual investors. Concentrated institutional ownership creates the incentives to monitor management, which overcomes the free-rider problem associated

with dispersed ownership whereby small shareholders have not enough incentives to incur monitoring costs for the benefits of other shareholders. The investment size and the resources at the disposal of the institutional owners enhance their incentive and capabilities to collect and evaluate information pertaining to their investments. The clout to discipline management and even bring about the changes when management performs inadequately is also at their disposal and thus improving firm performance by decreasing monitoring costs.

Nevertheless, some extant literatures find little evidence that high ownership concentration directly affects performance. Welch (2003), Villalonga and Amit (2006), Abor and Biekpe (2007), Lefort and Urzúa (2008) and Belkhir (2009) find that ownership structure is negatively related to firm performance since excessive managerial ownership may allow managerial consumption of perquisites and reduce probability of bidding by outside agents, thus reducing the firm value. There is also evidence that ownership concentration has no relationship with or in fact reduces firm value. Cho (1998), Demsetz and Villalonga (2001), Dalton et al. (2003) and Nuryanah and Islam (2011) find no conclusion on the relationship between ownership structure and firm performance. It is also held that a continuous increase in ownership concentration may create controlling ambition and capability for large shareholders to manipulate the firm and expropriate minority shareholders. Researchers have to date not reached a consensus on the effect of the type of shareholding on firm performance.

2.1 Institutional Ownership

Institutional ownership is another internal corporate governance mechanism which aims at mitigating agency problems. The nature of a company's ownership structure plays a significant role in influencing its performance. The company's share ownership structure could either be widely- dispersed as prevail in US and UK where shares of large number of publicly-traded firms are widely-held (Dennis and McConnell, 2003) or concentrated ownership where the firm's shares are owned by few largest shareholders, mostly by institutions. According to Krivogorsky (2006), more than 50% of shareholdings in listed industrial companies in Australia, Belgium, Germany and Italy are held by large block holders. The free-rider problem is minimized and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hands of a large block of institutional shareholders irrespective of whether they are organizations or investment funds. In this event, the returns to monitoring will increase monitoring activity, which may also be subject to economies of scale.

Moreover, large shareholders will be more likely to be able to utilize their voting power to influence managerial behaviour, although, as Shleifer and Vishny (1996) note, this does require shareholding voting rights. The presence of large shareholders in a firm's capital structure would greatly impact the firm's performance positively. This is because these shareholders are able to influence management decision and also have the resources to monitor management activity and the power to remove non-performing managers from office. This leads to the proposition that large shareholders will exercise more effective corporate governance; a finding that has been supported by a host of studies on developed market economies. For example, Franks and Mayer (1994), in a study of German Private Enterprises find that concentrated share ownership is associated with high rates of turnover of directors.

According to Kyereboah-Coleman (2007) depending on the involvement and influence, institutional shareholding is a key signal to other investors of the potential profitability of the firm which could lead to increase demand for the firm's shares and improve its market valuation. In the study of Japan, Kaplan and Milton (1994) find that the existence of large shareholders raises the probability that managers of poorly performing firms will be replaced. La Porta, Rafael, López-de-Silanes, Shleifer and Vishny, (1999) posit that high concentration could minimize agency costs since it could serve as a substitute for legal protection. "Even without strong legal institutions, large investors have the means and the incentives to monitor managers, large investors have the means and the incentives to monitor managers, though they bear the cost of undiversified risk". However, the cost here is that large shareholders may use their control rights to expropriate minority interests. Nevertheless, there is no consensus yet as to the impact of ownership concentration on performance. In some countries, such as Austria, the Netherlands and Spain, companies with dispersed ownership perform inadequately than those with concentrated shareholdings, while in others the reverse seems to be true (Gugler 2001). On the contrary, Holderness and Sheehan (1988) find little evidence that high ownership concentration directly affects performance. The composition of ownership may also matter for performance. Institutional investors have been very active in the firm level corporate governance.

Frydman, Cheryl, Gray, Hessel, and Rapaczynski (1999), examined the impact of private ownership on corporate performance in the transition economies. The study reports that private ownership dramatically improves the most essential aspects of corporate performance in the countries undergoing post-communist transition. Furthermore, the study also reports that outsider-owned firms perform better than insider-owned firms on most performance measures. Jensen and Meckling (1976) suggest that agency costs can be reduced through the concentration of ownership and control within one single owner-manager. However the possibility of interplay between incentive alignment effect and entrenchment effect suggest a non-monotonic relationship between managerial stock ownership and firm value.

3. Methodology

The study uses the descriptive cross-sectional survey design. Uniform information is collected across the selected firms over the period of eleven years (2005 to 2015) from all the desired elements. Panel data employed as the research design requires that the effect of the independent variable on the dependent variable be measured using the formulation of causal correlation hypotheses. The target population for this study consists of all the seventy (70) manufacturing companies (firms) listed in the Nigerian stock exchange as at 2015. The use of quoted manufacturing firms is due primarily to data availability and reliability because these are required by law to provide end of year financial statements. This study employs the stratified sampling method. To eliminate some of the firms that have no complete records of all the data needed for measuring the variable of the study within the period, a three-point filter approach was adopted in the selection of the samples as follow; (i) firm must be listed by the Stock Exchange throughout the period of the study, (ii) firm must have declared positive profit throughout the period and (iii) firm must have a consistent board of directors all through the period. This is to reduce any problem associated with validity and reliability.

Secondary method is employed to gather the data for this study. The secondary sources consist of historical data already prepared or existing and authenticated. These are obtained from publications and websites of recognized institutions. The secondary sources of data collection for the purpose of this research are the audited annual Reports and Accounts of the sampled individual firms in the manufacturing sector. Nigerian Securities & Exchange Commission, Nigerian Stock Exchange (NSE), National Bureau of Statistics (NBS) and other similar oversight organisations' publications were other sources of data relevant for the analysis. Some of the annual reports that were not available in the NSE fact book were either collected from the corporate offices of concerned companies or downloaded from the companies' corporate websites.

3.1 Model Specifications

This study employed a modified version of the econometric model of Miyajima et al (2003) and Coleman and Nicholas-Biekpe (2006). The Econometric model of Miyajima et al (2003) and also adapted by Oki (2015), is represented as;

$$Y_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 C_{it} + e_{it}$$

The modified version is stated as;

$$ROA_{it} = \beta_0 + \beta_1 BLK_{i,t} + \beta_2 FMZ_{i,t} + e_{i,t}$$

Where;

ROA= Return on Assets (i.e. a proxy for firm financial performance).

Blk= Block ownership

FMZ = Firm Size

β_0 = Intercept of the model

β_1 = Coefficient of block ownership

β_2 = Coefficient of the control variable (firm size)

e = the error term which account for other possible factors that could affect the dependent variable not captured in the model.

$i = 1, 2, 3, \dots, 10$ indicating the number of firms used for the study

$t = 1, 2, 3, \dots, 11$ indicating the time period used for this study (2005- 2015)

The **apriori** is such that:

$\beta_1, \beta_2, \beta_3, > 0$. The implication of this is that a positive relationship is expected between explanatory variable ($BLK_{i,t}$) and the dependent variable. The size of the coefficient of correlation will help us explain various levels of relationship between the explanatory variables.

3.2 Regression Analysis

In analysing the variables of this study, the panel data methodology was adopted. This is because the study combined time series and cross sectional data. The study made use of both descriptive and inferential panel regression analyses. The descriptive analysis has been executed to summarise and describe the data set. However, the inferential panel regression analysis explains the effect of block ownership and the control variable on the financial performance of manufacturing firms. Serial correlation test will be conducted to determine which of Random effect (GLS) model and Pooled effect (OLS) is most appropriate for estimating the parameters under study.

3.2.1 Pooled Regression versus Random Effect Models

The Breusch and Pagan Lagrangian multiplier test usually called the LM test is adopted for the comparison. The Pooled regression assumes that there is no individual effect in the series. The Random Effect on the other hand assumes that there is panel effect in the series. The model that eventually emerges as the most appropriate between the pooled regressions and random is then adopted in analysing the static equation formulated in the study. If the Pooled regression (representing the non-existence of panel effect in the series) is preferred, the ordinary least square (OLS) regression method will be used to analyse the data. The choice of the Random Effect model will necessitate the use of generalised least square (GLS) regression method to analyse the data.

The hypothesis for the Breusch and Pagan Lagrangian multiplier test is stated as:

H₀: There is no panel effect

H_a: There is panel effect

The decision criterion in the selection process is to accept the alternative hypothesis which hypothesized that there is panel effect in the series, if p-value is less than the critical value at 5% ($p < 5\%$) level of significance and reject the null hypothesis which posits that there is no panel effect. If otherwise, we do not reject the null (pooled regression).

3.2.2 Random Effect versus Fixed Effect

The choice of the random effect will lead to a further test to determine if the panel or individual effect in the series is fixed or random. The Hausman Taylor test will be employed to make the appropriate choice between random effect and fixed effect. The hypothesis for the Hausman's test is therefore stated as *follows*;

H₀ = Difference in coefficients not systematic (Random is Preferred)

H_a = Difference in coefficients systematic (Fixed is Preferred)

The decision criterion is to reject the null hypothesis and therefore the random effect model if the p value is less than 5% ($P < 5\%$) and accept the alternative hypothesis which states that fixed effect is preferred. If however the $P > 5\%$ then the null hypothesis which states that Random is preferred will be accepted and the alternative hypothesis will be rejected.

3.3 Hypotheses Formulation and Testing

A hypothesis will be formulated for testing. This is;

H₀: *There is no significant effect of the type of share ownership on financial performance of manufacturing firms in Nigeria.*

From the null hypothesis above, we posit that there is no significant effect irrespective of the type of ownership (Institutional or dispersed) and the financial performance of manufacturing firms. The model earlier defined in the previous chapter is restated as;

$$ROA_{it} = \beta_0 + \beta_1 BLK_{i,t} + \beta_2 FMZ_{i,t} + e_{i,t}$$

3.3.1 Determination of the Choice of Analytical Method

Prior to carrying out the regression analysis, two tests will be conducted. These are the Breusch and Pagan Lagrangian multiplier (LM) test and the Hausman Taylor test. The need for the latter test will be determined by the outcome of the former. If the result of the former test prefer the pooled regression to the Random Effect, the Hausman Taylor test would not be necessary.

3.3.2 Serial Correlation Test

A serial correlation test would need to be conducted to determine whether random effector pooled regression is more appropriate for estimating the parameters. This is to test whether the individual effects are homogeneous across the cross-sectional units or not. The Breusch and Pagan Lagrangian multiplier (LM) test would be employed to test for the model. The STATA package version 13 is employed to analyse the data.

The hypothesis for the test is stated as *follows*;

H₀: There is no panel effect (accept OLS)

H_a: There is panel effect (accept GLS)

The decision criterion: Reject the null hypothesis if the calculated p-value is less than the level of significance at 5% and accept the alternative. This implies that the random effect model estimated using GLS technique is preferred to the pooled regression model estimated using the technique of OLS. The test results are presented on the table below;

Table 1: LM Test Showing the Result of Random Effects Model against the Pooled in the Model

ROA	U	E
137.01	43.51	54.35
11.70	6.59	7.37

$$X^2 = 44.07$$

$$P\text{-Value} = 0.0000$$

Note: ROA = return on assets, U = the specific error term or the idiosyncratic error term, E = the disturbance Term, X^2 = Chi-square and P- value = probability value.

Source: Outcome Author's Field work using STATA Window 13.

Decision: The decision is based on the P-value with a value of 0.0000. Since the observed p-value is less than the critical value at 5% (0.05), the null hypothesis is rejected and the alternative is accepted. The random effect therefore is more suitable than the pooled regression model.

3.3.3 The Hausman Taylor Test

Since the Random Effect model is selected, it is then tested against the Fixed Effect model. Both Random and Fixed effects models assume the presence of individual effect in the series. However it is important to identify whether this individual effect is fixed or random across the units. The model that eventually emerges as the most appropriate between the random effect and fixed effect is then adopted in analysing the hypothesis in the study. The process of arriving at hausman's result is via STATA Window 13 and the formula is; `xtreg roa, blk, logfmz, fe`. Then "estimate store fixed". This is followed by `xtreg roa, blk, logfmz, re` "estimate store random". The result is then obtained with the command "hausman fixed random". The hypothesis is stated as follows;

H₀: Difference in coefficients not systematic (Random Effect is preferred)

Decision Rule: If the p-value is less than 5% reject null hypothesis which means that random effect is rejected but if otherwise, then accept null hypothesis and reject alternative hypothesis. The table showing the result of hausman's test is presented below;

Table 2: Hausman's Test Showing the Result of Random Effects against Fixed in Model Five

Variable	fixed	random	Difference	S.E.
blk	-0.097	-0.077	-0.020	0.047
logfmz	-15.477	0.303	-15.780	3.426

$$X^2 = 29.38$$

$$P\text{-value} (X^2) = 0.0000$$

Note: roa = return on assets, (dependent variable) blk = block shareholding, logfmz = the log of the firm size. S,E, = standard error.

Source: Outcome Author's Field work using STATA Window 13.

Decision: The result shows that the critical value at 5% level of significance is higher than the computed p-value (0.05>0.0000). The author therefore rejects the null hypothesis and accepts the alternative which states that fixed is preferred. The hypotheses in the model will therefore be analysed based on the fixed effect model.

Test of the Hypothesis

The method that will be used is the Fixed Effect model using the GLS method to analyse the result. Model five as stated in chapter three will be applied to this hypothesis. The model is restated as **follows**;

$$ROA_{it} = \beta_0 + \beta_1 BLK_{it} + \beta_2 FMZ_{it} + v_i + e_{i,t}$$

The formula to use is via code “xtreg roa blk logfmz, fe” which will be entered into computer package STATA Version 13. The data to use is the proportion of institutional ownership of shares on the total number of shares issued and ranking for dividend for each of the sampled firms earlier computed on Excel computer package which is exported to STATA 13 attached as an appendix on pages 192 to 194. The result is summarised in table 21 below;

Table 3: Showing the Results of Fixed Effects Model on the Relationship between Block Share Ownership and Financial Performance-Model Five.

Variable	Coef.	Std. Err.	t	p
blk	-0.097	0.079	-1.24	0.219
logfmz	-15.477	4.514	-3.43	0.001
cons	86.275	17.963	4.80	0.000

R²=0.241

Rho= 0.867

P value= 0.0005

F-test =8.18 0.0005

Note: The dependent variable is return on assets (roa), while the independent variables are block share ownership (blk) and firm size (fmz).

Source: Author's estimate using STATA window 13

$$ROA_{it} = \beta_0 + \beta_1 BLK_{it} + \beta_2 FMZ_{it}$$

$$ROA_{it} = 86.27 - 0.097BLK_{it} - 15.47FMZ_{it}$$

Std E.= 17.96 0.0794.51

t-test = 4.8 -1.24-3.43

p-value = 0.0000.001 0.219

N =110 R² = 0.241 F-test = 8.81 Prob > chi2 = 0.0005

Interpretation

If all the independent values are zero the predicted value of the intercept will be 86.27. The coefficient of the institutional share holding (block holding) (BLK) is -0.097 and the t-test is -1.24. The critical t-statistic is 0.05, (that is 5 percent level of significance). The correlation coefficient (rho) and the coefficient of determination (R²) are respectively 0.867 and 24.1%. These show that all the variables are positively correlated. Besides, the p value is 0.0005. The value of the firm size is -15.47. The negative position implies that there is idle capacity in the firms indicating poor use of the assets. This shows that the revenue generated was not commensurate with the capital employed.

Decision: Since the p value of 0.0005 is less than the critical value at 5% level of significance we accept the alternative hypothesis which states that there is significant effect of the type of share ownership on the financial performance of manufacturing firms.

4. Discussion of Findings

The hypothesis was set up to determine whether there is significant effect of the type of share ownership and financial performance of manufacturing firms in Nigeria. In other words, the hypothesis was tested to ascertain if either of institutional or individual share ownership would have effect on financial performance more than the other. We found that there is no significant effect between the institutional and individual shareholders and the financial performance of manufacturing firms in Nigeria. The marginally negative coefficient shows that there is no difference between the two types of holding and performance.

This finding is consistent with the works of Alzeaiden and Al-Rawash, 2014, Fazlzadeh et al, (2011) and Seutner and Berezetcki, (2008). They concluded that the effect of concentrated institutional ownership on firm performance is negative. Our finding is however not in tandem with the works of Heydari et al, (2015), Manawaduge and Zoysa, (2013) and Aman, (2011). Manawaduge and Zoysa, (2013) held that the study provide evidence for a strong positive relationship between ownership concentration and accounting performance measures. This suggests that a greater concentration of ownership leads to better performance. Heydari et al (2015), showed that there is positive and significant relationship between institutional ownership and performance using two criteria ROE and Tobin's Q. There isn't however significant relationship between institutional ownership and ROA. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other firms, that firm's shareholding will not be widely dispersed. The government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

5. Conclusion and Recommendation

In conclusion, ownership structure is very important when considering firm's financial performance. Firm size proxy by annual sales of the firms was found to be moderating these relationships, indicating the critical role being played by firm size in the design and role of corporate boards. We conclude based on the sampled firms that other factors rather than type of share ownership affect financial performance in Nigerian manufacturing sector. This can be attributed to the nature of shareholding in the manufacturing sector where ownership is mainly held by individual investors. Where firms are held by other organisations, that firm's shareholding will not be widely dispersed. We recommend that the government in its policy making function, should direct its searchlight on other areas rather than the type of shareholding in order to monitor and control the firms as a means of improving their financial performance.

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