

**Gusau International Journal of
Management and Social Sciences
(GIJMSS)**

Volume 5, No.2

September, 2022

©Gusau International Journal of Management and Social Sciences, 2022

ISSN (Print): 2735-9026

ISSN (Online): 2787-0383

All Rights Reserved

Apart from any fair dealing for the purpose of research, private study, criticism or review, as permitted under the Copyright, Designs and Patents Act of Nigeria, this publication may not be reproduced, stored in any form, or by means, except with the prior permission in writing of the Faculty of Management and Social Sciences, Federal University Gusau or in the case of reprographic reproduction, in accordance with the terms of licenses issued by the Copyright Licensing Agency; enquires concerning reproduction outside those terms should be sent to the following address:

Published by:

Faculty of Management and Social Sciences
Federal University Gusau
P.M.B. 1001
Gusau, Zamfara State
Nigeria

Email: gusauijmss@gmail.com, gjmss@fugusau.edu.ng

Journal Website: www.gijmss.com.ng

Printed by:

Ahmadu Bello University Press Limited, Zaria,
Kaduna State, Nigeria.

Tel: 08065949711

E-mail: abupress2013@gmail.com,

abupress2020@yahoo.com

Website: www.abupress.com.ng

About the Journal

Gusau International Journal of Management and Social sciences (GIJMSS) is a biannual (October and April) academic journal published by the Faculty of Management and Social Sciences, Federal University Gusau. The Journal welcomes contributions from the diverse fields of management and social sciences. The mission of the journal is to publish high quality papers from all over the world and make GIJMSS a high ranked journal.

GIJMSS adheres to a rigorous double-blind reviewing policy and all submissions are evaluated initially by the editorial Board and only those papers that meet the scientific and editorial standards of the journal, and fit within its aims and scope will be subjected to blind review. The Editorial Board reserves the right to modify for clarity papers adjudged acceptable for publication. Manuscripts subjected to rigorous blind peers review, and those that are accepted are published in the following issue of the journal.

Guidelines for Submission

- ❖ Contributions should be in English only.
- ❖ Manuscripts should be prepared according to American Psychological Association (APA) 7th Edition, Referencing style
- ❖ The manuscript must be typed using double space on A4 size sheets
- ❖ Manuscript should not exceed 15 pages in length
- ❖ Only original manuscripts, written in English language, are considered. In a covering letter, the author(s) should state that the manuscript is not being simultaneously submitted elsewhere and that the findings reported in the manuscript have not been published previously
- ❖ Submitted manuscripts will be subjected to plagiarism checks by the Editorial Board, and those found to be above 25% plagiarism level will not be considered for blind review and will be returned to the contributors
- ❖ Abstract should be between 100-200 words typed on a separate page
- ❖ There should be Keywords of at least five to six under the abstract
- ❖ Articles accepted become the copyright of Gusau International Journal of Management and Social Sciences
- ❖ Authors however, will be held responsible in case, copyright of others are violated
- ❖ Electronic copy of the manuscripts (in Ms Word) should be submitted as an attachment to the email address: GUSAUIJMSS@gmail.com and copy to GJMSS@fugusau.edu.ng

- ❖ Manuscripts must be accompanied with a non-refundable assessment fee of ₦ 5,000. Upon acceptance, a publication fee of ₦ 20,000 is expected. Payments are to be made to:
Account Name: **Gusau International Journal of Management and Social Sciences**
Account Number: **0065189903**
BANK: **Sterling Bank**

Editorial Board

Dr. Bashir Umar Faruk: Editor-in-Chief

Department of Economics, Federal University Gusau, Zamfara State, Nigeria

Prof Dejo Abdulrahman: Member

Department of Sociology, Usmanu Danfodio University, Sokoto, Nigeria

Prof Nasiru M. Yauri: Member

Department of Business Administration, Usmanu Danfodiyo University, Sokoto, Nigeria

Prof Yahaya A. Zakari: Member

Department of Economics, Usmanu Danfodio University, Sokoto, Nigeria

Prof. Garba B. Muhammad: Member

Department of Political Science, Usmanu Danfodio University, Sokoto, Nigeria

Prof. B. B. Kasim: Member

Department of Public Administration, Usmanu Danfodio University, Sokoto, Nigeria

Prof. Musa Yelwa Abubakar: Member

Department of Accounting, Usmanu Danfodio University, Sokoto, Nigeria

Prof. Femi Rufus Tinuola: Member

Department of Sociology, Federal University Gusau, Zamfara State, Nigeria

Prof. Bawa Ahmed AbdulQadir: Member

Department of Business Administration, Federal University Gusau, Zamfara State, Nigeria

Dr. Yusuf Alhaji Hashim: Business Editor

Department of Business Administration, Federal University Gusau, Zamfara State, Nigeria

Editorial Advisory Board

Prof. R. Ayo Dunmoye

Department of Political Science, Federal University Gusau, Zamfara-Nigeria

Prof. Jimi O. Adesina

Archie Mafeje Research Institute, College of Graduate Studies, University of South Africa

Prof. K. Awotokun

Department of Public Administration, University of Ife

Prof. Ahmad Martahda Muhammad

School of Government, College of Law, Government and International Studies, Universite of Utara Malaysia

Prof. R. Onah

Department of Public Administration and Local Government, University of Nigeria Nsukka

Prof. Tukur Garba

Department of Economics, Usmanu Danfodio University Sokoto

Prof. Yusuf Adamu

Department of Geography, Bayero University, Kano, Nigeria

Associate Prof. Muhammad Imdadul Haque

Department of Economics, Aligarth Muslim University, India

Contents

Impact of Firm-Level Determinants on Timeliness of Financial Reports among Listed Non-Financial Firms in Nigeria <i>¹Muhammad Yusuf Shuaibu & ²Aliyu Abubakar</i>	1
Determinants of Selection Factors in Strategic Alliance, Organizational Learning, Alliance Background and Firm Performance <i>¹Haruna Isa Mohammad & ²Marcel Daniel</i>	15
The Role of Entrepreneurs in Business Management: A Case Study of Six Selected Small-Scale Business in Ika South, Agbor, Delta State <i>¹Igweh Florence Konye, Ph.D & ²Egbule A. C. Solomon, Ph.D</i>	42
SUKUK as a Viable Option Instrument of Financing Infrastructural Development in Nigeria <i>¹SANI, Abdulrahman Bala PhD, ²NASIR, A. Kaoje PhD & ³BAKARE, Taophic Olarewaju</i>	61
Relationship between Globalization and Organizational Performance in Nestle Nigeria Plc, Lagos State of Nigeria <i>Dr. Atuma, Okpara</i>	77
The Influence of Entrepreneurial Human Relations on Organizational Sustainability of SMEs in Edo State <i>¹OMIGIE Obehi Samuel (Ph.D.) & ²OSARENMWINDA Smart (Ph.D.)</i>	95
Impact of Financial Intermediation by Deposit Money Banks on the Real Sector of the Nigerian Economy (1989 – 2021) <i>Anthony Agbo Onuh¹, Isah Alhaji Lawal² & Bukola Adeola Olaniyi³</i>	112
Relationship between Government Expenditure on Security and Exportation in Nigeria <i>Ebhotemhen, Wilson¹ & Olusola, Abere Benjamin²</i>	130

Impact of Firm-Level Determinants on Timeliness of Financial Reports among Listed Non-Financial Firms in Nigeria

¹Muhammad Yusuf Shuaibu & ²Aliyu Abubakar

¹Department of Accounting, Business School, Ahmadu Bello University, Zaria.
+2348066299551, ysmkafi22@gmail.com

²Department of Accounting, Faculty of Management and Social Sciences
+2348066434558, Aliyunbuba@gmail.com

Abstract

The study presents empirical findings on the effect of audit firm type and leverage on timeliness of financial report of listed firms in Nigeria. The study formulated two hypotheses, while Panel regression analysis was used as an estimation technique to analyze the data extracted from the annual reports and accounts of the sixty listed companies in Nigeria for the period 2009 to 2019. The study found out that audit firm size and leverage have significant positive relationship with timeliness of financial report with coefficients of 0.12 and 0.11 respectively. It is therefore recommended that the Big4 audit firms in Nigeria should maintain their reputation by putting measures to ensure quality audit report are readily available on time to stakeholders. In addition, board of directors should scrutinize debt financing and utilization of borrowed funds by the management in order to reduce the level of leverage of their respective firms, this is because an increase in leverage would increase timeliness of financial report of quoted firms in Nigeria

Keywords: ~~Audit Firm size, Leverage, Timeliness of financial report~~

1.0 Introduction

Timeliness of financial reports is the process of releasing audited reports in time. And the disclosure of financial reports timely is significant for all users as it gives them the important data to lessen the vulnerability in making financial decisions and also encourages stakeholders to make informed financial and economic choices. Informed data regarding corporate report for instance, is essential for financial soundness and the advancement of sustained levels of high investment by companies. The availability of timely information in financial reports gain more acceptance since other non-financial information sources including media discharges, analyst forecast, news conference and budgetary experts conjectures

are not very much created and the administrative agencies are not as powerful as in the Western nations (Ahmed, 2013).

Latest advancement on the conceptual framework has classified timeliness as enhancing the subjective value of financial statement. As indicated by IASB (2008) financial statement timeliness is the "accessibility of data required by various decision makers to make profitable basic decisions, before it loses its capacity to impact choices." Today, the need for delivering quality money related report has gotten incredible consideration everywhere throughout the globe. Giving High-Quality Financial Reporting Information (QFRI) is significant in view of the evidence that it will significantly influence fund provider and other market participants in making financial inference, credit and other relevant resource apportionment decisions which will lead to an over-all upgrade in market effectiveness (IASB, 2008).

In the Nigerian context, the prerequisite for qualitative and timely information has turned to be essential on account of the extending acquaintance of a Nigerian business and also the implementation of International Financial Reporting Standards (IFRS) (Iyoha, 2012). Market participants seek timely financial reports or information to mitigate the information asymmetry (Owusu-Ansah & Leventis, 2006). Hence, if financial reports are released on time, insider trading and rumors in the market economy will be curtailed.

Furthermore, realizing the significance of timely arrival of financial data, Corporate Affairs Commission (CAC), Securities Exchange Commission, and CAMA (1990) as amended requires corporations enrolled in Nigeria, to record their yeTFRy reports on or before 90 days from the end of their accounting year-end. Despite these stipulated regulations by the above mentioned regulators, it has been reported over recent times that listed corporations still fails to meet up with them (Ekienabor & Oluwole, 2018). For instance, Financial Vanguard (2018) examinations showed that the number of recorded firms authorized and punished by the NSE for ridiculing the post listing prerequisite of timely disclosure of provisional and annual audited financial performance for the year 2018 rose by 28%, anyway the measure of the punishment applied dropped by 12.6 percent from ₦229.2 million out of 2017 to ₦200.3 million out of 2018.

Due to the proceeded rebelliousness of timely report by firms in Nigeria, various research have been carried out to inspect the different components that influence the level of review report lag of a given corporation. Some authors such as (Ibadin

& Afensimi, 2015; Ohiokha & Idialu, 2017), contend that bigger audit firms (from now on global audit firms) in developing nations complete audit assignments more rapidly on the grounds that the large audit firms are more experienced and have more staffs in evaluating their customers. On the other hand, Leverage is the height to which an organization utilizes fixed pay security, for example, debt and preferred equity to finance its business exercises (Yegon, 2015). As indicated by Chandler and Ku Ismail (2004), there are two contending views in the literature with respect to these subjects. One view suggested that profoundly utilized organizations report quicker than the lowly leverage firms. In light of agency theory, this view opines that higher observing expenses would be brought about by firms that are highly leveraged.

Studies were conducted using firm attributes variables to look at the timely manner of financial reporting in Nigeria. Thus, studies such as, Iyoha (2012), Ibadin and Afensime (2015), Adebayo and Adebisi (2016), Lawrence and Elijah (2015), have undergone several research to ascertain the influence of organizations' attributes/characteristics on the frequency of timely financial reporting, but the results of their studies are inconsistent. While studies such as Le *et al.*, (2016) focused on effect of audit firm type and firm profitability on the timely presentation of the financial report: a case study of Vietnamese stock focused for 2014. Pratama, (2018) focuses on analyzing company size, operational complexity, financial performance, liquidity and audit firm type over timely financial reporting for companies listed on the Iq45 index in Bursa Indonesia for the period 2012 to 2014. None of these earlier studies was exclusively devoted to examining the effect of combining leverage and audit firm size on audit report lag capturing all the non-financial institution, which this paper is out to address.

Thus, the following hypotheses have been formulated:

H₁: Audit firm size has a significant impact on timeliness of financial report

H₂: Leverage has a significant impact on timeliness of financial report

Major findings established in this study will guide and provide practical implication for researchers and practitioners. It will assist the shareholders to understand that audit firm type and leverage have substantial influence on timeliness of financial reporting. Hence, they will be able to make reasonable suggestions that will enhance the timeliness of the firm financial statements to management. It will serve as eye opener for the policy makers and the various regulators to ensure strict compliance by the audit firm and other effective measures that will lead to the reduction of delay in releasing the financial reports

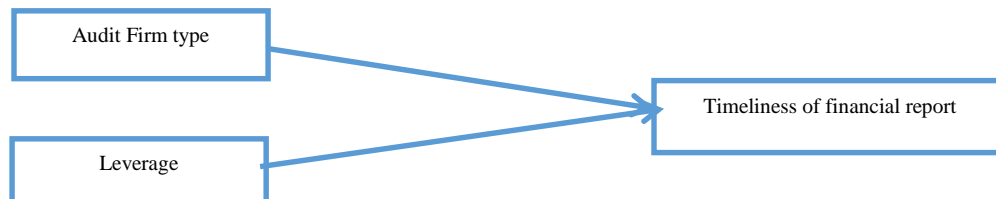
of the firm. Finally, the study will contribute to existing literature on the impact of firms' attributes on audited report of listed firms in Nigeria.

Beside this introduction in section one, section two deals with the literature review, while methodology is in section three. Section four presents the result and the discussion of findings. Finally section five consists of conclusion and recommendations.

2. Literature Review

This section reviews relevant studies and theories on combined effect of leverage and audit firm on audit reports lag.

Conceptual Framework



Audit Firm Type and Timeliness of financial report

According to Ohiokha and Idialu (2017) and Ahmed and Kamarudin (2003), audit firms are categorized into Big four and non-Big Four. The Big-four refers to KPMG, Ernst and Young, Pricewater House Coopers and Deloitte. While the Non-Big Four are the local audit firms in Nigeria categorized as partnership audit firms and sole proprietorship are relatively smaller in size. Ibadin and Afensimi (2015) found that audit firm size has influence on Audit delay. Darryl and Senny (2018) studied the effect of corporate governance instruments on timeliness of financial report in Indonesia. The result of the research suggested that audit firm type have significant association with audited statutory financial reports timeliness. Inuwa *et al.*, (2015) assessed IFRS adoption, corporate attributes and audited statutory financial report timeliness with proof from corporations in Nigeria, the research used ordinary least squares (OLS) technique. The study revealed that auditors' firm types are substantial predictors of audit timeliness in Nigerian money deposit banks.

On the contrary, Dibia and onwuchekwa (2013) investigated the delay in presenting audit reports for companies in Nigeria. The findings reveal that there is a positive but insignificant link between audit firm type and the delay in the

audited reports. Likewise, Big4 audit firms do not directly influence the timely release of the auditor's report. Hashim and Razak (2013), investigated the association amid business attributes and timely reporting in Malaysia. The regression result showed that there is an insignificant relationship between the timeliness of business reports and the size of an accounting firm.

Leverage and Timeliness of financial report

Timeliness of financial report is the period contrast from the money-related report issue date and review conclusion period for a statutory audited financial statement (Subekti & Widiyanti, 2004). Timeliness of financial report is referred to as the number of days, between the financial year-end and the day the statutory audited financial statement is issued (Karim & Ahmed, 2006). Leverage, on the other hand, is the ratio to which a company uses interest rate embedded instruments such as debt and equity which are preferred to finance its commercial activities (Yegon, 2015). High level of financial leverage is usually followed by high interest payment. Ibadin and Afensimi (2015) who researched corporate characteristics and review delay in developing markets with experimental proof from Nigeria. The panel regression techniques as the data analysis strategy was used and leverage proved not to have significant influence on Audit delay.

In a research by Akle (2011) on the association between characteristics of companies and audit report timeliness of listed firms on the Egyptian stock exchange. It was uncovered that organizations which accomplish the leverage positives are faster in declaring about their financial reporting. Adebayo and Adebiyi (2016) analyzed timeliness of financial statements of Nigerian deposit money banks. For the examination, they picked an example of 15 Banks for the duration cover of 2005 to 2013. The result shows that leverage isn't factually critical in deciding timeliness. Turel and Tuncay (2014) conducted an analysis on audit delay, the study analyzed 508 Turkish firms for the period of 2013, by using multiple regression method, it was found that leverage has a negative association with audit delay but statistically not significant. On the contrary, Sulaiman (2015) Analyzed timeliness of evaluated financial reports of recorded organizations in Jordan stock market. Using logistic regression analysis, the study showed that there is no significant influence between leverage and the timely issuing of statutory financial reports.

Theoretical Framework

Agency Theory

In accordance to the theory of the Agency propounded by Jensen and Meckling (1976), the costs of agencies arise from clashes of interest among the company's owners and managers. Costs for the agency are characterized as the totality of the prices of supervision incurred by the principal, contracting costs suffered by the agent and residual loss.

If the agency's problems persist, the auditors will spend more time reviewing and in turn increase the delay in the audit report (Leventis, Weetmanm & Caramanis 2005). Timeliness of financial statements will certainly cause problems in the communication between the principal and the agent. High indebtedness puts a lot of pressure on debtors to submit reports (Abdulla, 1996), as a result the corporation will submit its audited report on time. However, companies that are highly leveraged may intend to conceal the level of risk, in turn delaying the publication date of their statutory business report (Modugu & Ikhatua, 2012)

3. Methodology

In this study correlational research design was adopted. This design is informed by the research paradigm which is the positivism approach. The study population consisted of all the hundred and fifty (150) firms contained in the Nigeria stock exchange website, which consist of all the firms quoted on the trading floor of Nigerian Stock Exchange (NSE) on or before the year 2009 and has not been delisted as at 31st December 2018 The researcher after applying the various filters criteria which are (the firms in the financial and security sector, the firms with incomplete financial information, newly quoted firms and firms that were delisted during the study period) a total of sixty (60) non-financial firms quoted on the Nigerian Stock Exchange for the period from (2009-2019) were selected for the research. The dependent variable in this study is the delay in the audit report, measured as the number of days between the accounting year-end and the date of the auditor's issues the audited statutory financial report (Oreoluwa, Adedapo & Okunuga, 2018). The explanatory variables for this study comprise of leverage audit firm type. Leverage is measured as the ratio of firms current and non-current liabilities to total assets (Khalid & Qais, 2012). Audit firm size is taken as a dummy variable which takes a value of 1 for big 4 firms and 0 for others (Oreoluwa, Adedapo & Okunuga, 2018).

Model Specification

The model is presented as follows:

$$TFR_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 AUDFTY_{it} + e_{it} \dots\dots\dots (1)$$

Where:

TFR=Timeliness of financial report

i = no. of sampled firms (60)

t = no. of years (t=10)

β_0 = Intercept β_1, β_2 = the coefficients of the independent and control variables.

LEV= Leverage

ϵ = Error term

it = Subscript for Panel Data

4. Result and Discussion

The results of the study were presented and discussed as follows;

Table 1: Summary of Descriptive Statistics

Variables	MEAN	STD. DV	MIN	MAX	OBS.
TFR	100.58	51.08	28	614	600
AUDFTY	.59	.49	0	1	600
LEV	.62	.52	.01	7.57	600

Source: STATA outputs version 13

Table 1 presents the descriptive statistics of the explanatory and explained variables for this study. The mean value of Timeliness of financial report (TFR) is 100.58 days and the standard deviation is approximately 51.08days. The minimum of TFR is 28days, while the maximum is 614days. The mean TFR of 101.58days signifies that on average, the external auditors of the listed firms in Nigeria took approximately 102 days before their annual reports were audited and signed. The standard deviation of approximately 51days indicates a low variability of the data from the mean. That is, there is a low variation in the number of days taken by the external auditors of listed firms in Nigeria to sign their audited annual reports.

The average of AUDFTY across the sampled listed firms in Nigeria under the period of this study is 0.59 and the standard deviation is approximately 0.49. The standard deviation of 0.49 suggests low deviation in the level of audit firm type of the studied firms over the period of study. The mean value suggest that most of the sample firm during the period of the study engaged the BIG4 audit firms in

service. The minimum and maximum values of audit firm type are 0 and 1 respectively. The minimum value of 0 implies that from the sampled firms, some firms were audited by some audit firms other than any of the big 4. However, the maximum value of 1 indicates that some firms from the sampled firms had their annual reports audited by any firm of the big 4.

The mean value of LEV of 0.61 indicating that the average level of leverage across the listed firms; while the standard deviation stood at .52. The standard deviation value of approximately .52% indicates that there is a low deviation of the data from the mean. The mean value of 0.61 suggests that on average 61% of the firm's asset are covered by debt. The minimum and maximum leverage of the listed firms in Nigeria for the period covered were 0.01 and 7.57 respectively. The minimum value of 0.01 shows that from the sampled firms, the firm with the lowest debt had 1% of debt. This implies that for every naira of the firm's assets, the firm had N0.01 of debt. A ratio above 1.0 indicates the firm had more debt than assets. However, from the sampled firm, the firm with the highest debt to total assets had a value of 7.57 of debts. This is way too high; it implies that the firms had N7.57.

Table 2: Matrix of correlations

	TFR	AUDFTY	LEV
TFR	1.00		
AUDFTY	0.04	1.00	
LEV	0.27*	0.05	0.00

Notes *significant at the 5% level

From table 2, it can be seen that the coefficient of timeliness of financial report and audit firm type is 0.04. This implies that audit firm type has a positive relationship with timeliness of financial report of listed firms in Nigeria. That is an increase in AUDFTY will lead to an increase in timeliness of financial report of listed firms in Nigeria and vice versa. More so, audit firm type has a positive relationship with both firm size and profitability, which denotes that these variables are moving in the same direction. The correlation result shows that leverage has a positive coefficient of 0.27. This indicates that leverage has a positive relationship with timeliness of financial report, That is, an increase in leverage will lead to an increase in timeliness of financial report of listed firms in Nigeria. On the other hand, the prevalence of multicollinearity among the variables clearly established nonsignificant relationship between firm value and CSR. To prove otherwise however, comparative analysis of tolerance value and variance inflation factor (VIF) are required beyond their benchmark for rule of

thumb. To that effect, tolerance values and variance inflation factor (VIF) are advanced statistical assessment of the prevalence of multicollinearity among the regressed variable.

Diagnostics Tests

To ensure validity and reliability of the statistical inference of the regression model, robustness tests were conducted. The robustness tests conducted include test for multicollinearity, VIF, Hausman specification test, autocorrelation heteroskedasticity and normality of residual.

Table3 Variance inflation factor

VARIABLES	VIF	1/VIF
AUDFTY	1.20	0.83
LEV	1.20	0.83
Mean VIF	1.20	0.83

Source: STATA outputs version 13.

As indicated from Table 3, the results of the VIF test ranges from a minimum of 1.20 to a maximum of 1.20, which are all less than 10. To further substantiate this claim, the mean VIF is 1.20, also confirming the absence of multicollinearity among all the independent and control variables of the study (Hair, Black, Babin, & Anderson, 2014).

Table 4; Hausman Specification Test, Autocorrelation, Heteroskedasticity, Normality of Residual

Tests	Hetttest	Autocorr	SWilk	Ovtest	Hausman
Chi2	1440.50	4.71	52.25	1.51	11.28
P-value	0.000	0.033	0.000	0.210	0.003

Source: STATA outputs version 13

To test for the existence of heteroskedasticity, the study used Breuch Pagan/Cook-Weisberg. The study reveals that chi2 of 1440.5 with p-value of 0.000, implying presence of heteroskedasticity, thus, the null hypothesis that the variation of the residual is constant (homoscedastic) is rejected. The Wooldridge test for autocorrelation was adopted to test for the presence/absence of auto/serial correlation. The criteria was to accept Ho = No Autocorrelation, if P-value is greater than 5% and accept H₁= Presence of Autocorrelation if P-value is less than 5%. The result obtained from table above shows that there exists no issue of

Auto/serial correlation in the model as the P-value (0.033) is less than 5%. The normality of the residual test was conducted using Jarque-Bera test at 5% level of significant. The table shows that the residual is not normally distributed as reveal by a significant p-value of 0.000 which is less than 5% level of significance. Hypothesis that there is no omitted variable at 5% level of significance is accepted. The table divulges a p-value of 0.210 which is not significant, signifying that the model does not suffer from omitted variable. Hausman specification test was carried out to decide between fixed and random effect model. The result revealed that the value of chi2 is 11.28 and the prob>chi 0.0037. The significant value as reported by the probability of chi2 indicates that the hausman test is in favor of fixed effect model. The study checked for omitted variable using Ramsey Reset test which has a null hypothesis

Test of Hypotheses

The result of the fixed effect model was considered suitable for analysis. However, the result of the heteroskedasticity test eTFRier conducted shows that the error across the entities is not homoscedastic and also that there is presence of first order auto correlation, Hence, the study used Prais-Winsten regression, heteroskedastic panels corrected standard errors was run in order to take care of the heteroskedasticity problem, non-normality of data and first order correlation (AR1) indicated by Wooldridge test. According to Prais-Winsten regression, heteroskedastic panels corrected standard errors is more efficient in correcting such issues when its purpose is for testing hypothesis (Moundigbaye, Rea & Reed, 2017). The result from the Prais-Winsten Panels corrected standard errors (PCSE) result is presented in Table 5 below.

Table 5; Regression Result

Variables	Coefficient	Het-Correlated error	Std	Z- value	P>(Z)
AUDFTY	.12	.04		3.10	0.002
LEV	.11	.03		3.07	0.002
Constant	5.34	.28		18.99	0.000
R2	.743				
Wald chi2(6)	41.91				

Source: STATA outputs version 13.

In table 5, it can be observed that the wild- χ^2 is 41.91 which is significant at less than 5%. This indicates that the model is fit. It further suggests that the explanatory variables selected for this study jointly and significantly affect timeliness of financial report of listed firms in Nigeria. The R-square of .743 means that the independent variables captured in the model of the study account for 74.3% of the changes in the dependent variable, while the remaining is explained by those variables not included in the model. As can be seen in Table 5, the p-value of AUDFTY is 0.002 which is significant at less than 5% level of significance. This means that the influence of audit firm type on timeliness of financial report is significant. This shows that an increase in the audit service by the BIG4 audit firms will lead to increase in timeliness of financial report by 12 days. This implies that the BIG4 firms take longer time in completing their audit in the listed firms in Nigeria. This could result from the fact that the big4 audit firms are careful in conducting their audit, they may want to ensure that their audit is comprehensive and of good quality to avoid litigation, this thereby increasing the number of days it takes to finish audit job. This provides basis for rejecting null hypothesis which states that audit firm type has no significant effect on timeliness of financial report of listed firms. This finding is contrary to agency theory and in conformity with studies by Shin et al (2017), Meckfessel and Sellers (2017) who found evidence that BIG4 firms takes longer time in preparation of audit report. It is contrary to the studies by Dibia and Onwuchekwa (2013), and Hashim et al., (2013) who discovered that it negates TFR.

Finally, the result from Table 5 indicates that there is positive and significant relationship between leverage and timeliness of financial report as proven by the coefficient of 0.11 with p-value of 0.002, which is less than 5% level of significance. This implies that increase in leverage will lead to increase in timeliness of financial report. Leverage may lead to bankruptcy risk, thus Firms with high debt may hesitate to release information on their operation on time. On this basis we reject the null hypothesis that says, there is no significant relationship between leverage and timeliness of financial report. The finding corroborates the finding of Ezat (2015) and Alkhatib and Marjib (2012) who found that managers of highly levered attracted high monitoring thus, may seek to reduce cost by delaying their audit. However, the finding contradicts that of Efobi and Okougbo (2014) and Akle (2011) who found that leverage will gear firms in reporting their financial statement on time.

5 Conclusion and Recommendations

Base on the outcome of the analysis conducted the study established that audit firm type plays an important role in explaining changes in audited financial report delay of quoted firms in Nigeria. Thus, the study concludes that audit firm type is a determinant of audited financial report delay of quoted firms in Nigeria. The study documented evidence that leverage has the capacity to influence the audited financial report delay of quoted firms in Nigeria. Thereby, the study concluded that leverage is a determinant of audited financial report delay. In line with findings, the study recommends that the Big4 audit firms in Nigeria should maintain their reputation by putting measures to ensure quality audit report are readily available on time to stakeholders. In addition, board of directors should scrutinize debt financing and utilization of borrowed funds by the management in order to reduce the level of leverage of their respective firms. This is important as the result of the finding shows that an increase in leverage would increase the duration within which audited financial report of quoted firms in Nigeria are issued. The study recommends that, future study may be conducted in other counties.

References

- Abdulla, J. Y. A. (1996). The timeliness of Bahraini annual reports. *Advances in International Accounting*, 9, 73-88.
- Adebayo, P. A., & Adebisi, W. K. (2016). Effect of firm characteristics on the timeliness of corporate financial reporting : Evidence from deposit money banks in Nigeria. *International Journal of Economics, Commerce and Management*,4(3), 369–381
- Ahmad, K., & Kamarudin.A. (2003). Audit delay and the timeliness of corporate reporting: Malaysian evidence. <http://www.hicbusiness.org/biz2003proceedings/khairul>
- Ahmed, K. (2013). The timeliness of corporate reporting: A comparative study of South Asia. *Advances in International Accounting*,16, 17–44
- Akle, Y. H. (2011). The relationship between financial reporting timeliness and attributes of companies listed on Egyptian Stock Exchange: An empirical study. *Internal Auditing & Risk Management*,3(3), 83–103
- Darryl., L & Senny., H. (2018). Effect of corporate governance on audit report timeliness in Indonesia. *Jurnal Akuntansi Bisnis* 16(2):209
- Dibia N. O., & Onwuchekwa, J. C. (2013). An examination of the timeliness of financial report of companies quoted in the Nigerian Stock Exchange. *International Journal of Business and Social Research*, 3(9), 8–16

- Ekienabor, E., & Oluwole, O. S. (2018). Reliability of timeliness in financial reporting in Nigeria. *International Journal of Research Publications*, 1(1), 1-15
- Hashim, F., Hashim, F., & Razak, A. (2013). Relationship between corporate attributes and timeliness in corporate reporting: Malaysian evidence. *Jurnal Teknologi*, 2, 115–119
- IASB. (2008). Exposure draft on an improved conceptual framework for financial reporting: The objective of financial reporting and qualitative characteristics of decision-useful financial reporting information. London
- Ibadin, L. A., & Afensimi, E. (2015). Corporate attributes and audit delay in emerging markets: Empirical evidence from Nigeria. *International Journal of Business and Social Research*. 5(3)
- Ibadin, L. A., & Afensimi, E. (2015). Corporate attributes and audit delay in emerging markets: Empirical evidence from Nigeria. *International Journal of Business and Social Research*. 5(3),
- Inuwa., F. M. Victor., C. O. Abiodun B., O. & Ahmed A., Z (2015). IFRS adoption, association attributes and audit timeliness with proof from Nigeria. *Acta Universitatis Danubius* Vol 11, no 3, 2015
- Ismail, K. N. I., & Chandler, R. (2004). The timeliness of quarterly financial reports of companies in Malaysia. *Asian Review of Accounting*, 12(1), 1–18. <https://doi.org/10.2139>.
- Iyoha, F. O. (2012). Company attributes and the timeliness of Sayco secured assets yield corporation investment banking. *I(3)*, 41–49.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Karim, W., & Ahmed, K. (2006). The effect of regulation on timeliness of corporate financial reporting: Evidence from Bangladesh, *Asian Review of Accounting* 1(1), 15–35
- Lawrence, I., Ph, A., & Elijah, A. (2015). Corporate attributes and audit delay in emerging markets: *Empirical evidence from Nigeria*. 5(3), 1–10
- Le, H., My, T., Lam, H., Hoang, T., & Hong, T. N. (2016). The effect of audit firm and firm performance on the timeliness of the financial report : a case of Vietnamese stock market. 1050–1059.
- Leventis, S., Weetman, P. & Caramanis, C. (2005). Determinants of timeliness of financial report: Some evidences from the Athens stock exchange. *International Journal of Auditing*, 9 (1), 45-48

- Modugu, K. E. E., & Ikhatua, G. (2012). Determinants of audit delay: empirical evidence from Nigeria. *The International Journal of Business and Finance Research*, 8(2), 21-28.
- Ohiokha, F. I., & Idialu, U. J. (2017). Determinants of audit delay : A comparative study of Nigerian and Malaysian listed firms. *International Accounting and Taxation Research Group*, Faculty of Management Sciences, university of Benin. 1(12), 158–176.
- Owusu-Ansah, S., & Leventis, S. (2006). Timeliness of corporate annual financial reporting in Greece. *European Accounting Review*, 15, 273–287.
- Pratama, R. (2018). The Analysis of Company Size, Complexity of Operation, Profitability, Solvency and Audit Firm Size toward Timeliness of Financial Statement Reporting for Company listed in LQ45 Index in Indonesia Stock. *Journal of Applied Accounting and Finance*, 2(1), 18–35.
- Shukeri, S. N., & Nelson, S. (2010). Timeliness of Annual Audit Report: Some Empirical Evidence from Malaysia. Paper presented at the Entrepreneurship and Management International Conference (EMIC 2) Kangar, Perlis Malaysia. Retrieved from <http://ssrn.com/abstract=1967284>
- Subekti, I. & Widiyanti, N. (2004). Factors affecting delay audit in Indonesia, National Symposium on Accounting. VII, Denpasar
- Sulaiman., S. Y. A. (2015). Timeliness of Audited Financial Reports of Jordanian Listed Companies. *Ipasj International Journal of Management*. Vol. 3(2)
- Turel, A., & Tuncay, F. E. (2017). An empirical analysis of audit delay in turkey. *The International Journal of Banking and Finance*, 22(4), 193–220
- Yegon, C. K. (2015). Effect of enterprise risk management determinants on financial performance of listed firms in Kenya, Jomo Kenyatta University of Agriculture and Technology

Determinants of Selection Factors in Strategic Alliance, Organizational Learning, Alliance Background and Firm Performance

¹Haruna Isa Mohammad & ²Marcel Daniel

¹Department of Business Administration, Modibbo Adama University, Yola, Nigeria

²Department of Management and Information Technology, Abubakar Tafawa Balewa University, Bauchi, Nigeria

Corresponding email: haruisa@yahoo.com

Abstract

This study examines the effect of determinants of selection factors in strategic alliance and firm performance: mediating effect of organizational learning and moderating role of alliance background in financial institutions. The research was carried out using a survey research design, with questionnaires collected from 258 employees of deposit money banks in Nigeria. The findings of the empirical investigation were presented using Structural Equation Modeling (SEM). According to the findings, strategic alliance success determinants have no positive significant impact on the performance of the firm. Organizational learning has a positive significant impact on the performance of a firm. Moreover, organizational learning has a full mediating effect on the relationship between determinants of the success factor of strategic alliance and firm performance. Finally, the study reveals no moderating effect of alliance background. Regardless of the onset of success factors of alliance formation firms need to put more effort into developing successful alliance partners for alliance success.

Keywords: strategic alliances, determinants, organizational learning, alliance background, firm performance.

1. Introduction

Recently, there is valuable attention towards understanding the main determinants of success factors in strategic alliances (Prabhudesai, *et al.*, 2022; Rajan *et al.*, 2021). A strategic alliance is a cooperative policy for combining assets and capabilities for competitive advantages (Muange, & Maru, 2015; Shabani, *et al.*, 2016). As a result, undersigning successful selection factors such as trust, control,

commitment capability, rational commitment, and conflict resolution in an alliance are critical for resource distribution, competitive edge and learning. Successful alliance factors determine a firm's ability to form an alliance for value creation, competitive advantage, and firm performance (Aggarwal & Kapoor, 2019; Ireland, *et al.*, 2002). It is not possible for firms such as financial institutions to operate independently and the ability to source resources, knowledge, capabilities, and skills of partners is achieved through strategic alliances (Ongeri & Kwasira, 2016). Alongside the ability to identify external sources from which to draw knowledge, firms must also be able to learn from these sources (Anand, Centobelli, & Cerchione, 2020; Steiber *et al.*, 2020). The role of organizational learning in a strategic alliance is generally related to how alliance partners open up to learn from each other (Ferrigno; *et al.*, 2021).

Prior studies examined successful selection factors in strategic alliances such as trust, commitment, and communication on firm performance (Aulakh *et al.*, 1996; Graca *et al.*, 2015; Cullen *et al.*, 2000; Prabhudesai, *et al.*, 2022; Rama, 2015; Robson *et al.*, 2019) recorded mixed findings. Other studies find a positive relationship between successful selection factors such as trust and commitment and conflict (Muthuswamy & White, 2005; Nielsen, 2007; Perry *et al.*, 2004; Prabhudesai, *et al.*, 2022), while others found no association (Delerue & Perez, 2009; Pansiri, 2008; Sarkar *et al.*, 2001). For this reason, organizational learning has been investigated as a mediator between successful selection factors in strategic alliance and firm performance. Similar, most studies on selection factors in strategic alliance capture trust, commendation, commitment and conflict (Ferrigno; *et al.*, 2021; Prabhudesai, *et al.*, 2022). The present study incorporates two more factors such as rationale and control as determining success factors in a strategic alliance.

It is believed that alliance background is particularly important contingency affecting the relationship between successful factors in determining strategic alliance and firm performance, because the alliances of firms may be robustly designed and deploy elaborate process and outcome-based controls. Most financial institutions lack an alliance background to design robust alliances and monitor their partners (Das *et al.*, 2020; Lahiri *et al.*, 2020; Mukherjee *et al.*, 2013; Zhao, 2014). Lacking the alliance background to enforce alliance, the financial institution may also be vulnerable to partner opportunism, leading to not only poor alliance-level selection factors, but also an erosion of their performance and competitive advantage.

Moreover, to the base of the researchers' knowledge, no prior study has incorporated determinants of success factors in strategic alliance, organizational learning, alliance background, and firm performance into one framework, which is one of the contributions of this study. Finally, most of the previous studies on successful selection factors in strategic alliance and firm performance were conducted on SMEs and mostly in a developed country (Ferrigno; *et al.*, 2021; Le, *et al.*, 2021; Prabhudesai, *et al.*, 2022). Therefore, this study examines the effect of determinants of success factors in strategic alliance on firm performance; mediating effect of organizational learning, and moderating role of alliance background between a financial institution in Nigeria.

The remainder of the paper is organized as follows. The paper begins with an introduction, followed by a literature review, methodology, and discussion of results, and finally, the paper is concluded by discussing the implications, future research directions, and limitations of the study.

2. Literature Review

2.1 Strategic Alliance

Alliance formation has significantly increased in recent times to supplement the traditional inter-dependence of firms (Collie *et al.*, 2021; Leischnig, *et al.*, 2014; Prabhudesai, *et al.*, 2022) which impacts firms' capability to invent and maintained value (Hannah, 2016). According to Kinderis and Jucevičius (2013), and Nissen (2020), strategic alliances mean a voluntary agreement for free exchange, cooperation and mutual relationships without common ownership. The interdependence of businesses explains the establishment of alliances (Dwyer & Gilmore, 2018). As a result, strategic partnerships are a firm's actions to achieve mutual goals. One of the strategies used by strategic management businesses to attain their objectives is a strategic partnership (Mockler, 1999; Zahoor *et al.*, 2021). It is a contract between or among businesses to become self-sufficient, and it is frequently competitive. In practice, it denotes all business ties (Pellicelli, 2003).

According to Douma (1997), a strategic alliance is a contractual, transitory partnership between autonomous enterprises to decrease uncertainty in the execution of partners' strategic goals. A firm's deed between two or more self-governing firms to manage one specific activity for a period of time is known as an alliance (Wassmer, 2010). Alliances are established at the business level to develop and enhance various core competencies in order to achieve the targeted

goals (Dwyer & Gilmore, 2018; Kohtamaki, *et al.*, 2018; Rao & Reddy, 1995). As a result, when two or more companies join forces to achieve a common set of goals, while remaining autonomous, an alliance is formed to participate and benefits sharing on a long-term base in one critical area.

2.2 Determinant of a successful factor of strategic alliances

2.2.1 Trust

Trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both before he can monitor such action and in a context in which it affects his action (Collie *et al.*, 2021). Trust is fundamental in attaining any contractual agreement (Mohammad, 2020). Trust is a social norm in governing and coordinating alliances that are globally acknowledged (Anand & Khanna, 2000; Gulati, 1995; Shah & Swaminathan, 2008). According to Ganesan (1994), trust is operationally into benevolence and competence (Beckman, *et al.*, 2004; Moorman, *et al.*, 1993; Ring & Van de Ven, 1994). In a strategic alliance, trust is a key ingredient in fostering healthy and successful interactions (Collie *et al.*, 2021). As a result, when alliance processes are difficult to manage and control, the alliance's outcome will be complicated to understand; trust between partners is the primary foundation for partner magnetism judgment and partner selection.

2.2.2 Control

According to Medcof (1997), the partner variable selection is alliance control if this control is likely to contribute to effectiveness alliance. Control, according to previous research, is the key symbol of encouragement in partner collaboration (Gulati, 1995; Parkhe, 1993). As a result, firms in alliances are more likely to be reliable in terms of partner cooperation (Das & Teng, 1998). Actual control, which is hypothetical in order to boost alliance partner confidence, may lead to alliance partners' autonomy and flexibility (Pansiri, 2008). Also, strategic alliances present new opportunities with shared risks.

As a result, strategic alliances provide new opportunities with liabilities that can be divided between parties, but they frequently limit partners' choices, control, and financial returns. Traditional firm activities necessitate managerial effort and resources. Costs and risks are also a focus of strategic alliances with partner enterprises, according to (Howarth, *et al.*, 1995; Hitt *et al.*, 1996). Therefore, decision-makers in alliances have issues with control centered on the level of power and the extent to which it should be divided among alliance partners to avoid party dominance (Gomes & Casseres, 1997).

2.2.3 Commitment capability

Commitment is an agreement between alliance partners to begin specific steps that will enable them to achieve the organization's goals, as well as strong relationships. It is also defined as the willingness to make sacrifices in order to gain sustainable benefits (Dwyer *et al.*, 1987; Gundlach, *et al.*, 1995; Shah *et al.*, 2008; Yoo *et al.*, 2016). Commitment includes the calculative side- the extent to which partners believe the alliance can help them achieve strategic goals, and an emotional side-importance attached to the alliance and psychological identification with the alliance and the partner (Prabhudesai, *et al.*, 2022; Yang *et al.*, 2008; Yoo *et al.*, 2016). Commitment improves alliance outcomes and provides greater scope for an SME to learn and internalize from its partner (Morgan & Hunt, 1994; Prabhudesai & Prasad, 2018; Williamson, 1981).

According to Anderson and Weitz (1992) commitment in an alliance refers to the intention of partners to develop a stable, long-term relationship and encompasses the steps undertaken by partners beyond the obligations mentioned in the alliance contract, to make the alliance successful. Therefore, commitment capability is seen as significant commitments made by allies to a merge task.

2.2.4 Rational Commitment

Rational commitment can also be called instrumental commitment (Chi, 2011). Alliance has to instrumental bases (John, *et al.*, 2000). Prior to the formation of a strategic alliance, each firm formulates a subjective assessment regarding whether the other firm will behave in a logical manner and not act opportunistically (Collie *et al.*, 2021). The drivers of a possible and potential gain that is the reward of the alliance should be based on the assessment and expectation successful alliance (Chi, 2011). Rational commitment is referred to as the benefit aspect of calculative engagement (John *et al.*, 2000). Therefore, the relational commitment as the valuation analysis that the alliance partners must evaluate the outcomes and indicate the importance better than the cost.

2.2.5 Conflict Resolution

Conflicts occur in inter-firm partnerships due to the obvious inherent interdependence that exists between alliance parties (Mohr & Sporkman, 1994). What concerns is how these conflicts are addressed. The success of the alliance will be determined by the manner used by partners when a problem arises (Chi, 2011). In an uncertain and volatile environment that no single partner can control or manage, collaborative issue resolution is required (Mohr & Sporkman, 1994;

cummings, 1984; Thomas, 1976). When one partner dominates conflict resolution and when one partner waits for issues to arise before confronting the other, the alliance partner's life span will be short (Chi, 2011). Some approaches to resolving conflicts are ineffective and likely to harm the alliance's integrity (Deuch, 1973). Partners might also seek internal solutions to achieve a successful collaboration (Chi, 2011). Internal conflict resolution can lead to an alliance's success. As a result, successful alliance factors lead to strong performance (Aderson & Narus, 1990).

2.3 Organizational Learning

Organizational learning is considered the practice through which organizations learn through the acquisition and incorporation of knowledge (Ferrigno *et al.*, 2022). Organizational learning leads to firm performance (Mohammad, 2019). Learning from the coalition accomplice is fundamentally expected to incorporate the procurement of two sorts of learning: data and expertise ((Kogut & Zander, 1992; Shakeri & Radfar, 2016). Then again, know-how incorporates unsaid information that is sticky, confused, and hard to codify (Shakeri & Radfar, 2016). The ability to perform tasks smoothly and effectively is defined as the sum of one's down-to-earth aptitudes or skills (Kale, *et al.*, 2000; Silverman, *et al.*, 1996). Interpersonal support and contact among collaborators on an individual basis serve as the foundation for knowledge and learning transfer across the boundary. Also learning or transferring knowledge is dependent on the alliance partners' interchange environment and processes.(Kale, *et al.*, 2000). Organizational learning is associated with organizational strategic achievement (Mohammad, 2019; Shakeri & Radfar, 2016). Strategic alliances enable learning and expansion of knowledge through internal development leading to the creation of new goods and services (Cohen & Levinthal, 1989; Schoenmakers & Duysters, 2006). As a result of this importance, emerging companies are more likely to accept alliances.

2.4 Alliance Background

The administration control writing proposes the determination of the method of hierarchical control relying on the undertaking attributes and data qualities of the specific setting (Govindrajan & Fisher, 1990; Ouchi, 1980). The decision control system relies on the level of straightforwardness of the procedure by which the partnership is executed and continued, as it were, the level of coalition process sensibility; and the level of straightforwardness of the yields of the union, as such, the level of collusion result analysis (Ouchi, 1979). Process reasonability is defined as the level of connection required by the starting accomplice during the

time spent actualizing and supporting the coalition undertakings of the specific collusion venture, including correspondence and coordination. Procedure reasonableness takes into account the costs of union support and administration, which are financed by the accomplices (Shah, *et al.*, 2008).

2.5 Firm Performance

Performance measures have been described in different literature to evaluate the result of alliances (Jabar, *et al.*, 2017). The reason is performance strategic alliance is composite, as partnerships are built around a set of goals (Evans, 2001). Research has shown that firms that form alliances typically achieve a higher level in the development of novel products/services, asset returns, acquiring knowledge and efficiency intensities, alliance satisfaction and profitability and innovation (Lee, 2007; Goerzen, 2007; Nielsen, 2007; Jones, *et al.*, 2000; Hagedoorn & Schakenraad, 1994; Ahuja, 2000; Judge & Dooley, 2006). Firms with advanced technologies, knowledge and competencies will outperform firms with fewer advancements, knowledge, and competencies (McEvily, *et al.*, 2004). Because alliances allow businesses to keep up with technological changes with minimal effort, time, and expenses to perform better in dynamic marketplaces. As a result, forming strategic partnerships is becoming a popular approach for both large and small businesses looking to improve their competitiveness (Montoya, *et al.*, 2007; Duysters, *et al.*, 2002).

2.6 Theoretical Framework

The study is developed based on social exchange theory. Shortage of resources and consequential demand for the right of entry resources of another partner as the main factors of social exchanges considered by the social exchange theory (Blau, 1964). In contrast to economic theories which focus on economic benefits, Social exchange theory focuses on social relations whose benefits may or may not include objective economic value (Prabhudesai, *et al.*, 2022). Prior studies have extended the Social exchange theory to organizational and inter-organizational levels, including strategic alliances (Aiken & Hage, 1968; Jacobs, 1974; Khalid & Ali, 2017; Prabhudesai, *et al.*, 2022). Muthuswamy and White (2005) concluded that social exchanges such as give-and-take commitment, trust, and mutual influence between partners are related to learning and knowledge transfer in strategic alliances.

Social exchange theory in an inter-organizational framework suggests that the partners engaged in collaborative relationships are correlated by the association capital developed between them (Aulakh *et al.*, 1996; Coleman, 1990; Kwon,

2008; Zaheer *et al.*, 1998). Relationship capital comprises trust and commitment. These two components form the glue which binds the alliance partners together, getting them to cooperate for the betterment of the alliance, sometimes even at the cost of their self-interests (Cullen *et al.*, 2000; Kwok *et al.*, 2019; Shan *et al.*, 2018). Conversely, not in attendance to relationship capital, payoffs from the alliance may not materialize even if the alliance is well designed (Bastida *et al.*, 2017; Madhok, 1995; Sambasivan *et al.*, 2013) in terms of the contract, structure, and other aspects.

2.6 Empirical Review

Prabhudesai, *et al.*, (2022) conducted a study on the performance impact of behavioral factors in alliances by SMEs in India: an empirical analysis. The survey method was used to collect responses from about 86 alliances of Indian SMEs. The data were analyzed using the PLS-SEM technique. Two relationship capital variables Trust and Commitment were found to have differential influences on the two levels of SME alliance performance, and their influence was mediated by the presence of two exchange climate variables.

Ferrigno; *et al.*, (2022) assessed combining open innovation and organizational learning literature in the context of strategic alliances. The study develops a conceptual framework that links open innovation to organizational learning literature. The study empirically validates this framework through four representative cases of dyadic strategic alliances in which the allied partners have (mainly) adopted an inbound or outbound open innovation strategy and (mainly) used an experiential or experimental learning approach to access knowledge in the alliance. The study proposes and validates a framework that links two well-known open innovation strategies (inbound and outbound) and two types of organizational learning, namely, experiential and experimental learning. This, in turn, allows us to propose four different typologies of learning opportunities that could be pursued by alliance partners.

Collier, *et al* (2021) conducted a study on balancing risk and trust for strategic alliance formation decisions. In the study, the authors develop a decision model that explicitly operationalizes trust as the subjective probability that a trustee will act in a trustworthy manner. The study integrates the concept of the value of information related to information gathering activities, which would inform a trust or about a trustee's trustworthiness. The study finds that Trust inherently involves some degree of risk, and the authors find that there is practical value in carrying out information-gathering activities to facilitate the partner analysis process. The

study presents a list of trustworthiness indicators, along with a scoring sheet, to facilitate learning more about a potential strategic alliance partner.

Le *et al.* (2021) studied Enhancing sustainable supply chain management performance through alliance portfolio diversity: the mediating effect of sustainability collaboration in Vietnamese manufacturing companies. The field data are collected from 321 Vietnamese manufacturers. Scale accuracy is assessed through the confirmatory factor analysis method. Hierarchical linear regressions are applied to test the proposed model and hypotheses. Partner, governance, and functional alliance portfolio diversities have a U-shaped, inverted U-shaped, and positive linear effect, respectively, on sustainability collaboration. Sustainability collaboration is in turn found to enhance the SSCM performances in terms of economic, environmental, and social.

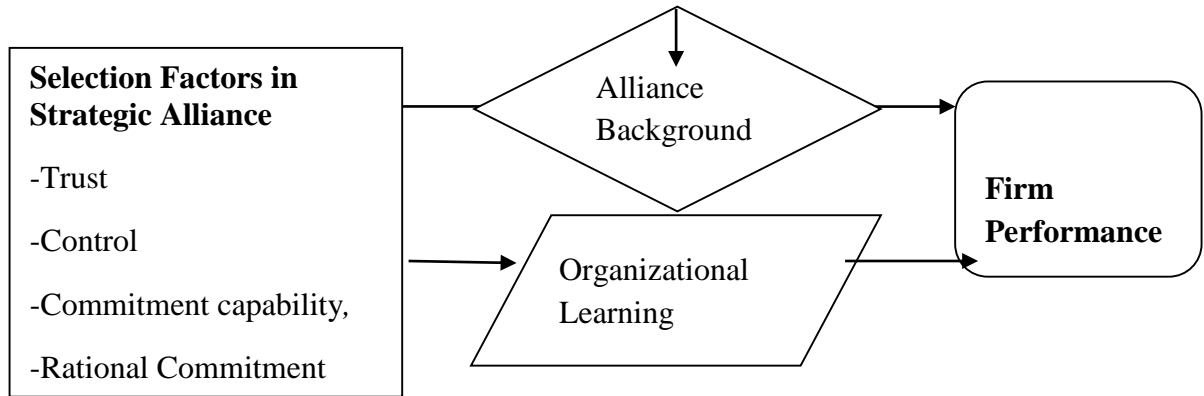
Nissen (2020) investigates strategic alliances: manager's response behavior in adverse situations in Radboud. The study uses a mixed-method approach to conduct this research. Managers of NGOs and firms are interviewed about their response behaviour in adverse situations. The study shows that the behaviour of managers in adverse situations differs. The behaviour of managers in the adverse situation can increase and decrease the success of the partnership. Some studies indicate that when the partner gives a helping hand, it enhances the success of the partnership. Conversely, other studies show that when the partner reacts negatively, the partnership ends.

Rama (2015) examined the Learning success factors of strategic alliances and estimated them under an alternate specification in the UK. The study affirmed that strategic alliances require some crucial attributes to survive and thrive such as sharing competence, mutual trust, complementing the resources, communicating expressly, and building collective working teams. In addition, transparency, sharing power and *co-operation*, and structural developments are important constructs of successful alliances. Survival of strategic alliances largely depends on learning.

2.8 Conceptual Framework

Figure 1 shows the study's framework, which depicts the link between the variables. That is the relationship between the independent variable strategic alliance selection factors, the mediating variable organizational learning, the moderator alliance background, and the dependent variable firm performance. Moreover, the independent variable consists of determinants of strategic alliance

selection factors such as trust, control, commitment capability, rational commitment and conflict resolution.



Source: Author's source

The following hypotheses are established based on a survey of the preceding research.

H₀₁:- *There is no significant effect of determinants of selection factors in strategic alliance on firm performance.*

H₀₂:- *There is no significant effect of determinants of selection factors in strategic alliance on learning.*

H₀₃:- *Organizational Learning has no significant effect on firm performance.*

H₀₄:- *Organizational Learning will have no mediating effect on the relationship between determinants of selection factors in strategic alliance and firm performance.*

H₀₅:- *Alliance background will have no moderating effect on the relationship between determinants of selection factors in strategic alliance and firm performance.*

3. Methodology

The study was conducted using a survey research design. A survey instrument was validated before data collection. The questionnaires were ready for random sample after the validation procedure. The population of the study involves employees of financial institutions in Nigeria, deposit money banks in particular that had been in operation for at least five years were used. Employees at the corporate and business levels of deposit money banks were the primary respondents. According to Krejcie and Morgan's (1970) sample size table, the study's sample size was 341 workers of financial institutions in Nigeria. As a result, 341 questionnaires were personally distributed to employees, with only 258 valid surveys being used, resulting in a response rate of 75.67 per cent. 341 (75.67%) of the survey questionnaires were relevant for this research. Structural Equation Modelling (SEM) was considered to be the most suitable analytical technique. The study chose PLS-SEM for hypothesis testing for several reasons. Most of the constructs are latent (Rigdon, 2016) and some of the distributional requirements such as normality for the variables for using CB SEM, the alternative technique, are rather rigorous (Astrachan *et al.*, 2014; Hair *et al.*, 2014). The model is complex and finally, the minimum sample requirements specified by Cohen (1992) and Hair *et al.* (2016) for using PLS-SEM were met.

3.1 Variable measurement

The measurement underlines the determinants of successful strategic alliance factors consist of Trust, Control, Commitment and Capability, Relational Commitment, and Conflict Resolution. These items are adopted from Pansiri (2008), Shar and Swaminathan (2008). The measurement items of organizational

learning were adopted from Shakeri and Radfar (2016). Alliance context or background includes process manageability and outcome interpretability. The items were adopted from Shar and Swaminathan (2008); Jabar *et al.*, (2015) and updated to fit the study's needs. All questions are on a 5-point Likert scale, where 1 = strongly disagree and 5 = strongly agree.

4. Result and Discussion

The reliability of all constructs was provided using Cronbach's, composite reliability, and Average Variance Extracted (AVE), as recommended by Garver and Mentzer (1999). All of the constructs had Cronbach's alpha and composite reliability values of greater than 0.70, as shown in Table 1. Furthermore, all of these constructs' AVE values were higher than the indicated threshold value of 50. As a result, all of the scales were deemed to have acceptable internal consistency and dependability (Nunnally, 1978; Bagozzi & Yi, 1991).

Table 1: Construct Validity and Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
ABOI	0.749	0.865	0.828	0.549
ABPM	0.848	1.068	0.924	0.859
OL	0.832	0.850	0.876	0.543
FMP	0.792	0.796	0.857	0.546
STGAC	0.702	1.204	0.809	0.594
STGACC	0.792	0.811	0.839	0.513
STGACR	0.816	0.844	0.864	0.514
STGARC	0.762	0.873	0.889	0.801
STGAT	0.813	0.940	0.910	0.836

Source: Outputs from the Smart PLS analysis

Note: ABOI=Alliance background Outcome interpretability, ABPM= Alliance background Process manageability, OL= organizational learning, FMP= Firm performance, STGAC= Strategic alliance control, STGACC= Strategic alliance commitment and capability, STGACR= Strategic alliance conflict resolution, STGARC=Strategic alliance relational commitment, STGAT= Strategic alliance trust.

The square root of the AVE for a specific construct was compared to its correlations with other constructs to determine discriminant validity. If the square root of AVE exceeds the correlations, the discriminant validity is determined (Fornell & Larcker, 1981). As seen in Table 2, all constructs had greater squared AVE values with respect to their correlations, suggesting discriminant validity (Nunnally, 1978; Hair, 1998).

Table 2: Fornell-Larcker Criterion

	ABO I	ABP M	ORG L	PM P	STGA C	STGAC C	STGAC R	STGAR C	STG AT
ABOI	0.741								
ABPM	0.323	0.927							
OL	0.338	0.080	0.737						
FMP	0.539	0.310	0.363	0.739					
STGAC	0.362	0.043	0.393	0.319	0.771				
STGAC C	0.474	0.324	0.445	0.428	0.384	0.716			
STGAC R	0.362	0.109	0.479	0.274	0.411	0.537	0.717		
STGAR C	0.107	0.055	0.240	0.143	0.096	0.405	0.437	0.895	
STGAT	0.331	0.243	0.268	0.308	0.391	0.514	0.452	0.437	0.918

Source: Outputs from the SmartPLS analysis

The heterotrait-monotrait (HTMT) ratio of correlations is recommended for PLS-PM (Henseler, *et al.*, 2015) as also applied here. Based on Table 3, the results computed for each pair of the models' of the constructs indicate that the HTMT values of all construct does not reach the maximum threshold of 0.85 (Zainol *et al.*, 2019; Franke & Sarstedt., 2019). Therefore, the HTMT values are good for further analysis.

Table 3 : Hetrotriate-Monotrait Ratio (HTMT)

	ABO I	ABP M	ORG L	PMP	STGA C	STGAC C	STGAC R	STGAR C
ABOI								
ABPM	0.368							

OL	0.473	0.121						
FMP	0.719	0.397	0.412					
STGAC	0.568	0.096	0.564	0.46				
				8				
STGAC	0.544	0.429	0.558	0.50	0.560			
C				9				
STGAC	0.451	0.157	0.596	0.34	0.555	0.734		
R				0				
STGAR	0.132	0.086	0.314	0.22	0.158	0.587	0.565	
C				5				
STGAT	0.373	0.317	0.334	0.38	0.521	0.721	0.554	0.530
				4				

Source: Outputs from the Smart PLS analysis

The parameter estimations and their significance were SRMR = 0.08, d ULS = 4.482, d G = 1.380, Chi-Square =1,977.500, NFI =0.576 following post-hoc adjustment (Ringle, 2016). The VIF (variance inflation factor) was calculated to verify that the predictors were collinear. The tolerated cut-off for VIF readings is 10 (Hair *et al*, 2014).

Table 4: Model Fit

	Saturated Model	Estimated Model
SRMR	0.080	0.211
d_ULS	4.482	31.221
d_G	1.380	1.965
Chi-Square	1,977.500	2,603.723
NFI	0.576	0.442

Source: Outputs from the Smart PLS analysis

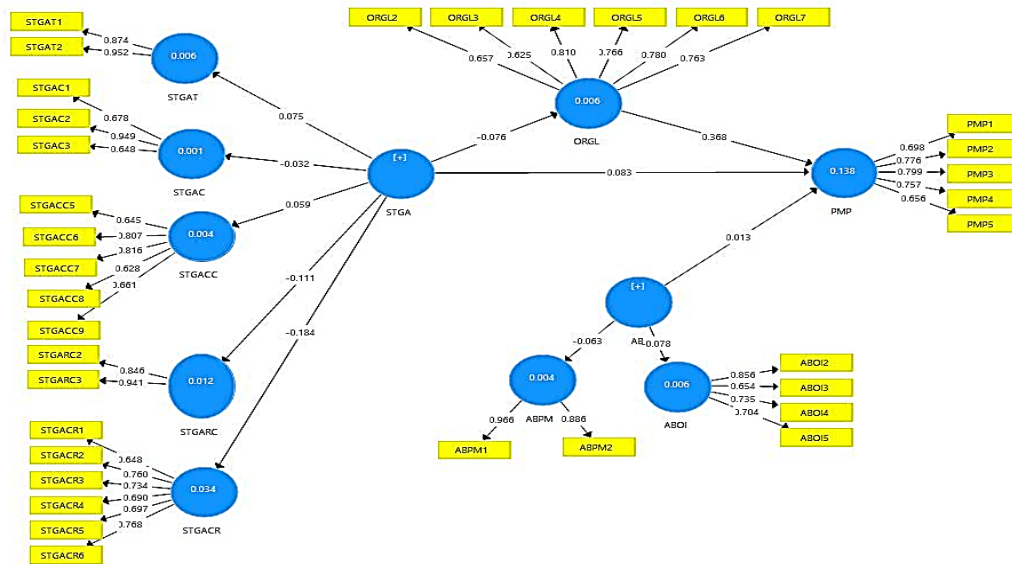


Figure 1: Model for the Study after PLS Test Algorithm
Source: Outputs from the Smart PLS analysis

Bootstrapping is a technique for reducing the estimated model's confidence intervals and standard errors. The bootstrapping test was used to see if the standardized regression weights were significant. This test provides t-statistics and significance level instead of regression weight or loading. At the 0.05 level or 95 percent confidence level, anything larger than 1.96 is significant. As presented in Table 5, STGA → FMP with T Statistics 0.868 and P>0.386 indicated that STGA found no significant effect on FMP. There is no significant effect of STGA on OL with T Statistics 1.046 and P>0.296, this means that STGA is not a determinant of OL. OL → STGA is significant with T Statistics 5.724 and P<0.000 this result indicates that OL is a good predictor of FMP.

The findings on mediating effect (STGA → OL → FMP) in Table 5 show that OL has a full mediating effect on the relationship between determinants of selection factors of strategic alliance and firm performance T-value 3.167 and P>0.002 as presented in Table 5. Full mediation occurs when there is no substantial direct effect before or after including the mediator, but the indirect or total effect is significant (Hayes, 2013; Nitzi, *et al.*, 2016). The interaction item to test the moderating role of alliance background on the relationship between strategic alliance and firm performance shows that the standardized coefficient of the interaction (STGA*AB → FMP) has a T-value 0.618 and P>0.537, indicating that

alliance background does not moderate the relationship between strategic alliance and firm performance.

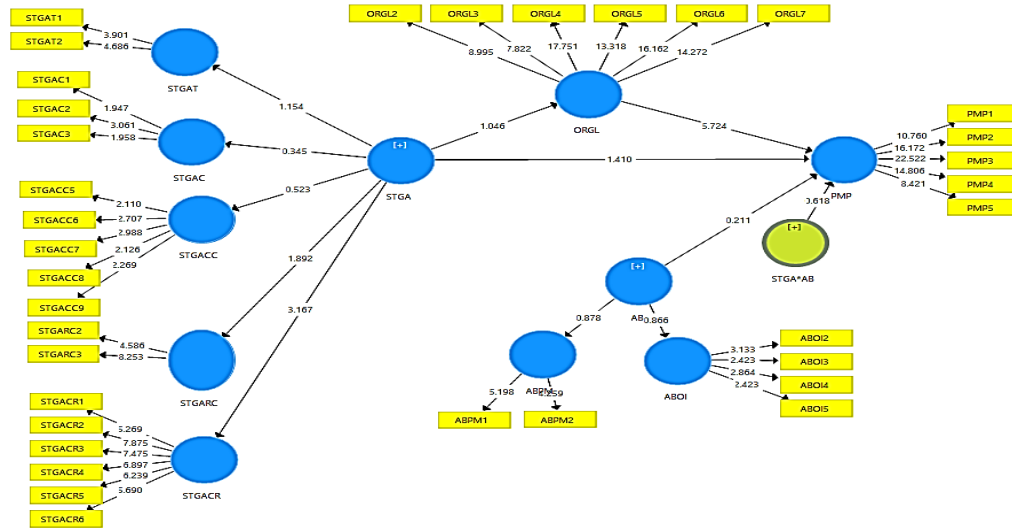


Figure 2: Model of the study after Bootstrapping
Source: Outputs from the Smart PLS analysis

Table 5 : Total Effects

Variables	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
STGA -> FMP	0.058	0.054	0.067	0.868	0.386
STGA -> OL	-0.076	-0.081	0.073	1.046	0.296
OL -> FMP	0.367	0.389	0.064	5.724	0.000
STGA -> OL-> FMP	-0.184	-0.207	0.058	3.167	0.002
STGA*AB -> FMP	-0.037	-0.037	0.061	0.618	0.537

Source: Outputs from the Smart PLS analysis

3.1. Discussion and Conclusion

Based on the prior theoretical perspectives, the assessment of effective aspects of successful selection factors in strategic alliances has been attempted. This research adds to the growing body of knowledge about strategic alliances from the perspective of financial institutions in Nigeria, with a mediating effect of organizational learning and a moderating role of alliance background. According to the research, successful selection factors in the strategic alliance have no

substantial effect on a firm's performance. The finding of this study is not in line with those of Aulakh *et al.* (1996), Graca *et al.* (2015), Cullen *et al.* (2000), Prabhudesai, *et al.* (2022), Rama (2015), Robson *et al.* (2019), Shah and Swaminatha (2008), who investigated factors influencing strategic alliance partner selection: the moderating influence of alliance context. It could be due to a lack of awareness of the elements that lead to alliance success, an underestimation of the relevance of the factors that lead to alliance success, or the study's focus. Moreover, the finding of this study is in line with the study of Delerue and Perez, (2009), Pansiri (2008), Sarkar *et al.* (2001).

The finding with respect to the effect of successful selection factors in strategic alliance and organizational learning demonstrates that no significant effect of successful selection factors in strategic alliance on organizational learning. This finding contradicts the findings of Ferrigno *et al.* (2022), Kale, *et al.* (2008), who conducted a study on learning and the preservation of proprietary assets in strategic partnerships and found that alliance partners provide a foundation for learning. Organizational learning has a major impact on firm performance. The finding is supported by the findings of Ferrigno *et al.* (2022), Jabar (2015), successful learning amongst alliance partners must be simple to comprehend and compatible with company culture, operational priorities, business objectives, and strategic resources. To achieve successful collaborations, it is critical to ensure the correct form of alliance (Jabar, 2015).

The study uncovers the full mediating effect of organizational learning on the association between successful selection factors in strategic alliance and firm performance. The finding of this study is supported by the study of Ferrigno *et al.* (2022), who examined the connecting organizational learning and open innovation research: an integrative framework and insights from case studies of strategic alliances. Finally, there is no moderating effect of alliance background on the relationship between strategic alliance success factors. This research contradicts Shah and Swaminatha's (2008) findings, which show that the criteria for evaluating alliance partners are depending on the levels of alliance background.

3.1.2. Managerial Implications

The findings of this study provide managers with additional insight and sensitivity into the value of alliances in their goals. Regardless of the events that led to the formation of strategic alliances and the factors that led to successful partner

selection, it appears that many institutions still need to understand the importance of the factors to consider before selecting alliance partners in order to achieve the alliance's goal. The findings of this research show that learning has a major impact on company performance. Although it may appear challenging to transfer knowledge, selecting effective partners for the establishment of alliances will facilitate learning by creating the expectation of a solid, long-term connection that will allow trust and knowledge sharing to build over time.

The function of management in the organization is to promote positive learning environments, as well as staff motivation and dedication. Various human resource development programs, such as skills development efforts, profit-sharing schemes, or incentives, can be adopted to ensure that knowledge is continually incorporated into the resources involved in a firm's operations. Firms must construct established methods to assimilate newly developed alliance processes before entering into an alliance. Furthermore, administrators should be mindful that other intangible benefits of learning on other resources come from the alliance to improve overall business performance. The study's findings support Kale, *et al* (2008), who claims that learning between alliance partners can improve company performance. With an increasing number of service establishments, developing countries such as Nigeria play an important role in the development of the global economy. This study aimed to fill a gap in the literature by investigating the effect of successful alliance factors on financial institution performance, as well as the mediating effect of learning and the moderating role of alliance background in Nigeria, specifically. Successful factors should be acknowledged as managers try to alienate successful factors in order to compete successfully in global markets.

Ultimately, it also deserves noting that the mediation analyses show different magnitudes of the effects on firm performances in financial institutions. In relation to others, alliance background is most strongly driven by alliance successful selection factors in strategic alliance through organizational learning, while these precursors least strongly influence economic performance. These insights can help managers adjust for high performance.

3.2.3. Future Research and Limitations

The following limitations must be considered when interpreting the findings of this study: The majority of the factors of successful partners show no significant effect, so more research is needed to compare the findings of this study with those of other studies. Because the sample for this study came from financial

institutions, more research can be done to evaluate other service firms. Despite its limits, this study contributes to financial institution managers, academics, and practitioners by demonstrating characteristics of effective financial institution alliance partners in Nigeria.

References

- Achrol R. S, & Stern L. W. (1988). Environmental determinants of decision-making uncertainty in marketing channels. *Journal of Marketing Research* 25(1): 36–50.
- Aggarwal, V. S. & Kapoor, M. (2019). Knowledge transfer among international strategic alliance partners and its impact on innovation performance. *International Journal of Strategic Business Alliances*, 6(4),
- Ahuja, G. (2000). Collaboration networks, structural holes, and innovation: A longitudinal study. *Administrative Science Quarterly*, 45, 425-455. <http://dx.doi.org/10.2307/2667105>
- Aiken, M. & Hage, J. (1968). Organizational independence and intra-organizational structure. *American Sociological Review*, 33, 912-930.
- Anand, B. N., & Khanna, T. (2000). Do firms learn to create value? The case of alliances. *Strategic Management Journal*, 21, 295-315. [http://dx.doi.org/10.1002/\(SICI\)1097-0266\(200003\)21:3<295::AID-SMJ91>3.0.CO;2-O](http://dx.doi.org/10.1002/(SICI)1097-0266(200003)21:3<295::AID-SMJ91>3.0.CO;2-O)
- Anderson E, Weitz B. (1992). The use of pledges to build and sustain commitment in distribution channels. *Journal of Marketing Research* 29(1): 18–34. <https://doi.org/10.2307/3172490>
- Anderson, J.C & Narus, (1990). A model on distributor firm and manufacturer firm. *Journal of Marketing*, 54(1), 42-48. <https://doi.org/10.1177%2F002224299005400103>
- Astrachan, C. B., Patel, V. K. & Wanzenried, G. (2014). A comparative study of CB-SEM and PLSSEM for theory development in family firm research. *Journal of Family Business Strategy*, 5(1), 116-128.
- Aulakh, P.S., Kotabe, M. & Sahay, A. (1996). Trust and performance in cross-border marketing partnerships: a behavioural approach. *Journal of International Business Studies*, 27(5), 1005-1032.
- Bagozzi, R., & Yi, Y. (1991). Multitrait-multimethod matrices in consumer research. *Journal of Consumer Research*, 17(1), 426-439. <http://dx.doi.org/10.1086/208568>
- Bastida, R., Marimon, F. & Tanganelli, D. (2017). Alliance success factors and performance in social economy enterprises. *Management Decision*, 55(5),

1065-1080.

- Beckman, C. M., Haunschild, P. R. & Phillips, D. J. (2004). Friends or strangers? Firm-specific uncertainty, market uncertainty, and network partner selection. *Organization Science*, 15, 259–275.
<http://dx.doi.org/10.1287/orsc.1040.0065>
- Blau, P. (1964). Justice in social exchange. *Sociological Inquiry*, 34(2), 193-206.
- Chang, K. (2008). The strategic alliance of the biotechnology firm, *Applied Economics*, 40, 3089–100. doi:10.1080/00036840600994104
- Chi, J. D., (2011). *Strategic alliance: Performance management in the financial service industry*.
- Cohen, J. (1992). A power primer. *Psychological Bulletin*, 112(1),155-159.
- Cohen, W. M., & Levinthal, D. A. (1989). Innovation and learning: the two faces of R&D. *The Economic Journal*, 99, 569-596.
<http://dx.doi.org/10.2307/2233763>
- Coleman, J. (1990). *Foundations of Social Theory*. Harvard University Press, Massachusetts.
- Collier, Z. A., Wood, M. D. & Henderson, D. A. (2021). Balancing risk and trust for strategic alliance formation decisions. *Journal of Strategy and Management*. DOI 10.1108/JSMA-03-2021-0067
- Cullen, J. B., Johnson, J. L. & Sakano, T. (2000). Success through commitment and trust: the soft side of strategic alliance management. *Journal of World Business*, 35(3), 223-240.
- Cummings, T., (1984). Tran-organizational development. *Research in organization behaviour* 6, 367-422
- Deutsch, M. (1973). *Me resolution of conflict*. Yale University Press, New
- Douma, M. U. (1997). *Strategic Alliances: fit or failure*, Ph.D. thesis, University of twente, the Nether- lands.
- Dwyer R. F., Schurr P. H, Oh S. (1987). Developing buyer– seller relationships. *Journal of Marketing* 51(2): 11–27.
<https://doi.org/10.1177/002224298705100202>
- Dwyer, M. O., & Gilmore, A. (2018). Value and alliance capability and the formation OF strategic alliances in SMES: the impact of customer orientation and resource optimisation. *Journal Of Business Research, Tourism Management* 87, 58–68.
<https://doi.org/10.1016/J.Jbusres.2018.02.020>
- Evans, N. (2001). Collaborative strategy: An analysis of the changing world of international airline alliances. *Tourism Management*, 22(3), 229-243.
[http://dx.doi.org/10.1016/S0261-5177\(01\)00024-3](http://dx.doi.org/10.1016/S0261-5177(01)00024-3)
- Ferrigno, G., Del Sarto, N., Cucino, V & Piccaluga, A. (2022). Connecting

- organizational learning and open innovation research: an integrative framework and insights from case studies of strategic alliances. *The Learning Organization* DOI [10.1108/TLO-03-2021-0030](https://doi.org/10.1108/TLO-03-2021-0030)
- Franke, G., & Sarstedt, M. (2019). Heuristics versus statistics in discriminant validity testing: a comparison of four procedures. *Internet Research*.
- Ganesan S (1994). Determinants of long-term orientation in buyer-seller relationships. *Journal of Marketing*, 58(2): 1–19 <https://doi.org/10.2307/1252265>
- Garver, M. S., & Mentzer, J. T. (1999). Logistics research methods: Employing structural equation modeling to test for construct validity. *Journal of Business Logistics*, 20(1), 33-57.
- Goerzen, A. (2007). Alliance Networks and firm performance: The impact of repeated partnerships. *Strategic Management Journal*, 28, 487-509. <http://dx.doi.org/10.1002/smj.588>
- Gomes-Casseres, B. (1997). Alliance strategies of small firms. *Small Business Economics: An International Journal*, 9(1), 33–44 <https://doi.org/10.1023/A:1007947629435>
- Gulati, R. (1995). Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances. *Academy of Management Journal*, 38(1), 85–112 <https://doi.org/10.2307/256729>
- Gulati, R., Nohria, N., & Zaheer, A. (2000). Strategic networks. *Strategic Management Journal*, 21, 199-201. [http://dx.doi.org/10.1002/\(SICI\)1097-0266\(200003\)21:3<199::AID-SMJ98>3.0.CO;2-0](http://dx.doi.org/10.1002/(SICI)1097-0266(200003)21:3<199::AID-SMJ98>3.0.CO;2-0)
- Gundlach G. T., Achrol R. S., & Mentzer J. T. (1995). The structure of commitment in exchange. *Journal of Marketing* 59(1): 78–92. <https://psycnet.apa.org/doi/10.2307/1252016>
- Hagedoorn, J., & Schakenraad, J. (1994).. The effect of strategic technology alliances on company performance. *Strategic Management Journal*, 15(4), 291-309. <http://dx.doi.org/10.1002/smj.4250150404>
- Hair, J. F. (1998). *Multivariate data analysis*. Prentice Hall, Upper Saddle River, NJ.
- Hair, J. F., Hult, G. T. M., Ringle, C. & Sarstedt, M. (2016). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*, Sage Publications.
- Hair, J. F., Sarstedt, M., Hopkins, L. & Kuppelwieser, V. (2014). Partial least squares structural equation modeling (PLS-SEM): an emerging tool in business research. *European Business Review*, 26(2), 106-121.
- Hair, Joseph F., Jr.; Hult, G. Tomas M.; Ringle, Christian M.; & Sarstedt, Marko (2014). *A primer on partial least squares structural equation modeling (PLS-SEM)*. Thousand Oaks, CA: Sage Publications

- Hannah, D. P. (2016). *Value creation and capture in a world of bottlenecks*. April. Working paper. Available at SSRN: <https://ssrn.com/abstract=2808036>.
- Hayes, A. F. (2013). *Introduction to mediation, moderation, and conditional process analysis: A regression-based approach*. New York: Guilford Press.
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135.
- Hitt, M. A., Dacin, M. T., Levitas, E., Arregle, J. L., & Borza, A. (2000). Partner selection in emerging and developed market context: Resource-based and organizational learning perspectives. *Academy of Management Journal*, 43(3), 449-467. <http://dx.doi.org/10.2307/1556404>
- Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (1996). *Strategic management: Competitiveness and globalization*. Minneapolis: West Publishing Company.
- Hoffmann, W. H. & Schaper-Rinkel, W. (2001), Acquire or ally? A strategy framework for deciding between acquisitions and cooperation, *Management International Review*, 41, 131-159.
- Howarth, C. S., Gillin, M., & Bailey, J. (1995). *Strategic alliances: Resource-sharing strategies for smart companies*. Melbourne: Pitman Publishing.
- Inkpen, A. (1995)
- Ireland, R. D., Hitt, M. A., & Vaidyanath, D. (2002). Alliance management as a source of competitive advantage. *Journal of Management*, 28 (3), 413-446. <https://doi.org/10.1177%2F014920630202800308>
- Jabar, J., Soosay, C., Khalid, F. A., Musa, H., & Othman, N. A. (2017). The role of strategic technology alliances (sta) towards organizational performance in manufacturing industry : the perspective of developing countries. *Asian Social Science* 11(16), 38–54. <https://doi.org/10.5539/Ass.V11n16p38>
- Jacobs, D. (1974). Dependency and vulnerability: an exchange approach to the control of organizations. *Administrative Science Quarterly*, 19, 45-59.
- Jiang, X. & Li, Y. (2009). An empirical investigation of knowledge management and innovative performance: the case of alliances, *Research Policy*, 38(2), 358-368.
- John, B. C., Jean, L. J., & Tomoaki, G. (2000). Success through commitment and trust: The soft side of strategic alliance management. *Journal of World Business*, 35(3), 223-240
- Jones, G. K., Lanctot, A., & Teegen, H. J. (2000). Determinants and performance impacts of external technology acquisition. *Journal of Business Venturing*, 16, 255-283. [http://dx.doi.org/10.1016/S0883-9026\(99\)00048-8](http://dx.doi.org/10.1016/S0883-9026(99)00048-8)
- Judge, W. Q., & Dooley, R. (2006). Strategic alliance outcomes: A transaction-

- cost economics perspective. *British Journal of Management*, 17, 23-37.
<http://dx.doi.org/10.1111/j.1467-8551.2005.00441.x>
- Kale, P., Singh, H., & Perlmutter, H. (2000). Learning and protection of proprietary assets in strategic alliances: building relational capital. *Strategic Management Journal*, 21 (3), 217–237.
- Khalid, S. & Ali, T. (2017). An integrated perspective of social exchange theory and transaction cost approach on the antecedents of trust in international joint ventures. *International Business Review*, 26(3), 491-501.
- Kim, M. (2015). The effect of strategic alliances on firm productivity in South Korea, *Applied Economics* 37–41.
<https://doi.org/10.1080/00036846.2015.1042140>
- Kinderis, R., & Jucevičius, G. (2013). Strategic alliances – their definition and formation. *Latgale National Economy Research*, 1(5), 106–128.
- Kogut, B. & U. Zander (1992). Knowledge of the firm, combinative capabilities and the replication of technology. *Organization Science*, 3, 383–397.
- Kohtamaki, M., Rabetino, R., & Moller, K. (2018). Alliance capabilities: A review and research agenda. *Industrial Marketing Management*, 68, 188–201.
- Krejcie, R.V. & Morgan, D.W. (1970). *Determining sample sizes for research activities*, Educational and Psychological Measurement, pp. 607-610.
- Kwok, F., Sharma, P., Gaur, S. S. & Ueno, A. (2019). Interactive effects of information exchange, relationship capital and environmental uncertainty on international joint venture (IJV) performance: an emerging markets perspective. *International Business Review*, 28(5), 101481.
- Kwon, Y. C. (2008). Antecedents and consequences of international joint venture partnerships: a social exchange perspective. *International Business Review*, 17, 559-573.
- Le, A. N. H., Nguyen, T. T. & Cheng, J. M-S. (2021). Enhancing sustainable supply chain management performance through alliance portfolio diversity: the mediating effect of sustainability collaboration. *International Journal of Operations & Production Management* 41(10), 1593-1614
- Lee, C. W. (2007). Strategic alliances influence on small medium firm performance. *Journal of Business Research*, 60, 731-741.
<http://dx.doi.org/10.1016/j.jbusres.2007.02.018>
- Leischnig, A., Geigenmueller, A., & Lohmann, S. (2014). On the role of alliance management capability, organizational compatibility, and interaction quality in inter-organizational technology transfer. *Journal of Business*

Research, 6, 1049–1057.

- Madhok, A. (1995). Opportunism and trust in joint venture relationships: an exploratory study and a model. *Scandinavian Journal of Management*, 11(1), 57-74.
- Medcof, J. W. (1997). Why too many alliances end in divorce. *Long Range Planning*, 30(5), 718–732.
- Mockler, R.J. (1999), *Multinational Strategic Alliances*, Wiley, New York, NY
- Mohammad, H. I. (2019) Mediating effect of organizational learning and moderating effect role of environmental dynamism on the relationship between strategic change and firm performance. *Journal of Strategy and Management*, 12,(2) 275-297
- Mohammad, I.H. (2020). Outsourcing and public universities performance in Nigeria, the mediating effect of trust. *Journal of Global Operations and Strategic Sourcing* 13, (3), 275-300
- Moorman, C., Rohit D. & Gerald Z. (1993). Factors Affecting Trust in Market Relationships, *Journal of Marketing*, 57, 81–101.
- Morgan R. M, & Hunt S. (1994). The commitment–trust theory of relationship marketing. *Journal of Marketing* 58(3): 20–38.
- Morh, J., & Nevins, (1990). Communication strategies in marketing channels: A theoretica perspective. *Journal of marketing*, 54, 36-51
<https://doi.org/10.1177%2F002224299005400404>
- Mowery, D. C., Oxley, J. E., & Silverman, B. S. (1996). Strategic alliances and interfirm knowledge transfer. *Strategic Management Journal*, 17, 77-91.
<http://dx.doi.org/10.1002/smj.4250171108>
- Muange, R., Maru, L. C. (2015). Strategic alliances on performance of retail firms in nairobi county , Kenya.*The TQM Journal*, 27(6), 732 - 740
<https://doi.org/10.1108/Tqm-06-2015-0075>
- Muthuswamy, S. & White, M. (2005). Learning and knowledge transfer in strategic alliances: a social exchange view. *Organization Studies*, 263, 415-441.
- Nissen, S. (2020). *Strategic Alliances: Managers' Response Behaviour in Adverse Situations*. Masters dissertation, department of Business Administration, Radboud University
- Nitzl, C., Roldan, J. L., Roldan, J. L., Cepeda, G. & Cepeda, G. (2016). Mediation analysis in partial least squares path modeling: helping researchers discuss more sophisticated models. *Industrial Management & Data Systems*, 116(9), 1849-1864.
- Nunnally, J. C. (1978). *Psychometric theory*. McGraw-Hill.
- Ongeri, G. O., & Kwasira, J. (2016). Influence of strategic alliances on

- achievement of competitive advantage of equity bank, Kenya. *International Journal of Social Science and Information Technology*, 2 (4), 1095-1110.
- Orientele “A. Avogadro” Novara, Italy. Prabhudesai, R., Pangarkar, N., Prasad, V.V. S. N.V & Sinha, A. K. (2022) Performance impact of behavioural factors in alliances by SMEs: an empirical analysis. *International Journal of Productivity and Performance Management* DOI [10.1108/IJPPM-06-2021-0341](https://doi.org/10.1108/IJPPM-06-2021-0341)
- Ouchi W. G. (1979). A conceptual framework for the design of organizational control mechanisms. *Management Science* 25(9), 833–848.
- Ouchi W. G. (1980). Markets, bureaucracies and clans. *Administrative Science Quarterly*, 25(1): 129–141.
- Pansiri, J. (2008). The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector Jaloni Pansiri. *Tourism Management* 29, 101–115
- Parkhe, A. (1993). “Messy” research, methodological predispositions, and theory development in international joint ventures. *Academy of Management Review*, 18(2), 227–268
- Pellicelli, A. C. (2003). *Strategic alliances*. Faculty of Economics, University of Piemonte
- Porter, M. E. (1990). *The Competitive Advantage of Nations*, Free Press.
- Prabhudesai, R, Pangarkar, N., Prasad, C. V.V.S.N.V. & Sinha, A.K (2022). Performance impact of behavioural factors in alliances by SMEs: an empirical analysis. *International Journal of Productivity and Performance Management*, DOI [10.1108/IJPPM-06-2021-0341](https://doi.org/10.1108/IJPPM-06-2021-0341)
- Prabhudesai, R. & Prasad, C. V. (2018). Understanding the international strategic alliances of SMEs: a case-study approach. *International Journal of Entrepreneurship and Small Business*, 35(1), 102-125
- Rajan, R., Dhir, S. & Sushil, J. (2021). Determinants of alliance productivity and performance: evidence from the automobile industry. *International Journal of Productivity and Performance Management*, Vol. ahead-of-print No. ahead-of-print.
- Rama P. K. (2015). Learning success factors of strategic alliances and estimating under an alternate specification. *Investment Management and Financial Innovations*, 12(3-1), 120-131
- Rao, B. P. & Reddy, S. K. (1995). A dynamic approach to the analysis of strategic alliances. *International Business Review*, 4, 499–518.
- Rao, B. P., & Reddy, S. K. (1995). A dynamic approach to the analysis of strategic alliances. *International Business Review*, 4, 499–518
- Ring, P. S., & Van de Ven, A. H. (1992). Structuring cooperative relationship

- between organizations. *Strategic Management Journal*, 13, 90–118.
- Ringle, C. M. (2016). *Advanced PLS-SEM Topics: PLS Multigroup Analysis*. Working paper, University of Seville, November
- Ringle, C. M., Wende, S., & Becker, J.-M. (2015). *SmartPLS 3*. Boenningstedt: SmartPLS GmbH, <http://www.smartpls.com>.
- Rothaermel, F. T. & Deeds, D. L. (2006). Alliance type, alliance experience and alliance management capability in high-technology ventures, *Journal of Business Venturing*, 21, 429–60. doi:10.1016/j.jbusvent.2005.02.006
- Sambasivan, M., Siew-Phaik, L., Mohamed, Z. A. & Leong, Y.C. (2013). Factors influencing strategic alliance outcomes in a manufacturing supply chain: role of alliance motives, interdependence, asset specificity and relational capital. *International Journal of Production Economics*, 141(1), 339-351
- Sampson, R. C. (2007). Experience effects and collaborative returns in R&D alliances, *Strategic Management Journal*, 26(11), 1009-1031.
- Schoenmakers, W. & Duysters, G. (2006). Learning in strategic technology alliances. *Technology Analysis & Strategic Management*, 18(2), 245-264. <http://dx.doi.org/10.1080/09537320600624162>
- Shabani, M., Golrizgasthti, S. & Seyedaliakbar, S. (2016) Strategic cooperation and supply chain performance: case study in Aviation Industrial Organization. *International Journal of Strategic Business Alliances* Vol. 5, No. 2, 2016
- Shah, R. H., & Swaminathan, V. (2008). Factors Influencing Partner Selection In Strategic Alliances : The Moderating Role Of Alliance Context, *Strategic Management Journal* 29, 471–494. <https://doi.org/10.1002/Smj>
- Shakeri, R., & Radfar, R. (2016). Technological Forecasting & Social Change Antecedents of strategic alliances performance in biopharmaceutical industry: A comprehensive model. *Technological Forecasting & Social Change*. <https://doi.org/10.1016/j.techfore.2016.01.003>
- Shan, L., Dan, L. & Qiu, Y.M. (2018). Study of the impact mechanism of inter-organizational learning on alliance performance with relationship capital as the mediator. *Neural Computing and Applications*, 32(), 117-126.
- Shan, W., Walker, G. & Kogut, B. (1994) Inter-firm cooperation and startup innovation in the biotechnology industry, *Strategic Management Journal*, 15, 387–94. doi:10.1002/(ISSN)1097-0266
- Vanhaverbeke, W., Duysters, G., & Noorderhaven, N. (2002). External technology sourcing through alliances or acquisitions: An analysis of the application-specific integrated circuits industry. *Organization Science*, 13, 714-733. <http://dx.doi.org/10.1287/orsc.13.6.714.496>
- Wassmer, U. (2010). Alliance portfolios: A review and research agenda. *Journal*

- of Management*, 36(1), 141–171.
- Williamson O. 1981. The economics of organization: the transaction cost approach. *American Journal of Sociology* 87(3): 548–577.
- Yang, J., Wang, J., Wong, C. W. & Lai, K.H. (2008). Relational stability and alliance performance in supply chain. *Omega*, 36(4), 600-608.
- Yoo, S. J., Sawyerr, O. & Tan, W. L. (2016). The mediating effect of absorptive capacity and relational capital in alliance learning of SMEs. *Journal of Small Business Management*, 54(1), 234-255.
- Zainol, N., Zainol, F., Ibrahim, Y., & Afthanorhan, A. (2019). Scaling up social innovation for sustainability: The roles of social enterprise capabilities. *Management Science Letters*, 9(3), 457-466.

The Role of Entrepreneurs in Business Management: A Case Study of Six Selected Small-Scale Business in Ika South, Agbor, Delta State

¹Igweh Florence Konye, Ph.D & ²Egbule A. C. Solomon, Ph.D

¹Department of Business Administration, Faculty of Management Science,
University of Delta. Agbor

²Department of Business Administration and Management, Faculty of
Management Science, Michael and Cecilia University, Agbara-Otor Delta State.

Abstract

The study assesses the role of entrepreneurs in Business Management using six selected small-scale business in Ika North, Agbor. Data was gathered through the administration of structured questionnaires to a chosen sample of the respondents among the organization's work force. 103 sample size selected, which are equivalent to the total population was utilized. Tables and simple percentages were utilized to present and evaluate the data, while, chi-square test was used to test the hypotheses. According to the study's findings, an entrepreneur's managerial abilities have a favorable link with business management. Therefore, the study recommends that businesses should be emphatic on the idea of innovation into their operations, and that managers model some entrepreneurial traits in order to blend management with entrepreneurship, which would increase business productivity.

Keywords: Entrepreneurs, Business, Management, Ika North

1. Introduction

The most dynamic cultures on the planet are those with the greatest number of entrepreneurs, as well as the economic and legal structures to stimulate and inspire them to expand their operations (Brian, 2005). For years, economists dismissed entrepreneurship as a minor aspect of the economy. However, the Austrian School of Economics was the first to acknowledge the entrepreneur as the central figure in all economic activity in the 1800s. The development and selling of new products and services is sparked by entrepreneurial energy, ingenuity, and motivation. It is the entrepreneur who takes on the risk of starting a business in order to make money, and who looks for ways to make money by filling unmet needs (Tracy, 2013).

In today's context, an entrepreneur is somebody who operates a business, taking risks and reaping the rewards that come with owning a business. An entrepreneur is a thought leader with often the expertise and knowledge of an innovator. New ideas are brought to the table by entrepreneurs. They have the abilities and mentality to improve and assist a key business's success, while also generating more money. Entrepreneurial abilities are strongly fossilized. Future next-generation entrepreneurs, on the other hand, will be required to have exceptional managerial abilities, in order to achieve a notable socio-economic level. A successful entrepreneur succeeds in his business plan by eschewing standard management methods and injecting new management talents (Agarwal, 2016).

Entrepreneurs are intimately involved in the complicated and dynamic interplay between financial management and business planning. This is the key distinction that distinguishes entrepreneurial management from all other forms of business management (Robert, 2011). He further indicates that entrepreneurs seek disequilibrium—a gap between the wants and needs of customers and the products and services that are currently available.

The entrepreneur brings together the factors of production necessary to produce, offer and sell desired products and services. They invest and risk their money and other people's money to produce a product or service that can be sold at a profit. Entrepreneurs are a national treasure that should be protected, nurtured, supported, and rewarded to the greatest extent feasible. They contribute to the nation's riches, employment, opportunities, and prosperity. In a market system, they are the most important people, and there are never enough of them.

However, the changing economic world is throwing new challenges to the managers. The management concepts and practices are shaping 'tomorrow's history'. A variety of changes are occurring that have an impact on managers' work. Globalization, total quality management, work force diversity, innovation and change, empowerment and teams, downsizing, contingent labor, and so on are examples of these shifts. We live in a fast-paced world, especially for enterprises. Consider how much has changed in a single generation, businesses have had to adapt to entirely new marketing channels (web and social), decide how to invest in and utilize new technologies, and compete on a global stage; things that were barely imaginable to our parents' and grandparents' generations.

Major problems businesses face are resource management, monitoring performance and technological improvements. The issue of managing cash flow,

profit margins, reducing costs, financing and how to best communicate metrics, so that they inform decision making. Hence, the stimulants for this research study as to examining the role of the entrepreneur in managing resources, monitoring performance and usage of current trending technology, so as to solidify the overall business management.

The general objective of this study is to assess the role of entrepreneur in business management. The specific objective of the study is to examine how managerial skills, competencies and innovative practices of entrepreneur affect business management.

Therefore the following hypotheses are formulated

H₀₁: There is no significant relationship between managerial skills of an entrepreneur and business management

H₀₂: There is no significant relationship between competencies of an entrepreneur and business management

H₀₃: Innovative practice of entrepreneurs does not affect business management.

The rest of the paper is structured as literature review, methodology, result and discussion, conclusion and recommendations

2. Review of Related Literature

Conceptual Framework

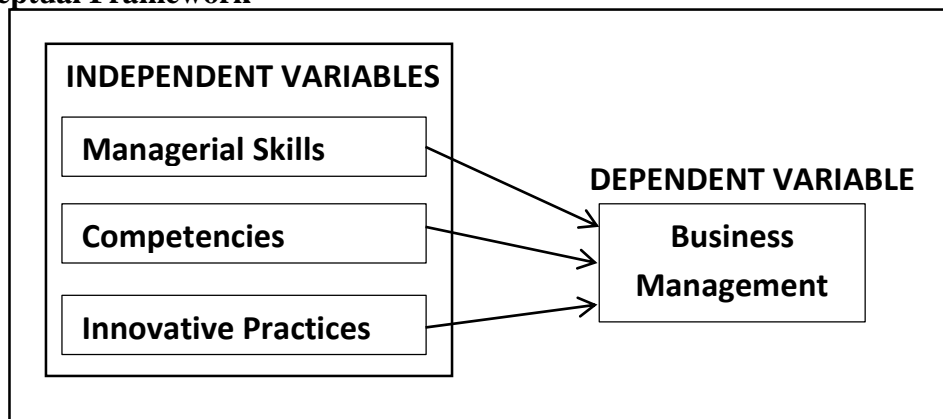


Figure 2.1

Source: Researcher's Model 2022

The above conceptual framework was adopted for this study, It operates as the basis in this research study. This framework helped to develop hypotheses to test the relationship between roles of entrepreneur and business management.

The Concept of Entrepreneurship/Entrepreneur

Entrepreneurs, according to Drucker, share a dedication to innovation rather than personality attributes. The entrepreneur must not only have talent, ingenuity, and knowledge, but he must also be hardworking, focused, and powerful in order for innovation to emerge. According to Ogbor (2009), entrepreneurship is a methodical study of opportunities in the environment followed by a purposeful and coordinated search for change. Entrepreneurship, according to Ogbor, implies a philosophy exactly, because it is the way one thinks and does, and so it can exist in a variety of organizations, including business, government, education, science and technology, and poverty alleviation. Entrepreneurs have changed the course of national economies, industries, and market places throughout history; the importance of entrepreneurship and innovation to any economy is comparable to the importance of entrepreneurship in any community. Entrepreneurial activity and the financial gain that results are always beneficial to a country (Ogbor, 2009).

Entrepreneurship is the world's oldest type of business organization. The concept of entrepreneurship is thought to have originated in the 1700s, it has changed over time to keep up with the developments in our environment. The only owner and manager of a business is an entrepreneur, in French, the phrase really means "the one who undertakes." In terms of economics, an entrepreneur is the person who carries all of a company's risk. In exchange, he gets to keep all of the profits from the company. While understanding the concept of entrepreneurship we will also learn about the importance of entrepreneurs in the economy, they bring in new goods, services, technologies, etc. to the market (Toppr 2017). Toppr (2017) further identifies four (4) key elements of entrepreneurship or an entrepreneur as:

i. Innovation: An entrepreneur is the key source of innovation and variation in an economy. It is, in fact, one of the most critical instruments for a successful business. They employ innovation to take advantage of market opportunities and overcome obstacles. As a result, this innovation can take the form of a new product, service, technology, manufacturing technique, marketing approach, and so on. Alternatively, innovation can entail doing something better and more cost-effectively. It is a vital aspect in the concept of entrepreneurship in any case.

ii. Risk-Taking: Entrepreneurship and risk-taking are inextricably linked. One of the most distinguishing characteristics of entrepreneurship is that the entire company is run and controlled by a single person. As a result, there is no one with whom to share the risks. A corporation can stagnate, if it doesn't take any risks, while too impulsive risk-taking might result in losses. As a result, a good entrepreneur understands how to accept and manage his company's risks. However, an entrepreneur's willingness to take risks offers them a competitive advantage in the market place. It enables people to take advantage of the chances presented by the economy.

iii. Vision: One of the key driving elements behind any entrepreneur is vision or foresight. It is the energy that propels the company forward by utilizing the entrepreneur's foresight. It is what offers the company a roadmap for the future - the tasks to be completed, the risks to be taken, the culture to be established, and so on. All of the world's great entrepreneurs who began their careers as entrepreneurs are noted for their vision. This aids them in establishing short- and long-term corporate goals, as well as strategies for achieving these goals.

vi. Organization: It's virtually a one-man show when it comes to entrepreneurship. The entrepreneur takes on all of the risks and reaps all of the benefits. Even though he has the assistance of staff and intermediate management, he must maintain ultimate authority. This necessitates a great deal of planning and superb organizing abilities. An entrepreneur must be able to manage and arrange his finances, personnel, resources, and other aspects of his business. As a result, one of the most significant aspects of business is his organizing skills.

Competence of Entrepreneur and Business Management

Entrepreneurial competence can be understood as an individual's features, whereas an entrepreneur is an innovative person who likes to take risks for profit maximization in the business endeavor. While defining entrepreneurial competencies in terms of the possession of traits, skills, and knowledge, various authors have tried to establish these entrepreneurial features into key competency regions. Chandler and Jansen (2002) contend that if an organization needs to function effectively in entrepreneurial role, two competencies are required. First is the ability to identify and visualize taking advantage of opportunity and the other in order to determine the firm's creation through fruition, which requires the willingness and capacity to generate intense effort for long, hard hours.

According to Brophy and Kiely (2002), entrepreneurial competency is an approach to identify behaviors that could be associated with effective performance. Although, it has been tough to determine why, in similar situations, some entrepreneurs fail, while others succeed. Man et al. (2002) defines entrepreneurial competencies as higher-level characteristics which includes personality traits, skills and knowledge, which can be seen as the total ability of the entrepreneur at job to perform successfully. Six major competency areas are identified by the Man et al (2002) are Opportunity, Organizing, Strategic, Relationship, Commitment, and Conceptual Competencies. It was seen that the behaviors identified in most other studies could be categorized according to the competency areas defined (Man et al. 2002).

Entrepreneur's Innovative Practice and Business Management

Entrepreneurship innovation is considered among the main characteristic of strategic thinking in business organizations today, because of their complicated effects on designing and executing the different activities of such organizations, especially the marketing activities which constitute the core of all other activities. In this environment, many scholars agree that top management's two most important jobs are marketing and innovation, which are both interconnected and connected (Al-Askari, 2011).

In general, innovation is seen as a main vehicle for a business to profitably enter a market and is a central force for driving competition among companies (Dosi et al., 2007). But is this true for small and big companies at the same time? In this context, Penrose (2009) states that a small company is not only a large company in miniature, so they are supposed to differ in their innovation activities as well (Voigt et al., 2003). Large companies are supposed to have a higher rate of innovativeness than smaller ones e.g. (Mowery & Rosenberg, 1998). This view was partly refuted, as small companies can be as successful in innovative activities as large corporations, smaller companies are much more flexible and adaptable. Therefore, they are supposed to be more innovative, especially when it comes to the creation of new industries. However, as far as technology diffusion and more process-oriented innovations are concerned, large companies are supposed to have an advantage, due to their financial resources and process know-how (Smith, 2006).

Entrepreneur's Managerial Skills and Business Management

The concept of managerial skill comes from the field of psychology, where it is widely used to explain human development across different domains. Fischer and

Bidell (2005) define skill as “a capacity to act in an organized way in a specific context” (p. 5). Boyatzis and Kolb (2005) describe skill as an integrated transaction between the person and the environment . Managerial skills are integrated routines combining knowledge and ability with a perceived environmental domain of application. It is important to consider that skills do not reach their full capacity; but instead, they are gradually developed through practice in a real-life context.

The concept of skill is best suited to describe specific abilities of an entrepreneur relevant to his or her business. Individual entrepreneurial experiences vary and consequently entrepreneurs develop different skills (Kutzhanova et al, 2009). As Smilor believes, entrepreneurial skills include those activities or operational knowledge required to establish or manage an economically successful business (Smilor, 2007).

In the field of entrepreneurial skills, different categories have been studied in various researches. Casimiro (2003) categorizes entrepreneurial skills in four groups including technical skills, social skills, tool skills, and management skills. In this category, management skills include organizing skills, human resources management skills, and financial and commercial activities. In another category, Lichtenstein and Lyons (1996) put entrepreneurial skills in four categories including technical skills managerial skills, entrepreneurial skills, and personal maturity skills. The components of managerial skills in this category include management, marketing, financial, legal, administrative and higher order skills.

Theoretical Foundation

This study is anchored on “The Opportunity-Based theory” by Howard Stevenson and Peter Drucker. A broad conceptual framework for entrepreneurship research is provided by an opportunity-based approach (Fiet, 2002; Shane, 2000). Entrepreneurs do not produce change (as the Schumpeterian Austrian school claims), but rather take advantage of the chances that change (in technology, customer tastes, and so on) provides (Drucker, 1985). “This defines entrepreneur and entrepreneurship,” he continues, “the entrepreneur is always looking for change, responding to it, and exploiting it as an opportunity.” Entrepreneurs, according to Drucker's opportunity construct, are more interested in the possibilities provided by change than in the difficulties. Stevenson (1990) adds resourcefulness to Drucker's opportunity-based model. This conclusion is based on study into the distinctions between entrepreneurial and administrative

management. He believes that the “pursuit of opportunity without respect to existing controlled resources” is at the heart of entrepreneurial management.

Empirical Review

Considering a study conducted by Idogho and Ainabor (2011) which investigated the extent to which the entrepreneurship impacts business in Nigeria. The result of the analysis conducted showed that there is a positive correlation between the variables. It also found that entrepreneurs showed a greater impact on businesses. A study also conducted by Muhammad (2013) on the impact of business and entrepreneurial potential businesses of Pakistan revealed that business and commerce has significant relationship with entrepreneurial skills and potential.

In similar studies on roles of entrepreneurs in proper business management, Christain (2000) studies on business and entrepreneurs in Batak Industries, Kenya found that 65% of the respondents concurred that entrepreneurial roles has great impact on proper business management. Another study on Management and entrepreneurship showed that out of 105 respondents, 39.5% stated management adopts similar features from entrepreneurs for proper functioning and 35% more otherwise.

3. Methodology

Research design

This study employs survey research method, and the survey research method is found useful for this study by the researcher to determine the inter relationship between the identified variable and business management. The population of this study comprises of entrepreneurs and their staff of six small scale business in Agbor, Delta State namely; Tobe Salon (15), De Crown Caterers (15), Dave Bliss Groceries (23), Nwani Minimart (19), Paddy’s Stationaries (16), Chibest Cafe (15) totaling a population of one hundred and three (103). The entire population was used as the sample size of this study, because it is small and can be easily managed and controlled. Hence the sample size of this study is one hundred and three (103) staff of the six selected small scale business in Agbor, Delta State.

For the purpose of this research study, the researcher adopted the use of questionnaire which was administered to the respondents aimed at eliciting information from the respondents on the roles of entrepreneurs in business management. The questionnaire comprised of two sections; Section A entailed the respondents’ personal information, while section B entailed questions in line with

research questions. The five point likert scale response was adopted; ranging from Strongly Agree, Agree, Indifferent, Disagree, Strongly Disagree.

To ensure the reliability of the research instrument, a pilot survey of 30 respondents was carried out. Findings revealed that the response were consistent and accurate, therefore certifying its reliability. In analyzing the data collected, the descriptive statistics was employed as it entailed the use of frequency tables and simple percentages. The research hypotheses were therefore tested using the chi-square statistical tool.

Formula:

$$x^2 = \frac{\sum(O-E)^2}{E}$$

Where

x^2 = Chi-square

O = Observed frequency

E = expected frequency

\sum = Summation

At 5% degree of freedom and level of significance of 0.05, the table of critical value is denoted as $x^2=19.6$. If the calculated value of Chi-Square (x^2) is greater than the table or critical value, we reject null hypothesis and accept alterative hypothesis and vice versa.

That is, Accept H_0 if the calculated value of x^2 is less than the tabulated or critical value, while if the calculated value of x^2 is greater than the tabulated or critical value accept H_0 at 5% significance.

4. Results and Discussion

The questionnaires used were administered to the staff and management of the six selected small-scale businesses in Agbor, Delta State.

Table 4.1: Distribution of Questionnaires

Questionnaires	Frequency	Percentage
Not Returned Questionnaire	5	4.9%
Returned Questionnaire	98	95.1%
Total Distributed Questionnaire	103	100%

Source: Field Survey, 2022

The researcher got 95.1% return rate from the respondents; out of the total 103 distributed questionnaires, 98 copies questionnaires were correctly filled and retrieved, while 5 copies of the questionnaires were not retrieved.

Table 4.2: Sex Distribution of Respondents

Gender	Respondents	Percentage
Male	56	57.2%
Female	42	42.8%
Total	98	100%

Source: Field Survey, 2022

From the above table, 56 respondents representing 57.2% were male, while 42 respondents representing 42.8% were female.

Table 4.3: Age Distribution of Respondents

Age	Respondents	Percentage
Under 21years	15	15.3%
21-30 years	30	30.6%
31-40 years	13	13.3%
40-50 years	20	20.4%
51 years & above	20	20.4%
Total	98	100%

Source: Field Survey, 2022

Table 4.3 above shows that 15 respondents representing 15.3% were under 21years of age, 30 respondents representing 30.6% fell within the age bracket of 21-30years, 13 respondents representing 13.3% were 31-40years, 20 respondents representing 20.4% were 41-50years, while 20 respondents representing 20.4% were 51 years and above.

Table 4.4: Marital Status of the Respondents

Marital Status	Respondents	Percentage
Single	45	45.9%
Married	43	43.9%
Divorced	10	10.2%
Total	98	100%

Source: Field Survey, 2022

From the above table, 45 respondents representing 45.9% were single, 43 respondents representing 43.9% were married, while 10 respondents representing 10.2% were divorced.

Table 4.5: Educational Qualification of Respondents

Educational Qualification	Respondents	Percentage
SSCE	20	20.4%
OND/NCE	35	35.7%
HND/BSC	33	33.7%
MSC/PHD	10	10.2%
Total	98	100%

Source: Field Survey, 2022

From the above table, 20 respondents representing 20.4% were SSCE Holders, 35 respondents representing 35.7% were OND/NCE certificate holders, 33 respondents representing 33.7% were HND/BSC certificate holders, while 10 respondents representing 10.2% had MSC/PHD qualifications.

Table 4.6: Business Experience of the Respondents

Working Experience	Respondents	Percentage
Under 5years	45	45.9%
6-10 years	43	43.9%

Above 11 years	10	10.2%
Total	98	100%

Source: Field Survey, 2022

From the above table 4.6, 45 respondents representing 45.9% had business experience of under 5years, 43 respondents representing 43.9% had 6-10years, while 10 respondents representing 10.2% had above 11years working experience.

Table 4.7: Does Managerial Skills of the Entrepreneur affects business management

Responses	Frequency	Percentage (%)
Strongly Agree	40	40.8%
Agree	28	28.6%
Undecided	15	15.3%
Disagree	10	10.2%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

The table 4.7 above shows that 40 respondents representing 40.8% strongly agreed that managerial skills of the entrepreneur affect business management, 28 respondents representing 28.6% agreed, 15 respondents representing 15.3% were undecided, 10 respondents representing 10.2% disagreed, while 5 respondents representing 5.1% strongly disagreed.

Table 4.8: Does Competencies of the Entrepreneur affect business management

Responses	Frequency	Percentage (%)
Strongly Agree	35	35.7%
Agree	33	33.7%

Undecided	15	15.3%
Disagree	10	10.2%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

The table 4.8 above shows that 35 respondents representing 35.7% strongly agreed that competencies of the entrepreneur affect business management, 33 respondents representing 33.7% agreed, 15 respondents representing 15.3% were undecided, 10 respondents representing 10.2% disagreed, while 5 respondents representing 5.1% strongly disagreed.

Table 4.9: Does Innovative Practices of the Entrepreneur affect business management?

Responses	Frequency	Percentage (%)
Strongly Agree	48	49%
Agree	20	20.4%
Undecided	10	10.2%
Disagree	15	15.3%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

The table 4.9 above shows that 40 respondents representing 40.8% strongly agreed that innovative practices of the entrepreneur affect business management, 20 respondents representing 20.4% agreed, 10 respondents representing 10.2% were undecided, 15 respondents representing 15.3% disagreed, while 5 respondents representing 5.1% strongly disagreed.

Test of Hypothesis

In this study, three (3) hypotheses were empirically tested. This was used to determine the relationship between the variables under study with the degree of freedom of 5% and level of significance of 0.05.

Hypothesis 1

H₀: There is no significant relationship between managerial skills of an entrepreneur and business management

H₁: There is a significant relationship between managerial skills of an entrepreneur and business management

Table 4.7 was used to test this hypothesis

Responses	Frequency	Percentage (%)
Strongly Agree	40	40.8%
Agree	28	28.6%
Undecided	15	15.3%
Disagree	10	10.2%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

To calculate expected frequency (Fe)

$$\text{Expected frequency (Fe)} = \frac{\text{All observed frequencies}}{\text{No of Observation}} = \frac{98}{5} = 19.6$$

Table 4.10: Computation of Chi-Square

Responses	Fo	Fe	Fo-Fe	(Fo-Fe) ²	$\left(\frac{\text{Fo} - \text{Fe}}{\text{Fe}}\right)^2$
Strongly Agree	40	19.6	20.4	416.16	21.23
Agree	28	19.6	8.4	70.56	3.6
Undecided	15	19.6	-4.6	21.16	1.07

Disagree	10	19.6	-8.6	73.96	3.77
Strongly Disagree	5	19.6	-14.6	213.16	10.87
Total	98				40.54

Source: Field Survey, 2022

The analysis in table 4.10 shows that managerial skills of an entrepreneur has a positive relationship with business management, given that $\chi^2_{Cal}=40.54 > \chi^2_{t}=19.6$ which implies that managerial skills of an entrepreneur has a positive relationship with business management.

Hypothesis 2

H₀: There is no significant relationship between competencies of an entrepreneur and business management

H₁: There is a significant relationship between competencies of an entrepreneur and business management

Table 4.8 was used to test this hypothesis

Responses	Frequency	Percentage (%)
Strongly Agree	35	35.7%
Agree	33	33.7%
Undecided	15	15.3%
Disagree	10	10.2%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

To calculate expected frequency (Fe)

$$\text{Expected frequency (Fe)} = \frac{\text{All observed frequencies}}{\text{No of Observation}} = \frac{98}{5} = 19.6$$

Table 4.11: Computation of Chi-Square

Responses	Fo	Fe	Fo-Fe	(Fo-Fe) ²	$\left(\frac{Fo - Fe}{Fe}\right)^2$
Strongly Agree	35	19.6	15.4	237.16	12.1
Agree	33	19.6	13.4	179.56	9.16
Undecided	15	19.6	-4.6	21.16	1.07
Disagree	10	19.6	-8.6	73.96	3.77
Strongly Disagree	5	19.6	-14.6	213.16	10.87
Total	98				36.97

Source: Field Survey, 2022

The analysis in table 4.11 shows that competencies of an entrepreneur has a positive relationship with business management given that $\chi^2_{Cal}=36.97 > \chi^2_{t}=19.6$ which implies that competencies of an entrepreneur has a positive relationship with business management.

Hypothesis 3

H₀: Innovative practices of entrepreneurs do not affect business management

H₁: Innovative practices of entrepreneurs affect business management

Table 4.9 was used to test this hypothesis

Responses	Frequency	Percentage (%)
Strongly Agree	48	49%
Agree	20	20.4%
Undecided	10	10.2%
Disagree	15	15.3%
Strongly Disagree	5	5.1%
Total	98	100%

Source: Field Survey, 2022

To calculate expected frequency (Fe)

$$\text{Expected frequency (Fe)} = \frac{\text{All observed frequencies}}{\text{No of Observation}} = \frac{98}{5} = 19.6$$

Table 4.12: Computation of Chi-Square

Responses	Fo	Fe	Fo-Fe	(Fo-Fe) ²	$\left(\frac{\text{Fo} - \text{Fe}}{\text{Fe}}\right)^2$
Strongly Agree	48	19.6	28.4	806.56	41.15
Agree	20	19.6	0.4	0.16	0.01
Undecided	10	19.6	-8.6	73.96	3.77
Disagree	15	19.6	-4.6	21.16	1.07
Strongly Disagree	5	19.6	-14.6	213.16	10.87
Total	98				66.49

Source: Field Survey, 2022

The analysis in table 4.11 shows that innovative practices of entrepreneurs has a positive relationship with business management given that $\chi^2_{Cal}=66.49 > \chi^2_{19.6}$ which implies that Innovative practices of entrepreneurs affect business management.

Discussion of Findings

From the test of hypothesis, the research study came out with the following:

Table 4.10 shows that managerial skills of the entrepreneur affects business management as was also confirmed with the test of hypothesis I with ($\chi^2_{Cal} = 40.54 > 19.6$) which implies that managerial skills of the entrepreneur affect business management to a large extent. This is in line with Ogbor (2009) assertion that entrepreneur’s managerial skill is paramount factor that affects business management and productivity.

Table 4.11 revealed that there is significant relationship between competencies of the entrepreneur and business management as was also confirmed with the test of

hypothesis II with ($\chi^2 Cal = 36.97 > 19.6$) which implies that the competency of an entrepreneur has positive relationship with business management. The finding was in accordance with Man et al. (2002) view that entrepreneurial competencies has higher level characteristics which includes personality traits, skills and knowledge, which can be seen as the total ability of the entrepreneur at job to perform successfully.

Table 4.12 shows that innovative practice of entrepreneur affects business management with test of hypothesis III at ($\chi^2 Cal = 66.49 > 19.6$), which implies that innovative practice of entrepreneur affect business management and has positive significant relationship to business management. This concurs with Dosi et al., (2007) viewed innovation is as the main vehicle for a business to profitably enter a market, and is a central force for driving competition among companies.

5. Conclusion and Recommendations

This study has acknowledged the importance of entrepreneurship application of management techniques in business management, thereby recognizing the fact that the entrepreneurs possess qualities that is essential in managing any business (Ogbor 2009). Due to the fact that the managerial skills, competencies and innovative practices of entrepreneurs and its impact on the performance and success of many businesses has been strongly emphasized, the importance and necessity of strengthening the management skills of entrepreneurs and providing the essential infrastructures for teaching these skills is prominently evident. Conclusively, the role of entrepreneurs in business management is important as the idea of creating the business because effective management has to do with proper managerial skills, competency and innovation of which an entrepreneur possesses. In as much as the importance of entrepreneurs in business management has been emphasized, there is also the need for adoption of other strategies in business, so as to facilitate productivity and proper management. On this basis, the following recommendations were made:

1. Organizations should inculcate the concept of innovation in their business organization
2. Management should emulate some qualities for an entrepreneurial, so as to combine the management and entrepreneurship, as it would facilitate productivity in business.
3. Instead of discrepancies between managers and entrepreneurs, a coalition approach should be adopted, as it would create a perfect ground for overall management.

References

- Akinyemi (2013). *Managing Organizational Team and Individual Performance and Reward*. Cambridge University press
- Akinyemi (2008). *The concept of recognition and appreciation*, Homewood, 111: Jones Irwin
- Anyiam & Oluigbo (2015). Examining the role of reward on employee performance through reward system, *Journal of Education and Research for Sustainable Development*. Vol. 1 (2) 23-25
- Armstrong, M. (2010). *Armstrong's Handbook of Reward System Practice*. Improving performance through reward. Kogan page publishers
- Armstrong, M. and Murlis (2011) *Reward Management: A handbook of remuneration strategy and practice*: Kogan page publishers
- Asabi & Ibojo (2011). The effect of reward system on employees performance in a manufacturing sector, *International Journal of Business and Social Science* Vol. 3 (2) 233-255
- Beach (2015). *Personnel: The Management of People at Work*, 10th edition New York: Macmillan Publishers Co. Inc
- Chruden J. & Sherman Jr. (2004). *Personnel Management*, 5th edition Cincinnati West Chicago Illinois south western publishers Co
- Flashoyin (2006). *The Effect of the Success of an Organization or a Management*. Master Thesis, University of Pretoria
- Ibrahim, (2016). Reward system as a key management tool that motivates employees behaviour at their workplace. *Journal of Business and Management*. Vol. 2 (3) 335-339
- Jiang et al (2009). Total rewards strategy: A human resources management strategy going with the trend of the time. *International Journal of Business and Management*, 4 (11), 177-184
- Layer (2007). *Job satisfaction, motivation and performance*. Some specific job rewards and job characteristics in Vroom, V. H and Deci, E. L (EDS)
- Osaro (2016). No news is good news. Evaluating new pay system/increasing pay. *Human resources management journal*
- Owolabi (2013) *Theories and practices of business management*; a global view. Express publisher, Lagos
- Porter, L. (2009). Organizational commitment, job satisfaction and turnover among psychiatric technician. *Journal of applied psychology* Vol. 1 (1) 124-131
- Stephen (2015). The effect of compensation and benefits on workplace performance: *Performance Improvement Quarterly* Vol. 1 (2) p. 55-59

Tony (2009) *Theories and principles of promotion*, University of Psychology
Torrington et al (2014). *Theories and principles of motivation*, Springer

SUKUK as a Viable Option Instrument of Financing Infrastructural Development in Nigeria

¹SANI, Abdulrahman Bala PhD, ²NASIR, A. Kaoje PhD & ³BAKARE, Taophic Olarewaju

^{1,2,3}Department of Accounting and Finance, Usmanu Danfodiyo University Sokoto, Nigeria.

Email: ¹sonyaxle9@gmail.com, ²naskaoje@yahoo.com, ³abubackrie@gmail.com

Abstract

Infrastructure deficit is a major source of concern for stakeholders, as bad infrastructure is one of the country's biggest roadblocks to smooth corporate operations and capital inflows. Given the rise of population growth in Nigeria and the consequence need for infrastructure development to enhance the standard of living, it becomes necessary for government to build infrastructures at minimal cost. The present mode of financing infrastructure is usually marred due to high cost of servicing the debt secured to finance the infrastructure deficit in Nigeria. This has call for the best alternatives to finance the capital projects in Nigeria. Sukuk financing is one of the strategies for enhancing growth and development through capital project financing. Using exploratory research design, the study examines sukuk as a panacea for financing infrastructural deficit in Nigeria. The findings revealed that with the recent over-subscription with 346% (₦865bn) of just concluded offered, sukuk can be used to generate needed fund to finance infrastructural deficit in Nigeria. The study therefore concludes that if alternatives source with minimum cost are pursued, Sukuk can be a viable option for funding large-scale infrastructure investments in Nigeria, instead of seeking for external loans, which usually have negative effect on Nigeria economy. The study therefore recommends that government should take immediate steps to increase non-Muslim awareness of sukuk by engaging in more interactions with influential religious organizations, as sukuk might be utilized to fund Nigeria's deficit budget. This will improve capital market intermediation and stimulate the issuance of more sukuk as a reliable source of funding.

Keywords: SUKUK, finance, infrastructure, deficit, development, Nigeria

1. Introduction

Given the rise of population growth in Nigeria and the consequence need for infrastructure development to enhance the standard of living, it becomes necessary for government to build infrastructures at minimal cost. The present mode of financing infrastructure is usually marred due to high cost of servicing the debt secured to finance the infrastructure deficit in Nigeria. It has become a need of necessity for the government to seek alternative financing to meet its infrastructural needs (Oladunjoye, 2014). Poor health facilities, erratic supply of electricity, bad roads, and rail system repair, among other concerns, must be addressed urgently in Nigeria's infrastructure development.

It's against this background the government of Nigeria in 2017 decided to float Sukuk of N100bn which cost less when compared to conventional method of financing infrastructural development. Nigeria has maintained a low commitment to infrastructure spending in its annual budget over the years, despite a significant infrastructural shortfall that has been a stumbling block to economic growth and development as a result of increase in population of the country (Ahmad, 2019). Nigeria's expanding infrastructure deficit is a major source of concern for stakeholders, as bad infrastructure is one of the country's biggest roadblocks to smooth corporate operations and capital inflows. The foreign creditors such as World Bank, Africa Development Bank, International Monetary Fund (IMF) grant loan with stringent condition such as devaluation of the country's currency, removal of subsidy, privatization of public institutions and high interest rate among others. With Sukuk, all that need to be done is specified the projects to be financed by Sukuk which will give the opportunity for the country to leverage its massive natural and people resources in order to achieve broad-based, sustainable, and equitable growth (AbdulKareem & Mahmud, 2020; Rufus, 2017).

Despite the FGN's recent commitment to local productivity, the country's poor road network remains a major stumbling block to achieving the goal. To put things in perspective, terrible road sections are a nationwide phenomenon that adds significantly to the country's rising production costs (Ahmad, 2019).

Therefore, the current study attempts to examine how sukuk financing can be used as best alternative to develop deficit infrastructural development in Nigeria. The paper is a review in nature with special focus on Al-Ijarah sukuk.

2. Literature Review

Sukuk financing is one of the strategies for enhancing growth and development through capital project financing, and in order to facilitate such strategies, particularly in Nigeria. It is critical to gain a thorough understanding of what sukuk are, how they differ from conventional bonds, and what factors influence their issuance. In September 2017, the issue of sukuk began as a strategic endeavor to support infrastructure development, promote financial inclusion, and strengthen the local securities market (Rehman, 2020).

Sukuk has now become the strongest sector in Islamic finance, according to Abdulkareem, Mahmud, AbdulGaniyy and Yazid, (2020), since it is active in the world market and generates a significant cross-border flow of money that can be achieved outside of domestic markets. Sukuk investments demand a guaranteed return with minimal risk and Shariah compliance (Abdulkareem, & Mahmud, 2020; Ahmed, 2014; Ayub, 2007). In addition to the traditional investor base, sukuk provides corporations and governments with access to a liquidity pool (Ayu, Sary, & Nanygolan, 2020; Godlewski, Turk-ariss, & Weill, 2010).

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines sukuk as a certificate of equal value that symbolizes undivided ownership interests in tangible assets, usufructs, and services, or (in the ownership of) the assets of particular projects or special investment activities. Sukuk is a group of financial instruments used to raise funds in both the public and private sectors. They are considered financial instruments for resource mobilization (AAOIFI SS17). It is an Arabic word for "financial certificate." The construction of a sukuk is somehow related to that of a conventional bond: however it is structured according to Shari'a standards (Godlewski, Turk-ariss, & Weill, 2013). As a result, sukuk are referred to as "Islamic Bonds," with the fundamental difference being that the underlying assets' legal and/or beneficial owners are the sukuk holders (Thomson Reuters, 2015).

Historical Development of Sukuk as an Islamic Financial Instrument

Sukuk's evolution over time, from its beginnings in antiquity to the present, may be tracked. Under the rule of Caliph Marwan ibn al-Hakam during the Umayyad Caliphate in the first century AH, the term "sukuk" was first employed in classical literature. Sukuk is defined as a document that entitles its holders to receive commodities or grains when the sukuk matures, more specifically as commodity or grain coupons. When these certificates reached maturity, the holders used to exchange their cash for the sukuk and then receive the goods or grains

(AbdulKareem & Mahmud, 2020). By using this strategy, the underlying assets that the sukuk represented were sold before the holders acquired possession of the commodities or grains.

According to Izakça, the Ottoman Empire (1299-1923) has been financing public debt by issuing identical financial certificates known as *esham* from 1775 (2011). In order to raise money, the state's tax revenue had been securitized; the underlying assets of these certificates were the right to collect taxes (a form of financial right). The International Islamic Fiqh Academy of the Organization of Islamic Cooperation (IFA-OIC) discussed *Muqaradah* bonds in 1986 and 1988. The discussions defined the criteria for obtaining *Muqaradah* certificates, thereby legitimizing the Sukuk concept. After Jordan's Ministry of Awqaf, Islamic Affairs, and Holy Places began the process of issuing *Muqaradah* sukuk in 1977 (IFA-OIC, Resolution No. 30 (5/4), 1988), the IFA-OIC issued a resolution on the subject. Jordan's government had been looking for Shariah-compliant funding for waqf property renovations, and had planned to use earnings from specific projects to back the Sukuk issuance. It had started the process by enacting the *Muqaradah* Bonds Act, which went into effect in 1981 (AbdulKareem, Mahmud, AbdulGaniyy & Yazid, 2020).

Other countries, like Pakistan, Malaysia, and Turkey, attempted to issue Sukuk before 1990, but were unsuccessful. However, due to the prevailing conditions in those countries at the time, these issuances were short-lived (with the exception of Malaysian government issuances). Between 1990 and 2000, the Sukuk market was in its infancy. Stakeholders, including potential issuers and investors, refer to this period as the awareness-building phase (Rehman, 2020). In Malaysia at the time, there was a great deal of interest in the introduction of the Sukuk market, the participants, the concepts, the methods, and the structures of Sukuk.

The emergence of the Sukuk market can be traced back to 2001. In the midst of strong market growth, there has been a surge in the number of Sukuk issues. In terms of the many forms of Shariah contracts employed in its structuring, the underlying assets supporting the issuance, the varieties of Sukuk issued, and advancements in terms of participants, investors, markets, and infrastructures, among other things, Sukuk has evolved as a financial instrument (Sulaiman, 2020).

Development of Sukuk in Nigeria

Nigeria's first Sukuk was for the Osun State. The Osun Sukuk was released in 2013. Ten schools were built using the money from the sale of sukuk: three in Osogbo, the state capital, and one in each of the following communities: Ila-Oragun, Ikurun, Iwo, Ilesa, Ife, Ikire, and Ejigbo. As a result, the fundamental source of income was provided by the schools. According to the Sukuk Ijarah, the Osun State Sukuk Company was founded by the state government as a Special Purpose Vehicle (SPV). The SPV sold each sukuk holder a unique ownership interest in the schools that it owned (Salaudeen, 2021).

The SPV later leased the schools to the state government, collecting money from the deal that was then applied to paying the holders of sukuk. After the lease's seven-year term was up, the state government bought the schools outright, returning the principle as well as the money to the holders of the sukuk.

Sudan and Gambia started issuing sukuk in the late 2000s, mostly as a tool for managing central bank reserves, despite the fact that the Osun Sukuk was unique. Abdurerahman Jamal Yesuf (Islamic Economics and Finance in Sudan: IKRAM Report 4, December 2017). Nigeria's Securities and Exchange Commission (SEC) only developed laws to create a framework for selling and investing in sukuk after the Osun State incident. The implication is that the Osun Sukuk will not be traded on a secondary market. The selling of Osun State sukuk proved to be a game-changer in Nigeria. Following that, Nigeria's federal government issued four sovereign sukuks.

Nigeria is the region's third-largest sukuk issuer, trailing only South Africa and the Ivory Coast. Senegal started things off in 2014 with a 100 billion CFA franc four-year sukuk, and Côte d'Ivoire upped the ante in 2015 and 2016 with sales of 150 billion CFA franc five-year and seven-year sukuks. Meanwhile, in 2014, South Africa sold a six-year, \$500 million sukuk, making it the first African government to do so. Twenty-five (25) important roads throughout the nation will be funded by a N100 billion seven-year sukuk that was auctioned off by the Federal Government of Nigeria (FGN) (Ogunbado, Islam, Sharif, & Ahmed, 2017).

With the first issue's success, the FGN promptly issued a second batch of ₦100 billion 7-year issues in 2018. By this time, the Nigerian Federal Government had established a legal and regulatory framework through the Debt Management Office (DMO). In 2020, the company issued its third sukuk bond, worth ₦150

billion over seven years, which was oversubscribed by ₦519.12 billion. The fourth road sukuk, worth ₦250 billion, was issued in 2021 and received almost ₦865 billion in subscriptions, representing a 346 percent oversubscription over a 10-year period.

Table 1: Overview of Nigeria’s Government Sukuk Issuances

SPV Issuer	Osun Sukuk Company Plc	FGN Roads Sukuk Company 1 Plc
Obligor	State Government of Osun	Federal Government of Nigeria
Structure	Ijarah	Ijarah
Sukuk/Obligor ratings	Bbb+ (Agusto & Co) A (Agusto & Co)	B- (Fitch)
Use of proceeds	The net proceeds of ₦10.97 billion which was utilized for the construction of 23 high schools; construction of 2 middle schools; and construction of 2 elementary schools.	Over the course of four years, the federal government earned ₦1.77 trillion through sukuk bonds. Between 2017; 2018; 2020 and 2021, the bond was issued. Sukuk bonds were issued to fund 97 road projects across six geo-political zone of the country.
Facility tenure	7 years	FGN SUKUK I- 7years
Issuance date	10 October 2013	22 September 2017
Maturity date	10 October 2020	22 September 2024
Amount	₦11.4billion	₦100billion
Rent rate	14.75%	16.47%
Order book	Fully subscribed	Oversubscribed more than 5.8%
FGN SUKUK II- 7YEARS		₦100billion (over-subscribed by 132%)
Rental Rate		15.74%
Issue and Closing dates		Dec. 6 & Dec. 17, 2018
Maturity Date		Dec. 6, 2025
FGN SUKUK III-7YEARS		₦150bn (Oversubscribed by 446%)
Rental rate		11.20%
Issue date & Rental Commencement Date		June 16, 2020
Rental Payment Dates		June 16 & December 16 of each year
Maturity Date		June 16, 2027
FGN SUKUK IV-10YEARS		₦250billion(Oversubscribed by 345%)
Rental rate		12.80%
Issue and Closing dates		Dec. 16 & Dec. 22, 2021
Maturity Date		Dec. 16, 2031

Sources: Prospectus of Osun Sukuk Company Plc, Prospectus of FGN Roads Sukuk Company Plc

Table 1 provides more information on the Osun State Sukuk and the FGN Sukuk. Another sovereign sukuk is apparently in the works; the Nigerian Mortgage Refinance Company (NMRC) intends to issue its first sukuk. The goal is to find lower-cost capital for mortgage refinancing and relieve the ultimate mortgage beneficiaries of their interest-rate burden (Debt Management Office, 2021).

Phases of Sukuk Development

According to AbdulKareem and Mahmud (2020), Sukuk were first issued as commodity/grain coupons in the 1st century AH during the Umayyad Caliphate under the ruler of Caliph Marwan Ibn Al-Hakam, and the holders were entitled to receive commodity/grains when the Sukuk matured. The Ottoman Empire began issuing financial certificates known as "esham" to cover public debt in 1775.

Early Attempts to Develop Sukuk (Pre-1990s): This is the time period when Muqoradah Sukuk was first issued in Jordan in 1978. In 1980, Pakistan began issuing participation period certificates. Malaysia's government first issued Government Investment Issues (GII) in 1983. In 1984, Turkey released revenue-sharing certificates. There was no active market in the pre-1990s era, which is referred to as a period of ad hoc development.

Issuances of Early Sukuks (1990-2000): Shell MDS Malaysia released the first corporate Sukuk in 1990. Small local issuances followed, primarily in Malaysia. It was a time of theory and model development rather than active market development.

Sukuk Market Development (2001-2016): In 2001, Bahrain's national Ijarah (lease) Sukuk was the first ever issued by a sovereign nation. The Malaysian government just released the top-rated international asset-based Ijarah Sukuk in the entire world. More innovative products are currently being created, including retail Sukuk, perpetual Sukuk, subordinated Sukuk, and Sustainable & Responsible Investment (SRI) Sukuk.

Sukuk Market Expansion (2017 to date): Strong investor demand for Sukuk; expansion of the halal business led to the growth of the Sukuk market; additional jurisdictions are jumping on board as issuers; more innovation is expected.

Types and Structures of Sukuk

As the global sukuk market grows, new forms of sukuk are emerging to suit the growing demand, based on the preferences and needs of clients. Mudarabah sukuk, musharakah sukuk, murabahah sukuk, istishna sukuk, ijarah sukuk, and

hybrid sukuk have all been established based on Islamic means of financing. Based on the kind and characteristics of the issued sukuk, AAOIFI has published shariah standards for several types of sukuk, with certain sukuk classed as tradable and others classified as non-tradable. Ijarah sukuk have emerged as the most preferred alternative for financing infrastructure projects among the many types of sukuk:

Mudarabah Sukuk: This agreement enables an entrepreneur to carry out commercial initiatives on a profit-sharing basis, based on previously agreed-upon percentages, between a party who contributes capital and another party (the entrepreneur) (participation or trust financing). Losses are entirely the responsibility of the fund provider in the case of a loss.

Musharakah Sukuk: This contract, which is frequently used in equity financing, is somewhat similar to the Mudarabah contract. Due to the nature of musharakah, both parties are required to contribute money to projects, and in the event of a loss, both parties will suffer losses proportionate to the size of their investments.

Murabahah Sukuk: The Murabahah technique is one of the most widely used mechanisms for Islamic short-term funding (cost-plus financing). It is based on the conventional idea of purchase financing. It is based on a straightforward structure with a set markup that is added to the selling price with a postponed payment. The Islamic financial institution purchases the necessary tools or products from a third party, acquires ownership of them, and then sells them to its client at cost plus a reasonable profit.

Ijarah Sukuk: One of the most common sukuk issuance kinds, especially for project financing, is this one. A lease known as a "ijarah Sukuk" gives the lessee the option to purchase the asset at the conclusion of the term (finance lease). The assets for which the certificates are issued are not included in the balance sheet. The rental rates of return on such sukuk may be fixed or variable depending on the agreement. Investors receive coupon and principal payments from the lease's cash flow, which consists of rental payments and principle repayments. An economical medium- to long-term financing alternative is the ijarah sukuk.

Salam Sukuk: In a Salam Sukuk, the seller commits to provide the customer with a certain product at a later time in exchange for an up-front payment. The asset can be acquired by the buyer by paying for them in advance at a discount, who will then use the proceeds from their sale as financing. The salam sukuk differs

from the istisna'a sukuk in that the assets' purchase price must be fully paid for as well as the delivery date.

Istisna Sukuk: Istisna Sukuks are equal-value certificates that are issued with the goal of generating money. Heavy industrial projects, real estate development, and the purchase of large machinery like turbines, power plants, ships, and aircraft have all benefited from the usage of this type of sukuk (construction and manufacturing financing). The Islamic financial institution finances the manufacturer or contractor during the asset's construction, obtains title to the asset, and, after it is finished, either immediately transfers title to the developer on pre-arranged deferred payment terms or leases the asset to the developer under an Ijarah Sukuk.

Hybrid Sukuk: Hybrid Sukuks are a type of sukuk that combines two or more types of sukuk into a single contract. It has a more complicated structure and necessitates shariah compliance in every way. It provides a more diverse portfolio in a single contract. For example, the assets could include Istisna, Murabah, and Ijarah. The first hybrid sukuk was issued by the Islamic Development Bank (IDB) for \$400 million. The assets were made up of 66% al-ijarah sukuk, 31% murabahah sukuk, and 3% al istisna sukuk.

Features of Sukuk al-Ijarah (Lease)

- i. The contract must provide an agreed-upon rental rate for a specified period of time. By benchmarking it to a meaningful and well-known variable, rentals can be at a constant rate, increasing or decreasing.
- ii. The contract must be backed by a real asset. The asset's value could be equal to only the principal or it could be equal to the principal plus rentals. This means that the Sukuk al-Ijarah contract can be based on assets or even cash flow.
- iii. The leased asset must be of significant value. It is impossible to lease an asset without its usufruct. The creator will be responsible for any obligation arising from the asset's use.
- iv. The originator will be barred from using the asset for anything other than the stated purpose. As a result, the asset must be used for the contract's stated purpose. Otherwise, the contract will be immediately breached.
- v. If the asset is partially damaged or lost, the sukuk al-Ijarah contract will continue to exist for that item. If the complete loss is due to the originator's fault, the originator will be responsible for compensating the Trustee. More

also, the ability to exchange Ijarah Sukuk on the secondary market is one of its most appealing aspects.

- vi. Sukuk redemption will be determined by the type of sukuk. If the Sukuk is asset-backed, the redemption will be limited to the underlying asset's market value. If the Sukuk is asset-backed, however, the redemption will take place at a specified price.

Steps involved in the structuring of Sukuk al-Ijarah

1. Special Purpose Vehicle (SPV) issues Sukuk on behalf of Originator.
2. Investors purchase Sukuk and pay the Issuer the principal amount. Issuer also serves as a trustee in this case.
3. The Originator agrees to sell the asset to the Trustee or Issuer SPV, and the Trustee agrees to buy it by signing a contract for a certain period of time. The trustee pays the originator the selling price, which is equal to the principal amount. The trustee leases the assets back to the originator for a predetermined amount of time under a leasing agreement.
4. The Trustee receives rental payments from the originator of the lease. Each rental payment is the same as the Sukuk contract's periodic distributable amount. The cost plus benefit approach is used to determine this recurring payment.
5. The Investors receive these periodic rental payments from the Issuer SPV.
6. The originator can exercise the call option for the underlying real asset under the buy- back agreement at a pre-determined exercise price at the maturity date. In this case, the trustee will sell the asset to the originator for the amount of the principal plus any interest that has accrued.
7. The trustee receives payment from the originator for the exercise price. The Issuer pays the Investors the dissolution amount. Through an agreement, the Trustee will appoint originator as a Servicing Agent, allowing originator to handle certain responsibilities such as asset maintenance, insurance, and taxes. The term "servicing costs" refers to all charges related with this agreement.
8. All extra rental (servicing charges) payable from the originator shall be put off against the Trustee's obligation at the end of the contract.

Players Involved in Sukuk-al-Ijarah

Originators: Due to the high cost of flotation, only extremely large corporations may be interested in issuing sukuk at first. Rating, documentation, investment banking, and distribution fees all contribute to the high cost of a sukuk issuance. As a result, it is more feasible for the government to issue Sukuk at first. Corporate originators may arrive later, once the Sukuk market has developed and

the floatation cost of Sukuk has decreased. Except for the Islamic Development Bank, most Islamic banks operate as an SPV rather than an Originator (IDB). IDB plays the part of the Originator. The bulk of Islamic banks' asset class discourages them from acting as originators because most of their assets are short-term Murabahah. As a result, issuing the Sukuk would expose the asset and debt to a huge maturity gap. Sukuk is appealing to individuals that have significant tangible assets on their balance sheets and want to grow their finance by securitizing those assets.

Special Purpose Vehicle (SPV): Although Islamic banks are most often used as SPVs, other investment banks and service providers can also be used for underwriting, lead management, and bookkeeping. Many conventional banks have an Islamic Investment banking arm or window to keep up with Islamic banks.

Subscriber and investors of Sukuk: Central banks, private sector Islamic banks, private commercial banks, and non-bank financial institutions are among the Sukuk subscribers. Investors in sukuk certificates are first restricted to institutional players until a substantial number of private investors enter the market. Individual investors may be able to invest in Sukuk after the Sukuk market matures. Depending on the nature and structure of the Sukuk, it can only be traded in the secondary market at its face value or at the market value of the underlying asset. In the Sukuk market, there is no room for hedging or speculating.

Benefit of Sukuk in Nigeria

The advantages of sukuku in Nigeria include the following, according to the Securities and Exchange Commission.

- i. Domestic issuers (sovereigns and companies) can use the Sukuk instrument to get financing from the global market with a large investor base, luring direct foreign investment (DFI).
- ii. Sukuk issuance has the potential to draw domestic investment capital that is invested in accordance with Islamic principles. Additionally, Sukuk are a popular investment option for both traditional and faith-based investors looking for reliable returns on investments that are liquid, diversified, and priced affordably.
- iii. Sukuk fosters financial stability and genuine economic development by ensuring that every financial activity is supported by real economic activity. The transferable nature of Sukuk makes it simple for investors to

liquidate their holdings whenever the need arises, which improves market liquidity. Investing in sukuk is generally risk-free from default.

- iv. Sukuk investment income is tax-free in the futures markets, and Sukuk certificates are acceptable as collateral for interest-free loans. Because it carries no debt, sukuk has competitive pricing when compared to other financing options and is a low-cost financing option.

Sukuk Bond and Conventional Bonds

Sukuk are Islamic financial certificate that are frequently mentioned as Shariah complaints bonds. Both bonds and sukuk are sold to the investors who then get a stream of payments till a set date of maturity. Sukuk are compliant to the shariah which anybody cannot generate money from money which is tantamount to the riba. This is based on the principle that it is improper for any commodity, including money to increase in value simply by lending money to another person. However, Islamic law does not disallow investors from making a profit/return on the capital if the capital provider is willing to share the risk with entrepreneur. The conventional bonds are always interest (riba) based since the payment is fixed (Alam, Hassan, & Haque, 2013; Bhuiyan, Puspa, Saiti, & Ghani, 2020). While conventional bonds and Sukuk are very alike in nature but there are some important differences to be aware of:

- i. Unlike traditional bonds, where investors' interest is not the owner of the underlying assets, sukuk are security-based and their holders have ultimate ownership against the assets.
- ii. For a Sukuk to be valid, it must be supported by real property, which means that the purpose for which the road will be utilized must be stated. Unlike ordinary bonds, which allow investors to purchase straightforward receivables, this is not the case.
- iii. The Sukuk's structure includes a self-regulating mechanism that serves as a safety valve so that, in the event that the issue of being oversubscribed arises, the issuer of the Sukuk is already aware of its limitation and has set aside a certain amount, preventing the total subscription from exceeding the value of the leased asset. In contrast, if a conventional bond receives excessive demand, the issuer's attempt to retain the maximum amount may not turn out to be a responsible move and may even endanger the interests of the investors. Due to their undivided ownership of the asset-backed sukuk, investors will still be able to recover a sizable portion of their investment should a problem arise.

- iv. The investors bear losses in proportion to their investments and receive profits as stated in the prospectus. Bondholders receive returns in the form of fixed interest on their primary investment and suffer no losses.

Challenges facing in Issuance of Sukuk in Nigeria

According to DMO Director of Portfolio Management, the low volume of Sukuk bond issuance was due to certain severe limits on the bond (2021). When a Sukuk is offered, he says, the reason for which it will be used must be specified. Certain routes will be funded, and those roads must be mentioned (named). Because of the restrictions of non-interest financing, you can't just borrow for anything; you have to be specific about what you want to use it for. Other issues facing Sukuk bonds, according to Ogunbado, Islam, Sharif, and Ahmed (2017); Sulaiman, (2020), include:

- i. There is little or no awareness of the economic benefits and infrastructure development of Sukuk; the majority of people do not understand how Sukuk works and, in fact, most people have never heard of it, particularly among non-Muslim religious groups.
- ii. Social discontent is another aspect, as Nigeria is a multi-ethnic nation with varied religious views, and minority interests or fears are among the sources of discontent.
- iii. Its implementation in Nigeria is likewise being misinterpreted as an attempt to Islamize the country. In addition to this, the time frame for the issuance is very short.

3. Methodology

This study employed exploratory research method which involves gathering information (data) and developing ideas about a relatively under researched context. Data were sourced from Prospectus of Osun Sukuk Company Plc, and Prospectus of FGN Roads Sukuk Company Plc National Bureau of Statistics as well as CBN statistical bulletin, it covers between 2013 to 2021.

Nigeria External Debt Profile, Budget Deficit, FGN Sukuk Issuance

Year	Nigeria External Debt	Budget Deficit	Year	FGN Sukuk Issuance
2017	\$14.8billion	\$20,395million	2017	₦100billion
2018	\$21.04billion	\$18,207million	2018	₦100billion
2019	\$23.11billion	\$21,019million	2020	₦150billion
2020	\$28.57billion	\$24,880million	2021	₦250billion

Source: CBN Bulletin, 2021

4. Conclusion and Recommendations

The study indicates that if correct policy alternatives are pursued, Sukuk can be a viable option for funding large-scale infrastructure investments in Nigeria. To this purpose, the government must accelerate infrastructure spending in order to close infrastructure gaps. Nigeria faces major hurdles in mobilizing the resources needed to enhance infrastructure services in order to boost economic growth as a resource-constrained developing country. Nigeria can use Sukuk as a feasible option for raising funds locally to fund infrastructure projects rather than relying on foreign loans to cover budget deficits. As a result, the study comes up with the following policy recommendations:

- i. The government should take immediate steps to increase non-Muslim awareness of sukuk bonds by engaging in more interactions with influential religious organisations, as sukuk bonds might be utilized to fund Nigeria's deficit budget. This will improve capital market intermediation and stimulate the issuance of more sukuk as a reliable source of funding.
- ii. The government, regulatory agencies, and market participants must work together to promote sukuk as an effective financing instrument for Nigeria's infrastructure gaps, rather than relying on foreign loans to cover deficit budgets. This is because Nigeria's total foreign debt is expected to exceed ₦32trillion by the end of 2023, and it is normally expressed in dollars. As the value of the naira declines over time, the country's foreign debt will continue to rise.
- iii. As more Sukuk are issued, the investment class assets will grow, allowing Islamic-conscious individual and institutional investors to diversify their portfolios more effectively.

References

- AbdulKareem, I. A., & Mahmud, M. S. (2020). Infrastructure Project Financing Through Sukuk as an Alternative to Infrastructure Project Financing Through Sukuk as an Alternative to Conventional Bond Financing. *Journal of Management and Operation Research*, 1(19), 1–11.
- AbdulKareem, I. A., Mahmud, S., & AbdulGaniyy, A. (2020). Thematic Review of Sukuk Ijarah Issued in Nigeria: An Opportunity for Economic Development, 2nd AICEIBs Proceeding

- AbdulKareem, I.A, Mahmud, M.S, AbdulGaniyy, A.F, & Yazid, A.S. (2020). Shariah Issues in the Application of Repurchase Undertaking in Sukuk Mudarabah. *International Journal of Business and Technopreneurship*, 10(2), 173-182.
- Accounting and Auditing Organization of Islamic Financial Institutions (2017). *Shari'ah Standards*. Manama, Bahrain: Author.
- Adegboyega, A. J. (2013). Excogitative Deconstruction of the Discourse Dynamics of the Controverted Non-Interest Banking and the Islamising Controversy Issues. *Journal of Islamic Economics , Banking and Finance*, 9(1), 21–38. <https://doi.org/10.12816/0001591>
- Ahmad, Z. (2019, October 27). Nigeria: Zainab Ahmed - U.S.\$3 Billion World Bank Loan to Solve Nigeria's Two Critical Power Problems. *Allafrica*. Retrieved from <https://allafrica.com/stories/201910270126.html>
- Alam, N., Hassan, M. K., & Haque, M. A. (2013). Are Islamic bonds different from conventional bonds? International evidence from capital market tests. *Borsa Istanbul Review*, 13(3), 22–29. doi:10.1016/j. bir.2013.10.006
- Ayu, U., Sary, F., & Nanggolan, Y. A. (2020). Underlying Assets and Sharia Governance Mechanism on Sukuk Yields.
- Ayub, M. (2007). *Understanding Islamic finance*. (John Wiley & Sons Ltd 2007) 380.
- Bahari, N. F., Ahmad, N. W., Shahar, W. S. S., & Othman, N. (2016). A Review on the Potential Growth of Sukuk, Issues and Its Challenges. *International Conference on Economics and Banking, 2016*(2), 395–403. Retrieved from <http://conference.kuis.edu.my/iceb2016/e proceedings/EB040.pdf>
- Bhuiyan, R. A., Puspa, M., Saiti, B., & Ghani, G. M. (2020). Comparative analysis between global sukuk and bond indices: value-at-risk approach. *Journal of Islamic Accounting and Business Research*, 11(6), 1245–1256. <https://doi.org/10.1108/JIABR-02-2018-0019>
- Debt Management Office [DMO] (2018). Actual External Debt Service Payments, January – December, 2017. Retrieved from: <https://www.dmo.gov.ng/debtprofile/> external-debts/debt-service/2379-actualexternal-debt-service-payments-january-to-december-2017/file
- FGN. (2017). *FGN ROADS SUKUK COMPANY 1 PLC/Pursuant to the Local Loans (Registered Stock and Securities) Act, CAP. L17, LFN, 2004*. Abuja.
- Godlewski, C. J., Turk-ariss, R., & Weill, L. (2010). Are Sukuk Really Special ? Evidence from the Malaysian Stock Exchange. *University of Strasbourg*, (APRIL 2010), 1–33.

- Godlewski, C. J., Turk-Ariss, R., & Weill, L. (2013). Do the type of *Sukuk* and choice of shari'a scholar matter? *Journal of Economic Behavior & Organization*, 132(2), 63–76.
- International Islamic Financial Market (2012). *Sukuk Report: A Comprehensive Study of the Global Sukuk Market* (3rd ed.). Manama, Bahrain: Author.
- Ogunbado, A. F., Islam, U., Sharif, S., & Ahmed, U. (2017). Islamic Banking and Finance in Nigeria : Exploration of its Opportunities and. *International Journal of Innovative Knowledge Concepts*, 5(7), 12.
- Oladunjoye, M. O. (2014). Sukuk as a Tool for Infrastructural Development in Nigeria. *Journal of Islamic Banking and Finance*, Vol. 2, (1), 335-344.
- Osun Government (2017). *The Sukuk Bond and Garland for Aregbesola!*, Available at <http://osun.gov.ng/2017/10/14/sukuk-bond-garland-aregbesola/>
- Rehman, A. A. (2020). Islamic finance takes on COVID-19. Retrieved from <https://www.undp.org/content/undp/en/home/blog/2020/islamic-finance-takes-on-covid-19.html>
- Rufus, B. (2017). Critical Infrastructure Decay and Development Crises in Nigeria. *Global Journal of Human-Social Science Political Science*, 17(2), 2–9.
- Salaudeen, J. A. (2021). Sukuk: Potentials for infrastructural development in Nigeria. *International Journal of Banking, Accounting and Finance*, vol. 3 (7), 104-113.
- Sulaiman K. O. (2020). Customer's expectations in Sukuk (Islamic bond) and the question of Islamization of Nigerian. *The Islamic College University Journal*, 55, 23–45.
- Thomson Reuters (2015). *New Rules No Fix for Indonesia's Dollar Fixation*. Available at <https://www.reuters.com/article/indonesia-dollarisation/new-rules-no-fix-for-indonesias-dollar-fixation-idUSL3N0Y924320150519>.

Relationship between Globalization and Organizational Performance in Nestle Nigeria Plc, Lagos State of Nigeria

Dr. Atuma, Okpara

National Open University of Nigeria, 91, Jabi Cadastral Zone, Nnamdi Azikiwe
Express, Jabi, Abuja, Nigeria, Faculty of Management Sciences
(Director, Gusau Study Centre, NOUN, Zamfara State)
Email; ogatuma@noun.edu.ng, Phone number: 08034337715

Abstract

Arising from the fact that globalization is gaining momentum in the world economy, this study considers the relationship between globalization and organizational performance in Nestle Plc. Lagos state. The sample of the study consists of 204 respondents drawn from the employees and managers of Nestle Nigeria Plc, within Lagos State. The convenience sampling method was used in selecting participants for the study. This method was found appropriate because it gives the researcher the opportunity to use his discretion or judgment in selecting the participants of the study. The five-point Likert Scale questionnaire instrument was used for data collection.. The sets of the questionnaire were then distributed to both the managers and the employees of the company. The sets of the questionnaire received were tabulated and presented using tables and frequencies and the stated hypotheses were tested using the spearman rank correlation analysis. The findings of the study show that there were positive and significant relationship between technology, branding, product standardization and communication and organizational performance in Nestle Nigeria Plc. Lagos State. Based on the outcomes of the research effort, the study concludes that globalization improves organizational performance. Arising from the outcomes and conclusions of the research work, the researcher recommends that Nestle Nigeria Plc should play key roles in globalization by improving on its technology, branding, product standardization and communication system, as these will propel company to be more effective and efficient and hence provides quality products that customers cherished at a reduced cost.

Keywords: *Globalization, Organizational performance, Technology, Branding, Product Standardization & Communication*

1. Introduction

Globalization is seen as means of encouraging organizational performance. It has presented a lot of opportunities for many organizations. Organizations today are working at a competitive environment and as such, there is need for them to attain global standards so its overall performance would be sustained for it to survive. One of the most important components that help human and financial resources is globalization. Every organization practices some standards which help in defining the performance in their business environment.

Globalization has thus become a common feature of world economics which effect is felt by governments, firms and individuals the world over. While organizations in developed countries have embraced Globalization in their business endeavors with its subsequent advantages, however it is doubtful if organizations in developing countries have fully integrated globalization with its attending benefits into their business operations. Pangestu (2001) posits that developing economies must balance globalization's benefits and costs. Increased competition can lead to better distribution and productivity, but benefits are not shared equally, because some sectors or regions grow faster than others.

Globalization is seen as the extent of improving social-cultural connections, political, economic, financial and market interconnections. Globalization represents the interconnections of global social relations among the international communities far-away into one single market. It is a process that encourages political, economic, cultural unifications in the global arena. This unification positively influences the external business environment such as the political, cultural, economic progress and indeed societies in the world.

In a study, Klein, (2000), concludes that Globalization has come with numerous positive effects. Although there are few literatures available which suggest that studies have been carried on the relationship between globalization and organizational performance in Nigeria. For example Ozuoma, Onyemaechi and Ikpeazu (2017) investigated the effect of globalization on the Nigerian financial sector and to ascertain the contribution of globalization on the Nigerian stock exchange and commercial banks. Ezeh (2020) examined the impact of Globalization on organizational performance in selected Manufacturing Organizations in South East Nigeria, also Ogbonna, Adudu and Thomas (2021) studied Globalization and Organizational Performance in Nigerian Deposit Money Banks. Similarly, Oluyemisi (2012) carried out a study on effect of globalization on Performance of the Nigerian Banking Industry. As shown above,

it could be observed that many studies have been carried out on globalization and organizational performance in different segments of the economy. However, there are few evidences to show that such studies on globalization were done on the food and beverage Industry in Nigeria. Moreover most studies in Nigeria and in developing countries were limited to globalization external dimensions such as economic, political, and social cultural dimensions. Therefore, the study departs from other studies by emphasizing on other globalization dimensions such as technology, branding, standardization and communications, which serve as gap to fill in the literature. Therefore, the main objective of this research work is to examine the relationship between globalization and organizational performance in Nestle, Nigeria Plc. However, the specific objectives of the study are: to investigate the relationships between technology and organizational performance, branding and organizational performance, product standardization and organizational performance, as well as communication and organizational performance in Nestle, Nigeria Plc, Lagos State, Nigeria . Based on the above stated objectives, the following hypotheses were drawn and investigated in this study:

H₀: There is no significant relationship between technology and organizational performance in Nestle Nigeria Plc, Lagos State

H₀: There is no significant relationship between branding and organizational performance in Nestle, Nigeria Plc, Lagos State

H₀: There is no significant relationship between product standardization and organizational performance in Nestle Plc, Lagos State of Nigeria

H₀: There is no significant relationship between communication and organizational performance in Nestle Nigeria Plc. Lagos state.

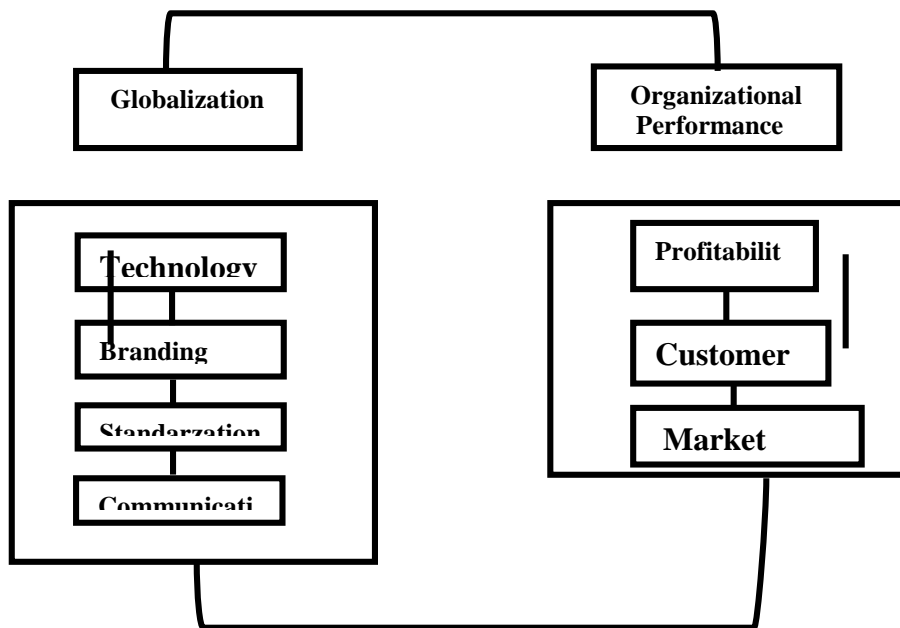
This study would be significant to the management of Nestle Nigeria Plc and indeed other food and beverage companies in Nigeria. The study would guide policy makers to formulate policies that would help such companies and enhance their performance in the face of globalization. Moreover, it adds to the existing knowledge in the current literature on globalization and organizational performance.

In the rest of this paper, the researcher discusses in detail the literature review, methodology of the study, the analysis of the data and lastly the findings, conclusions and recommendations of the study are discussed.

2. Literature Review

Conceptual Framework

Conceptual framework showing the effect of globalization on organizational performance in Nestle Nigeria Plc. Lagos State, Nigeria



Source: Conceptualized by the Author 2021

Conceptual definitions

Globalization

Many academic researchers and other professionals have attempted, to an extent with success, to define the term globalization in their own ways, but without an agreed definition of the term. In this paper, the study attempts to provide some definitions by different authors and offers its own definition of the term. According to Faridi and Afrif (2012), Globalization refers to the process of integration across societies and economies. The phenomenon encompasses the

flow of products, goods and services, labor, ideas and information moving across national borders.

Nayef (2006) define Globalization “as a process that incorporates the causes, course, and consequences of transcontinental and international cultural grouping of human and non-human activities”. According to Marginson (2006) ‘Globalization’ is the improvement of the international or pan-European domains of action. It has positively influenced countries around the world. Ezeh (2020) noted that Globalization refers to the expansion and expanding of connections of inner economies into a global market for goods and services, and specifically capital. It denotes increasing economic connections of countries globally through the growing capacity and variability of international dealings in goods and services and worldwide capital. Iheriohanma (2008) posits that globalization is a process that links economic dependence, political and social and cultural relations across the world. Oyedele, Kareem and Akambi, (2016) define globalization as the economic integration and interdependence of national economies across the globe, through a rapid increase in cross-border movement of goods, services, technology, financial and human resources, facilitated by economic liberalization and information technology. According to Mohammad (2005) globalization is a process of rapid economic, cultural, and institutional integration among countries. Globalization is primarily an economic process of interaction and integration that is associated with social and cultural aspects. According to Rajnoha, Dobrovič & Slivková (2014) Globalization is a spontaneous, uncontrolled process involving still more intensive integration of countries of the world into a single global economic system. This concept should also include a number of other political, social, cultural, security and other relations directly related to globalization.

In this study the researcher defines Globalization as a unifying process of improving business performance worldwide through effective technological application, effective communication, improve standards and branding.

Technology

MacKenzie and Wajcman (1985) define technology as the integration of the physical objects or artifacts, the process of making the objects and the meaning associated with the physical objects. According to Mascus (2003) technology is defined as ‘the information necessary to achieve a certain production outcome from a particular means of combining or processing selected inputs which include production processes, intra-firm organizational structures, management techniques, and means of finance, marketing methods or any of its

combination'. Tepstra and David (1985) suggest that technology as a cultural system is concerned with the relationships between humans and their environment. From the systems perspective Afriyie (1988) defines technology as encompassing: 1) the basic knowledge sub-system; 2) the technical support system (software); and 3) the capital-embodied technology (hardware). This perspective views that technology recognizes the need to identify the different elements of a particular country's technology that are complementary and mutually reinforcing.

Branding

According to Tanya (2015), a brand can be defined as a set of tangible and intangible attributes designed to create awareness and identity, and to build the reputation of a product, service, person, place, or organization. The objective of branding strategy is to create brands that are differentiated from the competition, thereby reducing the number of substitutes in the marketplace. Branding is the process of giving a meaning to specific organization, company, products or services by creating and shaping a brand in consumers' minds. It is a strategy designed by organizations to help people to quickly identify and experience their brand, and give them a reason to choose their products over the competition's, by clarifying what this particular brand is and is not.

Standardization

Standardization is the process of creating protocols to guide the creation of a good or service based on the consensus of all the relevant parties in the industry. The standards ensure that goods or services produced in a specific industry come with consistent quality and are equivalent to other comparable products or services in the same industry. Furthermore, standards cover product and even more process characteristics, which is less the case for patents (Cohen et al. 2000). Finally, standards address not only innovative technological aspects, but more and more services (Blind 2006a, Wakke et al. 2015). Furthermore, standards are an element of the national regulatory framework (e.g. European Commission 2016) and consequently technical barriers to trade (TBT) in international trade in case of heterogeneous national solutions, e.g. a crucial challenge to the negotiations about the Transatlantic Trade and Investment Partnership TTIP (Egan & Pelkmans 2015)

Communication

Lunenberg (2010) posits that communication has its root in Latin from the word 'communis'. However, he asserts that it means 'common', which suggests that there must be a common understanding of the message between the source and

the receiver concerning the message being communicated. Giffin and Patten (1976) define communication as the process of creating meaning as well as ascribing it. It is the exchange of ideas and interaction among group member. Daniel (2016) asserts that it is when feedback, which involves the receiver responding to the signal by initiating another circle of meaning exchange, it has been sent to the sender (source) that the communication process has gone full circle and become complete. Oxford Advanced Learner's Dictionary of Current English (2004) defines communication as the activity or process of expressing ideas and feelings or of giving people information.

Organizational Performance

According to Jones and George (2006), organizational performance is a measure of how efficiently and effectively managers use resources to satisfy customers and achieve organizational goals. Daft (2000) posits that organizational performance is the process in which an organization attains its goals through effective and efficient use of resources. It will be necessary to throw more light on Daft's definition at this point. Effective is the process whereby an organization is able to produce the desired goods or services, which customers desire and are ready to patronize the organization. While efficient is the ability of an organization to achieve its goal at a reduced cost and time. An effective organization performs credibly well by delivering its products and services to its customers. While an efficient organization is able to reduced costs and time which is likely to result into profitability and return on investment. Effectiveness is often measured as the quality of the desired result (Frøkjær, Hertzum & Hornbæk, 2000). According to Armstrong (2009), Performance is "a means of getting better results from a whole organization, or teams and individuals within an agreed framework of planned goals. Hameed and Anwar, (2017) posit that Organizational performance is an organization's ability to accomplishing standards and sustainability, profitability, pleasing the group, and willingness to deal with environmental changes. Adudu, Asenge, and Torough,(2020) define Organizational performance as how an enterprise is doing in terms of the level of its profit, market share and product quality in relation to other enterprises in the same industry. According to Anwar & Ghafoor (2017) the various standards used in measuring Organizational performance including sustainability, profitability, pleasing the group, and willingness to deal with environmental changes.

In this study, organizational performance is defined as the ability of an organization to produce the desired output that customers are willing to buy at a reduced cost. An organization is said to have performed when it produces the right goods or services through its members and at the same time improves the

profitability, return on investment and market share of the organization. Organizational performance is measured using profitability, customer satisfaction and market share.

Profitability

According to Adudu, Asenge and Torough (2020) profitability is the capability of a company to make sustainable profit. It is a measure of how successful a business has improved its operations over a period of time. Net profit is total revenues minus expenses during the accounting year. The firm is profitable if its total expenses are less than total revenues. Davis, Schoorman, Mayer and Tan (2000) posit that Profitability is an important financial indicator of the efficiency of an organization's ability to increase sales while keeping the variable costs down. They maintained that the net profit or income is an indicator of the firm's profitable operations, which is the surplus of total revenues over total expenses during the accounting year.

Customer Satisfaction

According to Chang, Wang and Yang (2009) customer satisfaction is the psychological reaction of the customer with respect to his or her prior experience with the comparison between expected and perceived performance. The literature identifies two types of satisfactions: transactional and cumulative satisfaction' (Spiteri & Dion, 2004). Transactional C.S. can be defined as a specific purchase evaluation upon its implementation (cf. Oliver, 1993) and it is short-term, based on the evaluation of a single purchase.

Cumulative C.S. may be defined as the overall purchasing experience (cf. Fornell, 1992; Johnson & Fornell, 1991). It can be seen as long-term, based on repeated purchases and on overall customer experience with the product, including the evaluation of the selling or supplying party, meaning not only the manufacturer, but also the retailer.

Market share

According to Farris, Neil, Phillip and David (2010) market share is a key indicator of market competitiveness, i.e., how well a firm is doing against its competitors. Firms with market shares below a certain level may not be viable. Kennard (2020) posits that within a firm's product line, market share trends for individual products are considered early indicators of future opportunities or problems. Market share competition drives companies to support climate change policies with a view to imposing costs on domestic competitors.

Empirical Review

According to Faridi and Afrif (2012) Globalization is useful in improving the economic conditions of a nation in both developed and developing countries. In a study in the Nigeria Money Banks on the impact of globalization on organizational performance by Ogbonna, Adudu, and Thomas, (2021), the outcomes of the study showed that globalization positively and significantly improves organizational performance. Important aspects of globalization considered in the study include economic, cultural, social, technology and political. Adei (2004) posits that technology is useful in improving international social environment. Ezeh (2020) states that information technology plays an important role in globalization. He further argues that globalization is informational. Wani (2011) found that globalization is a double-edged sword that has impacted both positively and negatively on the Nigerian cultures. Georgiou (2011) found a positive impact of globalization (as measured by total trade to GDP) on company profitability (as measured by net return on equity) for Europe. Fadzlan and Fakurudin (2016) in their studies found that banks operating from the relatively more economically globalized countries tend to perform better, while banks headquartered in countries with greater social and political globalizations tend to exhibit lower profitability levels. According to Stefko and Sojka (2015), Globalization has its positive and negative effects on the macroeconomic level and on the level of the individual companies. Undoubtedly, it contributes to increased efficiency, better financial remuneration of middle and lower management, as well as ordinary employees. Among the negative aspects of the globalization process, however are deterioration of employees and relations between senior management and lower and middle management. Akinola (2012) in his study found that globalization improves the performance of Nigeria Banks, as measured by profit before tax. Karadagli (2012) findings indicate that globalization improves firm performance and value though the result for economic globalization is insignificant at conventional levels. The findings also reveal that the most promising dimension of globalization seems to be the political globalization and the social globalization seems to provide another important source of improved firm performance. Torelli et al, (2017) show how consumer feelings of cultural distinctiveness in foreign locations can lead to consumer preferences for more culturally aligned brands, even if those brands may be deficient in other ways. In a desire to connect with home and not feel as distinctive, consumers broaden how they actually think of “home.” By expanding their in-group boundaries in that way, they exhibit preferences to include culturally related brands that are merely similar in geographic proximity or socio-

historical or cultural roots. Shen and Sengupta (2018) found that when consumers communicate about brands to others by speaking versus writing, they develop deeper self-brand connections. Rubio, Villasenor and Oubina (2015) in their study, found that the brand, at least in sales of food products, has an impact on Customer Satisfaction.

3. Research Methods

Research design

This study adopts the survey research design. This design aims at investigating the conditions and relationships that exists between globalization and organizational effectiveness in Nestle Nigeria Plc, Lagos State, Nigeria. This method was adopted in that it suits the nature of the study, it also saves time and cost as the data for the study were obtained just once for the analysis.

Population of the Study

The population of the study is five hundred (500) which is the total number of employees and managers of Nestle Nigeria Plc in Lagos State.

Sampling and Sample Size

The study adopted a convenient sampling technique. This method of sampling was adopted because it is easier for the researcher to reach out to the respondents. To determine the sample size, YemaneTaro formula for determining sampling size was adopted.

$$n = \frac{N}{1 + N(0.05)^2}$$

Where:

n = Sample Size

N = Population of the study

0.05 = Confidence level.

Computing the population size into the formula

$$\begin{aligned} &= \frac{500}{1 + 500(0.0025)} \\ &= \frac{500}{2.25} \\ n &= 222 \end{aligned}$$

Sample size is **222**

Methods of Data Collection

The data from this research work were obtained through a questionnaire

instrument found to be reliable to enable the researcher measure and evaluate the research hypotheses/variables. The questionnaire administered comprises of two Part of A and B. Part A provide items of demographic data like age, gender, qualification and staff position in the organization with no score attached to it and which was not considered for analysis. Part B explored the knowledge and perceptions of respondents on the relationship between the globalization and organizational performance. Section B is measured on five-point Likert scales ranging from strongly agree to strongly disagree. The sets of the questionnaire were administered to the respondents by the researcher himself and some research assistants who are students of National Open University of Nigeria in Lagos State.

Validity and Reliability of the Research Instruments

To ensure reliability of the questionnaire instrument the researcher adopted a test-retest approach. To achieve this, some sets of the questionnaire were distributed to a small group of the employees of Nestle Nigeria Plc for them to react for two occasions and when their responded were found to be consistent in the two occasions, the researcher accepts the research instrument to be reliable. More over the questionnaire was subjected to the Cronbach's alpha test analysis. The analysis of the test proved that all the items were within the range of 0.7 and above which is proved that the questionnaire is reliable. The table below summaries the result of the test

Table 1: Cronbach's alpha Test

Variable	Alpha
Technology	0.7419
Branding	0.7648
Standardization	0.8521
Communication	0.7864

Field Survey, 2021; Computed with SPSS 24

In this study, the levels of alpha values were all above the 0.70, which is the accepted level, suggesting a high level of internal consistency.

4. Data Presentation and Analysis

Data Analysis and Results

A total of 222 were distributed to the respondents, out of which 204 sets of the questionnaire were returned back and used for the analysis. Below is the testing of the hypotheses.

Test of Hypotheses

The hypotheses stated were subjected to testing using regression analysis. The tests and the results are presented below.

Hypotheses One

H₀: There is no significant relationship between technology and organizational performance in Nestle Nigeria Plc, Lagos State

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	44.873	31.105		1.425	.591
	Technology	.745	.8571	.236	.743	.004

The outcome of data analysis performed above shows that a moderate relationship between Technology and Organizational performance in Nestle Nigeria Plc, Lagos State ($r = .591$, $P = .004 < .005$).

Hypotheses Two

H₀: There is no significant relationship between branding and organizational performance in Nestle, Nigeria Plc, Lagos State

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	45.483	24.096		1.642	.614
	Branding	.659	.846	.263	.694	.004

The outcome of data analysis performed above shows that a positive and significant relationship between branding and Organizational performance in Nestle Nigeria Plc, Lagos State ($r = .614$ and $P = .004 < .005$).

Hypotheses Three

H₀: There is no significant relationship between Standardization and organizational performance in Nestle Nigeria Plc, Lagos State

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	72.453	38.557		1.879	.754
	Standardization	.504	1.064	.190	.474	.004

The outcome of data analysis performed above shows that a positive and significant relationship between standardization and Organizational performance in Nestle Nigeria Plc, Lagos State ($r = .754$ and $P = .004 < .005$)

Hypotheses Four

Ho; There is no significant relationship between communication and organizational performance in Nestle, Nigeria Plc, Lagos State

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	28.165	736.137		1.689	.735
	Communication	.842	1.274	.185	.542	.003

The outcome of data analysis performed above shows that a positive and significant relationship between communication and Organizational performance in Nestle Nigeria Plc, Lagos State. ($r = .735$ and $P = .003 < .005$)

Discussion of Findings

The findings of the study have shown that there were positive and significant relationships between the four dimensions of globalization namely technology, branding, standardization and communication and organizational performance in Nestle Nigeria Plc, Lagos State. The implications of this finding are that the more Nestle Plc Nigeria limited adopts up to date technology, rebrand these products, emphasis more on standards and communicates effectively, the more likely that the company will achieve its objectives of producing world class products that

will meet customers satisfaction in the face of the ongoing globalization worldwide and as well improves on the profitability of the organization.

In the first hypothesis which was on the relationship between technology and organization performance, the test of the hypothesis shows that there was a positive and significant relationship between technology and organizational performance. The finding is in order, in that globalization entails meeting the world market where ever a company may be located. To achieve this effectively and be successful a company needs an up to date technology. This finding is in line with those of Ogbonna, Adudu and Thomas (2021), who found that technological globalization has positive and significant effect on organizational performance in Nigerian deposit money banks. Akinola (2012) in his study found that globalization improves the performance of Nigeria Banks as measured by profit before tax.

In the second hypothesis, the study also established that there is a positive and significant relationship between branding and organizational performance. Again, this finding is justified in that to stand out in the market place, a company must have a brand name that protects its image in the market place. These finding supports previous recent findings for example, Rubio, Villasenor and Oubina (2015) in their study, found that the brand, at least in sales of food products, has an impact on Customer Satisfaction. The result of the third hypothesis further proved that there is a positive and significant relationship between standardization and organizational performance. To be successful in the market place, a company must maintain a clear standard that is unique and different from other competitors. . The findings correspond with the findings of Chen (2008), Chong (2007), and Watson and Wyatt (2010), that effective communication can enhance the performance of organizations.

5. Conclusions and Recommendations

Based on the findings of the study, the study concludes that globalization influences organizational performance. It therefore follows that the more a company is fully engaged in globalization the more likely that it become more effective in achieving its goals. Specifically, the more a country uses state of the art technology in its operations, the more it becomes more effective, as this will enable it to produce desired goods or services that will attract more customers. Also, if a company has a good brand, it will keep on attracting more customers to patronize its products or services provided it maintains a good standard and communicates clearly. Based on the findings of this study, the following recommendations are made:

1. Nestle Nigeria Plc should continue to improve on its technology by providing cute edge and up to date technology that will aid its production capacity
2. Nestle Nigeria Plc should improve on qualities of its products by ensuring clear quality control measures, and at the same time rebrand its products to protect its image in the market place.
3. Nestle Nigeria Plc should maintain standards by providing world class products to its numerous customers.
4. Moreover, the company must improve on its communication system by improving on its effective communication systems both in ward and out ward

References

- Adei, S. (2004). Impact of Globalization on Management: The African Perspective: Management in Nigeria. *Journal of Nigerian Institute of Management*, 39/40(1/2), P59-76
- Adudu, C.A; Asenge, E.L & Torough, S.M (2020). Outsourcing Strategies and Organizational Performance of Deposits Money Banks (DMBs) in Nigeria. *Global Scientific Journal: Vol. 8(3) pp. 2484-2505.*
- Afriyie, K. (1988). A Technology Transfer Methodology for Developing Joint Production Strategies in Varying Systems, In F. J. Contractor and P. Lorange (Eds.). *Cooperative Strategies in International Business*, 81-95.
- Akinola, G. O. (2012). Effect of Globalization on Performance in the Nigerian Banking Industry. *International Journal of Management and Marketing Research Vol.1, No.5, pp.79-94.*
- Anwar, K. & Hameed, A. A. (2017). Analyzing the Relationship between Intellectual Capital and Organizational Performance: A Study of Selected Private Banks in Kurdistan. *International Journal of Social Sciences & Educational Studies*, 4(4), pp.39-47
- Anwar, K., & Ghafoor, C. (2017). Knowledge management and organizational performance: A study of private universities in Kurdistan. *International Journal of Social Sciences & Educational Studies*, 4(2), 53-71
- Armstrong, M. (2009). *Armstrong's Handbook of Human Resource Management Practice*. London: Kogan Page.
- Blind, K. (2006a): A Taxonomy of Standards in the Service Sector, in: *The Service Industries Journal* 26(4), 397-420
- Chang, H. H., Wang, Y. H, & Yang, W.-Y. (2009). The impact of e-service quality, customer satisfaction and loyalty on e-marketing: Moderating effect of perceived value. *Journal of Total Quality Management*, 20, 423–443
- Daft, R. L. (2000). *Organization, Theory and Design* (7th ed.). Thomson Learning USA: South-Western College Publishing.

- Daniel, I.O.A. (2013). Communication as socio-cultural meaning exchange. The example of Richard Wright's Black Boy. *International Journal of Applied Linguistics and English Literature*, 2,5:173-17
- Davis. J. H, Schoorman, F. D. Mayer R.C. & Tan, H. (2000). *The trusted general manager and Business unit*. Delhi: New Age International Publishers.
- Egan, N. & J. Pelkmans (2015): TTIP's Hard Core: Technical barriers to trade and standards, Paper No. 13 in the CEPS-CTR project 'TTIP in the Balance' and CEPS Special Report No. 117 / August 2015.
- Ezeh S.I.M. (2020). Impact of Globalization on organizational performance in selected Manufacturing Organizations in South East Nigeria, *International Journal of Research in Management Fields*. Volume 4 Issue 6. P. 32-50
- Fadzlan, S & Fakrudin, K (2016). The impact of globalization on the performance of Banks in South Africa: *Review of International Business and Strategy* 26(4):517-542.
- Faridi, M.Z. & Arif, A. Globalization and Saving Behavior of Pakistan: An Empirical Analysis, *Pakistan Journal of Social Sciences* vol. 32 No. 1 P 77-91
- Farris, P. W.; Neil T. B; Phillip E. P; & David J. R (2010). *Marketing Metrics: The Definitive Guide to Measuring Marketing Performance*. Upper Saddle River, New Jersey: Pearson Inc.
- Fornell, C. (1992). A national customer satisfaction barometer: The Swedish experience. *The Journal of Marketing*, 56, 6–21.
- Frøkjær, E. Hertzum, M. & Hornbæk, K. (2000). Measuring usability,” in Proceedings of the SIGCHI conference on Human factors in computing systems - CHI '00. ACM Press,2000, pp. 345–352
- Georgiou, M. N. (2011). Globalization and ROE: A Panel Data Empirical Analysis for Europe (1999 – 2009)” SSRN working papers number 1955200.
- Giffin, K. & B. R. Patten. (1976). *Basic Readings in Interpersonal Communication: Theory and application*. New York: Harper & Row.
- Karadagli E. C. (2012), Effects of Globalization on Firm Performance in Emerging Markets: Evidence from emerging-7 Countries. *Asian Economic and Financial Review* 2(7):858-865
- Iheriohanma, E.B.J.. (2008). “The Challenges of Globalization and Poverty in the Third World: A Sociological Discourse of Nigeria's Situation.” In J.O Onwuka, (ed) *The Third World in Sociological Perspective*. Okigwe: FERF-FASMEN. pp 241-255

- Johnson, M. D. & Fornell, C. (1991). Framework for comparing customer satisfaction across individuals and product categories. *Journal of Economic Psychology*, 12, 267–286
- Jones G. R. & George J.M. (2006). *Contemporary Management*, Boston, McGraw-Hill Irwin
- Kennard, A. (2020). The Enemy of My Enemy: When Firms Support Climate Change Regulation". *International Organization*. 74 (2): 187–221.
- Lunenberg, F.C. (2010). Communication: The process, barriers and improving effectiveness. *Schooling*, 1.1:1-1.
- MacKenzie, D., & Wajcman, J. (1985). *The Social Shaping of Technology: How the Refrigerator Got Its Hum*, Milton Keynes: Open University Press
- Marginson, S. (2006). Notes on Globalization and Higher Education, With Some Reference to the Case of Australia. Monash Centre for Research in International Education, Monash University, Australia, July 1, 2006, Centre for the Study of Higher Education, University of Melbourne.
- Marion (2022), Explore branding strategies, concepts and case studies, *The Branding Journal*,
- Maskus, K. E. (2003). Encouraging International Technology Transfer. UNCTA D/ICTSD Capacity Building Project. On Intellectual Property Rights and Sustainable Development.
- Mohammad, A. A. (2005). Globalization and Industrial Relations of China, India, and South Korea: An Argument for Divergence University of Rhode Island.
- Nayef R.F. & Stoudmann, G. (2006) “Definitions of Globalization: A Comprehensive Overview and A Proposed Definition”, Geneva Centre for Security Policy.
- Ogbonna, G. Adudu C. Thomas, G.S. (2021), Globalization and Organizational Performance in Nigerian Deposit Money Banks. *International Journal of Research and Innovation in Social Science (IJRISS) |Volume V, Issue VII, July P.801-813*
- Oliver, R. L. (1993). A conceptual model of service quality and service satisfaction: Compatible goals, different concepts. *Journal of Advances in Services Marketing and Management*, 2, 65–85
- Oluyemisi A. G (2012). Effect of Globalization on Performance in the Nigerian Banking Industry. *International Journal of Management and Marketing Research*, Vol. 5 (1) pp. 79-94
- Oyedele, O.; Kareem, T.S & Akambi, F.K (2016). Globalization and Small and Medium Enterprises Development in Nigeria: Evidence from Lagos, *Nigeria: International Journal of Economics and Business Management*. Vol. 2 (4) pp22-29.

- Oxford Advanced Learner's Dictionary of Current English. 2004. Oxford: Oxford University Press
- Ozuomba C. N, Onyemaechi U, Ikpeazu N (2017). Effect of Globalization on Nigerian Financial Sector: *International Journal of Management Excellence*. Vol. 8(3). P. 32 -46[33].
- Pangestu, M. (2001). The Social Impact of Globalization in Southeast Asia, OECD Development Centre Working Papers, No. 187, OECD Publishing, Paris
- Rubio, N., Villasenor, N., & Oubina, J. (2015). Consumer identification with store brands: Differences between consumers according to their brand loyalty. *BRQ Business Research Quarterly*, 18, 111–126.
- Shen H. Sengupta J. (2018). Word of Mouth versus Word of Mouse: Speaking about a Brand Connects You to It More than Writing Does. *Journal of Consumer Research* (45) 3 5-614
- Spiteri, J. M. & Dion, P. A. (2004). Customer value, overall satisfaction, end-user loyalty, and market performance in detail intensive industries. *Journal of Industrial Marketing Management*, 33, 675–687
- Tanya S.B. (2015). *Wiley Encyclopedia of Management*, University of Malta, John Wily & Sons Ltd
- Tepstra, V., & David, K. (1985). *The Cultural Environment of International Business*, Cincinnati, OH: Southwestern Publishing
- Torelli C. J. Ahluwalia R. C, Shirley Y. Y. Olson N. J. Stoner Jennifer L. (2017) Redefining How Cultural Distinctiveness Affects the Malleability of In-Group Boundaries and Brand Preferences. *Journal of Consumer Research* (4)1 44-61
- Wani, H. A (2011) Impact of Globalization on World Culture: *Research Journal of Humanities and Social Sciences*; 2(2): 33-39
- Wilson, M, Wnuk, K. Silvander, J. & Gorschek, J. (2018), A Literature Review on the Effectiveness and Efficiency of Business Modeling; *e-information, software Engineering journal*, volume 12, issue1, p. 265-302
- Zheng, W. Yang, B. & McLean, G.N (2010), Linking organizational culture, structure, strategy, and organizational effectiveness: Mediating role of knowledge management. *Journal of Business Research*, Vol. 63, No. 7, 2010, pp. 763–771. [19] E.

The Influence of Entrepreneurial Human Relations on Organizational Sustainability of SMEs in Edo State

¹OMIGIE Obehi Samuel (Ph.D.) & ²OSARENMWINDA Smart (Ph.D.)

¹Department of Business Administration, Faculty of Management Sciences,
University of Benin, Benin City, Nigeria

²Department of Industrial Relations & Personnel Management, Faculty of
Management Sciences, University of Benin, Benin city, Nigeria

Corresponding Email: samuel.omigie@uniben.edu

Abstract

The study aimed to evaluate the influence of entrepreneurial human relation on organizational sustainability of SMEs in Edo State. Specifically the study examined the impact of entrepreneurial innovativeness and entrepreneurial competitive aggressiveness on organizational sustainability of SMEs in Edo State. The study adopted the cross-sectional survey research design and data were primarily sourced through administered questionnaires. A sample of one hundred and fifty (150) respondents was conveniently selected for the study. The well filled and retrieved questionnaires found usable for the study were 149 copies out of a total of 150 copies administered. The STATA 16 statistical software was used for analysis of the variables as well as correlation of the variables and regression analysis carried out to test the stated hypotheses. The findings from the multivariate survey linear regression analyses revealed that entrepreneurial innovativeness (Coef. = 0.102, $t = 1.77$ and $P > 0.05$) has no significant effect on organizational sustainability of SMEs in Edo State. However, the study discovered that the variable of entrepreneurial competitive aggressiveness (Coef. = 0.562, $t = 7.97$ and $P < 0.05$) has a positive significant effect on organizational sustainability of SMEs in Edo State. Based on the empirical findings, we therefore concluded that only the variable of entrepreneurial competitive aggressiveness amongst the explanatory variables can significantly improve organizational sustainability of SMEs in Edo State. Thus, the study recommended that entrepreneurs should continue to explore various training and development programmes that will help develop creative and innovative ideas that instill efficient performance and organizational sustainability. The SMEs should intensify innovative and aggressive competitive effort by working smart, carrying

workforces along, active and effective bench marketing, and proper monitoring of operational activities by regulatory bodies as these will ensure sectorial best practices and upsurge level of market share of the SMEs in Edo State, Nigeria.

Keywords: Aggressiveness, Entrepreneurial, Human relations, Innovativeness, Sustainability

Introduction

In Nigeria, SMEs are growing the economy. Small and medium scale entrepreneurs have contributed significantly to the national objective of generating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the bulk of low income households within the country (Nwanji, 2017). Despite the high levels of resilience exhibited by the SME sector as evidenced by job creation abilities in an exceedingly tough environment additionally as substantial contribution to GDP, over 40% SME still face serious challenges that hamper their growth (Viffa, 2019). SMEs suffer because of lack of legal framework that protects interests, harassment from local authorities, unsupportive tax regime and exposure to corruption (Muriithi, 2017). The second reason is lack of adequate access to credit. SMEs have little access to finance, which thus prohibit their emergence and eventual growth. It has not been easy for SMEs owing to the stringent credit terms offered by financial institutions (Eric, 2016). Most SMEs do not have access to finance because of lack of minimum requirements from commercial banks, and these banks are hesitant in lending to SMEs based on lack of collateral, plan, credit history, and banking history (Kauffmann, 2018). The major sources of finance for SMEs in Africa are retained earnings, family capital, borrowings from friends and informal savings, which are unpredictable, not very secure and have little scope for risk sharing. Access to finance is poor due to the high risk of default among SMEs and owing to inadequate financial facilities (Kauffmann, 2018). In Nigeria, SMEs have not performed creditably well. They have fallen below expectations as regards their role in improving the extent of economic activity (Onugu & Uzondu, 2015). The SMES sector has made some contribution to the economic development of the state, but the contribution is way below the extent achieved by countries like India, Dubai and also the United States of America. Despite that, SMEs in Nigeria employ about 60% of the labour force, they contribute only 35 % of industrial output and account for 10 % of industrial exports (Akintokunbo, 2018). Eniola

and Entebang (2015) believed that SMEs in Nigeria are plagued with high rate of failure and underperformance because of inadequate funding. Hence, government consciousness needs to be stirred to align with the fact undermining the actualization of the complete economic potentials of this sector.

In the contemporary world, human relations of an entrepreneur play a strategic role in achieving the decision-making requirements of stakeholders for organizational sustainability. An entrepreneur must frequently work together on projects, communicate ideas and provide motivation to get things done (Hughes & Morgan, 2007). Employees' creativity is often dependent on their ability to communicate with other employees and share ideas. Without quality workplace relationships, employees are less likely to be able to develop and share the solutions that a business needs to survive. An entrepreneur who maintains good human relations with customers, employees, suppliers, creditors and the community are much more likely to succeed in his business than the individual who does not practice good human relations. Entrepreneurial human relations (also referred to as tactfulness) in business are the process of training employees, addressing their needs, fostering a workplace culture and resolving conflicts between different employees or between staff and management. Furthermore, severing ties with old workforces can sometimes be challenging, particularly if the circumstances are not on the whole amicable (Shane & Venkataraman, 2000). Unfortunately, due to economic concerns, entrepreneurs as owners of small and medium sized businesses focus on fundamental business issues and overlook one of their most potentially serious and costly issues of human relations and human resources. However, if entrepreneurs of small business focus on human relation management, this will lead to a sustainable development of the organization.

Nevertheless, entrepreneurial human relation has received substantial conceptual and empirical attention, representing some of the few areas in research into entrepreneurship and organizational sustainability in which a cumulative body of knowledge is developing. It is remarkable that past research has concentrated only on the evaluation of the direct effect of entrepreneurial human relation on organizational productivity or on the effect of other variables on one or two dimensions of entrepreneurial human relation. Some of these studies include Lumpkin and Dess (2001), Ahlin, Drnovsek and Hisrich (2014), and Asmat-Nizam and Farid (2016), all of which provide unsatisfactory picture, especially in the case of SMEs in developing nations such as Nigeria. Many more studies in

Nigeria and other African countries (Mayaka, 2006; Miring'u & Muoria, 2011; Mang'unyi, 2011; Ongore, K'Obonyo & Ogutu, 2011; Mokaya, 2012; Lwamba, Bwisa & Sakwa, 2014) have been conducted to find the factors that influence productivity of enterprises; however, none of these studies has focused on SMEs. Therefore, this study is necessary to explore the influence of entrepreneurial human relationship on organizational sustainability of small and medium scale enterprises in Nigeria. As a result, the study seeks to determine the impact of entrepreneurial innovativeness and entrepreneurial competitive aggressiveness on organizational sustainability of small and medium scale enterprise in Benin City.

The rest of the paper is organized as follows: literature review is in section 2, section three deals with the methodology, result and discussion is in section four. Finally, conclusion and recommendation is explained in section five.

Literature Review

Concept of Organizational Sustainability

The common definition of sustainability, according to Colbert, Kurucz, and Wheeler (2007), is to "keep the business continuing." Another phrase that is widely used in this context refers to "future proofing" companies. Sustainability is defined by Boudreau and Ramstad (2005) as "reaching success now without compromising the requirements of the future." Focusing on sustainable growth, the Ford Board of Directors' Charter of Sustainability Committee described it as "the capacity to satisfy the needs of current customers while taking into account the requirements of future generations" (Ford & Ford, 2012). A business model that creates value in line with the long-term preservation and improvement of financial, environmental, and social capital is a key component of sustainable growth. The essence of sustainability in an organizational context is "the principle of improving the societal, environmental and economic systems within which a business operates". This introduces the concept of a three-way focus for organizations striving for sustainability. This is reflected also by Colbert *et al.* (2007), who state that sustainability "implies a simultaneous focus on economic, social, and environmental performance".

A corporate organization's sustainability is also inextricably related to the natural ecosystems from which all productive materials are extracted and within which all material wastes must be disposed. Energy that enters, circulates, and recycles through Earth's natural ecosystems is ultimately what gives everything economic value. Businesses either draw from the environment or discharge into it, which

has an impact on the environment as a whole and eventually has an impact on the long-term viability of the firm (Omigie & Kubeyinje, 2022).

Entrepreneurial Relation

Corporate entrepreneurship may be seen as a continuation of initiatives that prioritize employee involvement; deliberate efforts to instill entrepreneurial practices within businesses aim to increase the organization's flexibility in developing or acquiring new goods and services and managing the innovation process (Hitt, Ireland, Camp & Sexton, 2002). Corporate entrepreneurship offers support for the development and exploitation of one or more innovations that are considered to be strategically and financially consistent with the organization's mission (Herbert & Brazeal, 1998). Nevertheless, the concept of Entrepreneurial relation (ER) has become a primary focus in the entrepreneurship literature and a subject of more than three decades of research (Covin & Wales, 2012). Researchers consider ER to be a higher order construct with underlying dimensions (George & Marino, 2011). The three key characteristics of ER, according to Miller (1983), are innovativeness, risk-taking, and pro-activeness. Miller emphasizes that "an entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch." Since then, these three dimensions are frequently utilized (Kemelgor, 2002; Dimitratos Voudouris, Plakoyiannaki, & Nakos, 2011). Lumpkin and Dess (1996) argued that factors like competitive aggressiveness and autonomy should even be taken into consideration as crucial components of entrepreneurial relation (ER), in addition to the three widely utilized dimensions first proposed by Miller (1983).

Entrepreneurial Innovativeness

Lumpkin and Dess (1996) describe innovativeness as reflecting a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, to pursue new opportunities, services, or technological processes, representing a basic willingness to depart from existing technologies or practices and venture beyond the current state or norm. They argue that innovativeness is a key component of entrepreneurial relation because it reflects an important means by which firms pursue new opportunities. According to Lumpkin and Dess (1996), innovativeness is the firm's tendency to engage in and support new idea, novelty experimentation and creative processes. These may result in new products, services, or technological processes which may take the organization to a new paradigm of success (Setiyanto & Natalia, 2017).

Schumpeter and Nichol (1934), points out the importance of innovation in the entrepreneurial process and considers entrepreneurship to be essentially a creative activity and the entrepreneur as an innovator who carries out new combinations in the field of the five Ms of men, money, material, machine and management.

Schumpeter and Nichol (1934) and Schumpeter (1949) were among the first to emphasize the role of innovation in the entrepreneurial process. Schumpeter (1949) outlined an economic process of "creative destruction," by which wealth was created when existing market structures were disrupted by the introduction of new goods or services that shifted resources away from existing firms and caused new firms to grow. The key to this cycle of activity was entrepreneurship: the competitive entry of innovative "new combinations" that propelled the dynamic evolution of the economy (Schumpeter & Nichol, 1934). Thus "innovativeness" is an important factor used to characterize entrepreneurship. Innovativeness reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes. Although innovations can vary in their degree of "radicalness" (Hage, 1999); innovativeness represents a basic willingness to depart from existing technologies or practices and venture beyond the current state of the art (Kimberly, 1981). There are numerous methods by which to classify innovations (Downs & Mohr, 1976), but perhaps the most useful distinction is between product-market innovation and technological innovation.

Entrepreneurial Competitive Aggressiveness

Bleeker (2011) described entrepreneurial competitive aggressiveness as a greater standard managerial disposition pondered in a firm's willingness to covet, confront, and dominate competition via a mixture of revolutionary efforts and proactive actions. Competitive aggressiveness refers to how firms reply to demand developments and interact with competition already within the marketplace in phrases of aggressive orientation (Deakins & Freel, 2012; Chalchissa & Bertrand, 2017). Panjaitan, Cempena, Trihastuti and Panjaitan (2021) found that within the numerous flow of research, which seems so plenty of interrelated areas, inclusive of aggressive responses, opposition in more than one markets, and the effect of a firm's past performance, entrepreneurial competitive aggressiveness characterizes and is related to an extensive range of dimensions, inclusive of first-mover advantages of familiar Porter techniques.

Competitive aggressiveness refers to a company's propensity to at once and intensely mission its competition in order to gain access or advance reputation in order to outperform the opposition within the industry. As noted elsewhere, competitive aggressiveness is critical to timely movement and outperforming the opposition in marketplace conditions. Acting aggressively within the marketplace can lead the company to take projects together with lowering prices, competitive advertising and marketing techniques or growing product capacities. Firm aggressiveness may be characterised by their willingness to be unconventional as a substitute than relying on conventional strategies of opposition via reactive or responsive behavior (Wang, 2008). Reactivity implies a direct response to a competitor's movement, e.g. A company might lower prices and sacrifice profitability to keep market place proportion as a competitor introduces a new product in the selected marketplace. Responsiveness can take the shape of head-to-head opposition or a direct attack on competition, together with whilst a company enters a marketplace in which a competitor is already present. Therefore, competitive aggressiveness is necessary to combat against acute opposition from rivals (Lumpkin, Brigham, & Moss, 2010). It is a manner of relating to one's opposition and distinguishing between firms that avoid direct opposition with other firms and people that aggressively pursue target markets of their competitors (Schillo, 2011).

The importance of this variable as a dimension of entrepreneurial relation was highlighted in a study of the entrepreneurial processes of U.S. firms in global markets, in which Dean (1993) found that competitive aggressiveness explained considerably more variance (37%) in corporate entrepreneurship than any other strategy or structural variable analyzed. Evidence of competitive aggressiveness may take several forms. The breadth and speed of new entry also may indicate an aggressive posture. A "fast-followers" approach often is used by firms to aggressively bring new products to market. This approach is accomplished by speeding up the product-development cycle time. Miller and Camp (1985) found that the most successful aggressive firms were those that did not shy away from broadly defined markets "in terms of the number, sizes, and types of their customers, as well as the breadth of their product line".

Methodology

This study target population consists of all small and medium enterprises work force in Benin City, Edo State; but the exact population of SMEs employees in Benin City could not be ascertain due its extremely large nature, paucity of data

and other constrains that bothers on ethical contemplation and concealment of government reserved information. However, the researchers’ conveniently draw a sample of one hundred and fifty (150) respondents for the study. This is considered suitable since convenient sampling is population elements selected for inclusion in the sample based on ease of access (Kothari & Gaurav, 2014). The respondents encompassed of hair dress making operators, cyber cafe operators, computer centers operators, coupled with tailoring, printing and publishing shops, photography, barbing, shoe making, welding and fabrication, Agro-allied industries, food vendors and restaurants operators. Out of a total of 150 questionnaires administered, only 149 were found usable for the study. The study questionnaire was structured on a five point scale ranging from 1-5 (1=strongly disagree, 2=disagree, 3=undecided, 4=agree and 5=strongly agree) respectively; there are two sections: the first section contain questions that are used to elicit information on the socio-demographic characteristics of the respondents while second part seeks to divulge respondents views on influence of entrepreneurial human relation on organizational sustainability of SMEs in Edo State. The STATA 16 statistical software was used for analysis of the variables as well as correlation of the variable. In addition, regression analysis was carried out to test the hypotheses after certifying that all the assumptions of regression analysis modus operandi were not violated. Such assumptions include normality of residuals, heteroscedasticity, multicollinearity and model specification. The regression model for this study is presented below as:

$$\text{Ogsus} = \alpha + \beta_1 \text{entino} + \beta_2 \text{entagg} + \varepsilon \dots \dots \dots (1)$$

Where, ogsus = organizational sustainability; entino = entrepreneurial innovativeness; entagg = entrepreneurial competitive aggressiveness; α is constant, β_1 & β_2 are coefficients to estimate, and ε is the error term.

Data Analysis and Presentation

Using both mathematical and statistical techniques this section presents the analysis of the questionnaires administered and retrieved from the sampled respondents, from which our recommendation and conclusion are drawn from. A total of 150 questionnaires were sent out to the respondents for data generation as shown in the table below:

Table 1 Analysis of Questionnaire

Questionnaires	Copies	Percentage (%)
Retrieved	149	99.33
Un-retrieved	1	0.67
Sent copies	150	100.00

Source: Author Compilation from field work, 2022

From the table above, out of the 150 questionnaires that were administered, 149 of them were retrieved. This represents 99.33% of the total questionnaires administered and used for the study. 1 out of the questionnaires could not be retrieved, representing 0.67%, which is not significant.

Table 2: Gender Distribution of Respondents

Gender	No	Percentage (%)
Males	89	59.73
Females	60	40.27
Total	149	100.00

Source: Author Compilation from field work, 2022

From table 2 above, it is observed that 89 of the respondents were males, which represented 59.73% of the total respondents. Similarly, 60 of them were females representing 40.27% of the total respondents. This shows that most of the operators of the understudied SMEs are males.

Table 3: Age Distribution of the Respondents.

Age	Frequency	Percentage (%)
20 – 25	15	10.07
26 – 35	23	15.44
36 – 45	64	42.95
46 and above	47	31.54
Total	149	100.00

Source: Author Compilation from field work, 2022

Table 3 above indicates that 15 respondents were in the age bracket of 20-25, representing 10.07%. 23 respondents were in the age bracket of 26-35 accounted for 15.44% of the total respondents. 64 of the respondents were in the age bracket of 36-45, representing 42.95% of the respondents. 47 were in the age brackets of 46 and above, representing 31.54% of the total respondents. This shows that most of the respondents/ operators of the understudied SMEs are in the age bracket of 36-45 years old.

Correlation Analysis

Pearson Correlation was conducted to establish the possible association between the variables of interest as shown in the table below;

Table 4: Pearson Correlation

	ogsus	entino	entagg
ogsus	1.0000		
entino	0.2283	1.0000	
entagg	0.5678	0.4978	1.0000

Source: Author Compilation from STATA 16

Specifically, the analysis from the Pearson correlation showed that entrepreneurial innovativeness (entino) (0.2283) and entrepreneurial competitive aggressiveness (entagg) (0.5678) are positively correlated with the dependent variable i.e. organizational sustainability (ogsus). Furthermore, from the associations, there is no room to suspect the presence of multicollinearity in the estimated models.

Regression Analysis

The results obtained from the panel least square regression of the model is shown in the table below;

Table 5 Multivariate Survey Regression Estimation Result

	Linearized					
ogsus	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
entino	.1018602	.0575756	1.77	0.079	-.0119227	.2156431
entagg	.5617599	.0704627	7.97	0.000	.4225092	.7010106
_cons	2.173549	.4439699	4.90	0.000	1.29616	3.050937

No. of obs. = 149 p-value of F-statics = 0.0000 R² = 0.3512

Source: Author Compilation from STATA 16

The study provides interpretation for survey least square regression as shown in table 5 above. The model goodness of fit as captured by the F-statistics and the corresponding probability of the F-statistics for the model shows a 5% statistically significant level suggesting that the entire model is fit and can be employed for interpretation and possible recommendation. Also, an R² value of 0.3512 indicates that about 35% of the variation in the dependent variable is being explained by the independent variables in the model. This also means that about 65% of the

variation in the dependent variable is left unexplained, but have been captured by the error term.

Test of Research Hypotheses

Hypothesis 1: Entrepreneurial innovativeness does not significantly affect organizational sustainability of small and medium scale enterprise in Edo state.

The regression results of organizational sustainability of SMEs model presented in table 5 reveal the result of the variable of entrepreneurial innovativeness as follows: (Coef. = 0.102, $t = 1.77$ and P -value = 0.079). Following the results above, it is revealed that the effect of entrepreneurial innovativeness on organizational sustainability of SMEs is positive and statistically insignificant at 5% or 1% level. This finding is consistent with the stated null hypothesis which leads to its acceptance. Thus, there is no significant effect of entrepreneurial innovativeness on organizational sustainability of small and medium scale enterprise in Edo State.

Hypothesis 2: Entrepreneurial competitive aggressiveness does not significantly affect organizational sustainability of small and medium scale enterprise in Edo state.

The regression results of organizational sustainability of SMEs model presented in table 5 reveal the result of the variable of entrepreneurial competitive aggressiveness as follows: (Coef. = 0.562, $t = 7.97$ and P -value = 0.000). Following the results above, it is revealed that the effect of entrepreneurial competitive aggressiveness on organizational sustainability of SMEs is positive and statistically significant at 1% level. This finding is inconsistent with the stated null hypothesis which leads to its rejection. Thus, there is a significant effect of entrepreneurial competitive aggressiveness on organizational sustainability of small and medium scale enterprise in Edo State.

Discussion of Findings

In this study we document a positive insignificant effect of entrepreneurial innovativeness on organizational sustainability. Slima and Prakash (2021) results does not support the research outcome as their empirical result shows that entrepreneurial innovativeness significantly affects business performance/sustainability. Lumpkin and Dess (1996) describe innovativeness as reflecting a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, to pursue new opportunities, services, or technological processes, representing a basic

willingness to depart from existing technologies or practices and venture beyond the current state or norm. They argue that innovativeness is a key component of entrepreneurial relation because it reflects an important means by which firms pursue new opportunities.

However, we find that there is a positive significant effect of entrepreneurial competitive aggressiveness on organizational sustainability. This result validates the outcome of Slima and Prakash (2021) whose findings indicates competitive aggressiveness affects business performance which is geared towards organizational sustainability. This implies that entrepreneurial competitive aggressiveness significantly improves organizational sustainability. The importance of this variable as a dimension of entrepreneurial relation was highlighted in a study of the entrepreneurial processes of U.S. firms in global markets, in which Dean (1993) found that competitive aggressiveness explained considerably more variance (37%) in corporate entrepreneurship than any other strategy or structural variable analyzed. Miller and Camp (1985) found that the most successful aggressive firms were those that did not shy away from broadly defined markets "in terms of the number, sizes, and types of their customers, as well as the breadth of their product line". Conversely, Olayemi, Dosunmu and Ikpefan (2015) opine that competitive aggressiveness does not have a significant role to play in improving organizational processes as it is seen as a greedy move by organizations to stay above each other in the business landscape.

Conclusion and Recommendations

The study sought to ascertain the impact of entrepreneurial innovativeness and entrepreneurial competitive aggressiveness on organizational sustainability of small and medium scale enterprises in Benin City, Edo State. The independent variables are entrepreneurial innovativeness and entrepreneurial competitive aggressiveness, while the dependent variable is organizational sustainability. The findings from the multivariate survey linear regression technique revealed that entrepreneurial innovativeness (Coef. = 0.102, $t = 1.77$ and $P > 0.05$) has no significant effect on organizational sustainability of SMEs in Edo State. However, the study discovered that the variable of entrepreneurial competitive aggressiveness (Coef. = 0.562, $t = 7.97$ and $P < 0.05$) has a positive significant effect on organizational sustainability of SMEs in Edo State. Based on the empirical findings of this study, we concluded that only the variable of entrepreneurial competitive aggressiveness amongst the explanatory variables can significantly improve organizational sustainability of SMEs in Edo State.

Based on the empirical evidences from this study, the following recommendations are made:

- i. Entrepreneurs should continue to explore various training and development programmes that will help develop creative and innovative ideas that instill efficient performance and organizational sustainability.
- ii. The SMEs should intensify innovative and aggressive competitive effort by working smart, carrying workforces along, active and effective bench marketing, and proper monitoring of operational activities by regulatory bodies. These activities if well executed will ensure sectorial best practices and upsurge level of market share of the SMEs in Edo State, Nigeria.

References

- Ahlin, B., Drnovsek, M., & Hisrich, R. D. (2014). Entrepreneurs' creativity and firm innovation: the moderating role of entrepreneurial self-efficacy. *Small Business Economics*, 43(1), 101-117.
- Akintokunbo, O. (2018). Market focus strategy and organizational performance of telecommunication companies in Port Harcourt. *International Journal of Innovative Research and Advanced Studies*, 5(3), 258-263.
- Asmat-Nizam, A. A. H., & Farid, M. F. S. (2016). A SEM analysis of environment moderation on market orientation and performance. *Asia Pacific Journal of Social Science Research*, 1(1), 1-6. <https://doi.org/10.5281/zenodo.2528942>
- Bleeker, I. (2011). *The influence of entrepreneurial orientation on the innovation process: An empirical research on manufacturing* (SMEs Master's Thesis). University of Twente.
- Boudreau, J. W., & Ramstad, P. M. (2005). Talentship, talent segmentation, and sustainability: A new HR decision science paradigm for a new strategy definition. *Human Resource Management: Published in Cooperation with the School of Business Administration, The University of Michigan and in alliance with the Society of Human Resources Management*, 44(2), 129-136.
- Chalchissa, A. K., & Bertrand, S. B. (2017). Competitive strategy orientation and innovative success: Mediating market orientation a study of small-medium enterprises. *Global Journal of Management and Business Research*, 17(3), 65-84.

- Colbert, B., Kurucz, E., & Wheeler, D. (2007). Building the sustainable organization through adaptive, creative coherence in the HR system. *Building More Effective Organizations*, 310-333.
- Covin, J. G., & Wales, W. J. (2012). The measurement of entrepreneurial orientation. *Entrepreneurship theory and practice*, 36(4), 677-702.
- Deakins, D. and Freel, M. (2012). *Entrepreneurship and small firms*. 6th European ed. edn.
- Dean, C. C. (1993). *Corporate entrepreneurship: Strategic and structural correlates and impact on the global presence of United States firms* (Doctoral dissertation). University of North Texas.
- Dess, G. G., Pinkham, B. C., & Yang, H. (2007). Entrepreneurial orientation: Assessing the construct's validity and addressing some of its implications for research in the areas of family business and organizational learning. *Entrepreneurship Theory and Practice*, 35(5), 1077-1090.
- Dimitratos, P., Voudouris, I., Plakoyiannaki, E., & Nakos, G. (2012). International entrepreneurial culture—toward a comprehensive opportunity-based operationalization of international entrepreneurship. *International Business Review*, 21(4), 708-721.
- Downs Jr, G. W., & Mohr, L. B. (1976). Conceptual issues in the study of innovation. *Administrative science quarterly*, 700-714.
- Eniola, A., & Entebang, H. (2015). Government policy and performance of SME management. *International Journal of Academic Research in Business and Social Sciences*, 5(2), 237-48.
- Eric, E. A. (2016). Challenges faced by SMEs when accessing funds from financial institutions in Ghana. *Journal of Business Economics and Tourism*, 6(2), 23-34.
- Etebang, H, Harrison, R, & Ernest, C (2010). Entrepreneurial orientation of public enterprises in Malaysia. *Business Strategy Series* 11(2), 77.
- Ford, J. D., & Ford, L. W. (2012). The leadership of organization change: A view from recent empirical evidence. *Research in organizational change and development*. Emerald Group Publishing Limited.
- George, B. A., & Marino, L. (2011). The epistemology of entrepreneurial orientation: Conceptual formation, modeling, and operationalization. *Entrepreneurship Theory and Practice*, 35(5), 989-1024.
- Hage, J. T. (1999). Organizational innovation and organizational change. *Annual review of sociology*, 25(1), 597-622.

- Herbert, T. T., & Brazeal, D. V. (1998, January). The future of the corporation: Corporate entrepreneurship on the fly. *Annual Meeting of the United States Association for Small Business and Entrepreneurship, Clearwater, Florida.*
- Hitt, M. A., Ireland, R. D., Camp, S. M., & Sexton, D. L. (2002). Strategic entrepreneurship: Integrating entrepreneurial and strategic management perspectives. *Strategic entrepreneurship: Creating a new mindset*, 1-16.
- Hughes, M., & Morgan, R. E. (2007). Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. *Industrial marketing management*, 36(5), 651-661.
- Kauffmann, C. (2018). Financing SMEs in Africa. Policy insight No.7, OECD Development Centre-Addis Ababa publishing. Available: <https://www.kauffmanfellows.org/journal>
- Kemelgor, B. H. (2002). A comparative analysis of corporate entrepreneurial orientation between selected firms in the Netherlands and the USA. *Entrepreneurship & Regional Development*, 14(1), 67-87.
- Kimberly, J. R. (1981). *Managerial innovation*. In Nystrom, P. C. & Starbuck, W. H. (Eds.), *Handbook of organizational design*, 84-104.
- Kothari, C. R., & Gaurav, G. (2014). *Research methodology methods and techniques*. Published by New Age International (P) Ltd., Publishers.
- Kropp, F., Lindsay, N. J., & Shoham, A. (2005). Entrepreneurial, market, and learning orientations and international entrepreneurial business venture performance in South African firms. *International Marketing Review*. 23(4), 466-475.
- Kropp, F., Lindsay, N. J., & Shoham, A. (2008). Entrepreneurial orientation and international entrepreneurial business venture startup. *International Journal of Entrepreneurial Behavior & Research*. 5(4), 269-281.
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review*, 21(1), 135-172.
- Lumpkin, G. T., & Dess, G. G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle. *Journal of business venturing*, 16(5), 429-451.
- Lumpkin, G. T., Brigham, K. H. and Moss, T. W. (2010). Long-term orientation: Implications for the entrepreneurial orientation and performance of family businesses. *Entrepreneurship and Regional Development*, 22(3-4), 241-64.
- Lwamba, N. M., Bwisa, H., & Sakwa, M. (2014). exploring the effect of corporate entrepreneurship on financial performance of firms: Evidence

- from Kenya's manufacturing firms. *International Journal of Academic Research in Business and Social Sciences*, 4(1), 352-370.
- Mang'anyi, E. E. (2011). Ownership structure and corporate governance and its effects on performance: A case of selected banks in Kenya. *International Journal of Business Administration*, 2(3), 2.
- Mayaka, C. (2006). Safaricom limited (A) crafting business and marketing strategy for a new market. *Nairobi: School of Business Unites States International University*.
- Miller (1983) Revisited: A reflection on EO research and some suggestions for the future. *Entrepreneurship theory and practice*, 35(5), 873-894.
- Miller, A., & Camp, B. (1985). Exploring determinants of success in corporate ventures. *Journal of Business Venturing*, 1(1), 87-105.
- Miring'u, A. N., & Muoria, E., T. (2011). An analysis of the effect of corporate governance on performance of commercial state corporations in Kenya. *International Journal of Business and Public Management*, 1(1), 36-41.
- Mokaya, S. O. (2012). Corporate entrepreneurship and organizational performance theoretical perspectives, approaches and outcomes. *International Journal of Arts and Commerce*, 1(4), 133-143.
- Muriithi, S. M. (2017). African small and medium enterprises contributions, challenges and solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36-48.
- Nwanji, M. (2017). SMEs are growing Kenya's economy. *African Review of Business and Technology*, 4(1), 15-22.
- Olayemi, E. G., Dosunmu, A., & Ikpefan, U. T. (2015). Firm size and profitability: A study of listed manufacturing firms. *International Journal of Business and Management*, 9(3), 57-64.
- Omigie, S. O., & Kubeyinje, G. T. (2022). Green human resources management: Concept and practices. *UNIBEN Journal of Human Resource Management*, 1(1), 176-189.
- Ongore, V. O., K'Obonyo, P. O., & Ogutu, M. (2011). Implications of firm ownership identity and managerial discretion on financial performance: empirical evidence from Nairobi Stock Exchange. *International journal of humanities and social science*, 1(13), 187-195.
- Onugu, C., & Uzundu, C. (2015). Socio-economic determinants of performance of SMEs of corporative members in Onitsha metropolis; Anambra State, Nigeria. *Sky Journal of Agricultural Research*, 4(7), 56-67.

- Panjaitan, H., Cempena, I. B., Trihastuti, A., & Panjaitan, B. K. (2021). The effect of competitive aggressiveness on business performance: A case study of private universities in Indonesia. *Journal of Asian Finance, Economics and Business*, 8(4) 0875–0884.
- Schillo, R. S. (2011). Entrepreneurial orientation and company performance: Can the academic literature guide managers? *Technology Innovation Management Review*, 1(2), 20-25.
- Schumpeter, J. A. (1949). Science and ideology. *American Economic Review*, 39(2), 345-359.
- Schumpeter, J. A., & Nichol, A. J. (1934). Robinson's economics of imperfect competition. *Journal of political economy*, 42(2), 249-259.
- Setiyanto, A. I., & Natalia, N. (2017). Impact of Work Environment on Employee Productivity in Shipyard Manufacturing Company. *Journal of Applied Accounting and Taxation*, 2(1), 31-36.
- Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of management review*, 25(1), 217-226.
- Slima, P., & Prakash, P. (2021). Entrepreneurial Orientation and Performance: An Empirical Research on Christian Entrepreneurs in Dakshina Kannada District, Karnataka. *International Journal of Multidisciplinary Research and Explorer (IJMRE)*, 1(9), 158-163.
- Viffa, C. (2019). *Kenya SME performance index 2019*. Viffa Publishing: Kenya.
- Wang, C. L. (2008). Entrepreneurial orientation, learning orientation, and firm performance. *Entrepreneurship Theory and Practice*, 32(4), 635-657.

Impact of Financial Intermediation by Deposit Money Banks on the Real Sector of the Nigerian Economy (1989 – 2021)

Anthony Agbo Onuh¹, Isah Alhaji Lawal² & Bukola Adeola Olaniyi³

^{1, 2 & 3} Department of Business Administration, College of Business and Management Studies, Kaduna Polytechnic, Kaduna

Corresponding Email: uniqueauwal2010@gmail.com

Abstract

The empirical paper is an impact assessment of financial intermediation of the Deposit Money Banks (DMBs) on the growth of the real sector of the Nigerian economy. The theoretical basis for the study was obtained through review of related literature. The study employs unit root test, co-integration and Vector Error Correction (VEC) model using real GDP growth rate as the dependent variable and credits to private sector (CPS), average manufacturing capacity utilization (AMCU) and inflation rate (INFR) as independent variables from 1989-2021. The research finding established that credit to private sector contributes significantly to real sector growth in Nigeria. The study further found that both the average manufacturing capacity utilization and inflation rate do exert a significant effect on real sector growth in Nigeria. The study recommends for a sound public policies to stimulate the supply of basic infrastructure, reward DMBs for providing large loans to private sector, improve security of lives and properties and discipline monetary and fiscal policies in order to enhance real sector growth.

Keywords: Financial Intermediation, Deposit Money Banks (DMBs), Gross Domestic Product (GDP), Real Sector Growth, Nigerian Economy.

1. Introduction

The Nigerian Deposit Money Banks (DMBs) having commercial banks as its orthodox functions as the mobilization of savings for good investment portfolio. Such a vital function of influencing economic growth within a nation's economy cannot be underestimated as it is widely acknowledged worldwide. Schumpeter (1932) as cited in Blum, Federmaier, Fink and Haiss (2002) in highlighting the specific role of bank in facilitating technological innovation stated that such tremendous miles can only be achieved through their intermediary roles. His

belief is that efficient allocation of savings through identification and funding of entrepreneurs with the right chances of successfully implementing innovative products and production processes, served as the basic tools towards the attainment of a real growth.

In the popular opinion of Blum (2002), the concept of financial intermediation is a unique process of transfer of savings of surplus economic units to others, for the purpose of consumption or investment at a price. For financial intermediation to take place there must be instruments and financial institutions operating together with the objective of bringing about economic growth of the country. In the same vein, Black (2002) defines financial intermediaries as firms whose main function is to borrow money from one set of people and lend it to another. Financial Intermediary institutions consist of banks and non-bank loan suppliers such as Finance companies, mortgage lenders and development finance institutions.

The financial intermediaries of the Nigerian economy are expected to be responsible for financial resource mobilization and intermediation between the various sectors of the economy. They are to redirect funds from the surplus sectors to the deficit sectors of the economy. Therefore, the financial sector, especially the banking sector is very important in effective functioning of the real sector of the economy. The main driving force of any nation's economy is the real sector, as it serves as the engine room of economic growth and development. To a very large extent, the real sector is dependent on the banking sector for proper functioning and discharge of its activities as provision of the required funds for investment purposes. However, despite the series of reforms and restructuring aimed at strengthening the bank's ability to efficient service delivery and branch networking and fund the real sector, problems still persists such as; decline in domestic credit by the banking sector to the private sector, there is also a considerable liquid mismatch in the Nigerian economy (CBN, 2007).

Although agriculture is the largest contributor to the Nigerian's GDP (42% of total GDP in 2007), only 3% of bank credit exposure is to the agricultural sector in 2007. When compared to the communication sector which contributed only 2.38% of total real GDP in 2007 was supplied with 24% of total credit to the private sector in 2007 (CBN, 2007). Therefore, the problem remains that the real sector is yet to be effectively linked to the financial intermediaries in the country.

Quite a number of researchers have identified a theoretical relationship between financial intermediation and the real sector (using the output and services sector

of the economy as economic indices), for instance, Smith (1976) cited in Blum (2002) expressed the view that the high density of banks in the Scotland was a crucial factor for the rapid development of Scottish economy. Schumpeter (1932) cited in Blum (2002) canvassed an argument and made a case that the creation of credit through the banking system was an essential source of entrepreneur's capability to drive real sector growth by funding and employing new combinations of factor use.

Many other researchers as; Goldsmith (1969); McKinnon (1973); Shaw (1973); Fry (1988); and King and Levine (1993) have pointed out the significance of banks to the growth of the economy. In examining the relationship, a number of recent empirical studies (for example, Azege, 2004; Levine, 2005; and Ayadi, Adegbite, 2008) have relied on measures of size of financial intermediaries to provide evidence of a link between financial system development and economic growth. They used macro level data such as size of financial intermediaries relative to Gross Domestic Product (GDP) to determine the impact of financial development on economic growth. In particular, Ayadi, and Adegbeti (2008) established a positive relationship between financial development and economic growth in Nigeria for the period of 1986 – 2005.

Also there are many other studies that investigate the relationship between financial intermediation and real sector growth in Nigeria. Notable among them are; Azege (2004); Ndebbio (2004); Ayadi, et al, (2008); Agu and Chukwu (2008); Adbullahi (2009); and Nzotta and Okereke (2009), but the results of these studies are divergent. The divergence seems to emanate from the different estimation procedures and the data used for analysis. These results are deficient in that they did not attempt to evaluate the causality between financial intermediation and real sector growth in Nigeria. They merely examine the correlation between financial intermediation and real sector. Another observed weakness of these previous studies is that they did not discuss the implications of the relationship that exist between finance and real sector growth. These studies also did not give the specific implication of each variable of financial intermediation on the real sector activities in Nigeria. This means there is a gap in the literature which needs to be covered by research.

This study attempts to cover the gap that exists in this area of study by examining empirically, the impact of financial intermediation by deposit money banks on the real sector growth of the Nigerian economy.

The broad objective of the study is to examine whether financial intermediation have any impact on the real sector growth of Nigerian economy. The specific objectives are:

- i) To determine the extent to which the credit to the private sector by deposit money banks (DMBs) have contributed to the growth of the real sector in Nigerian economy.
- ii) To ascertain the level to which average manufacturing capacity utilization (AMCU) has impacted on the real sector growth of the Nigerian economy;
- iii) To investigate the effect of inflation rate in the real sector growth in Nigerian economy.

To achieve this aim, the following null hypotheses are formulated:

- H₀₁:** Credit to private sector by deposit money banks (DMBs) has no significant impact on real sector growth in Nigeria;
- H₀₁:** Average manufacturing capacity utilization has no significant effect on real sector growth in Nigeria;
- H₀₁:** Inflation rate has no significant influence on real output growth in Nigeria.

The rest of the paper is structured as follows, literature review, methodology, result and discussion of findings, finally conclusion and recommendations follow

2. Literature Review

Theoretical Review

Financial intermediation refers to the process that facilitates the transferring of savings of surplus units in the economy to the deficits units of the economy for investment at a price. The real sector of an economy is the output sector where goods and services are produced and it is the main driving force that moves the economy forward. The real sector is represented by Gross Domestic Product (GDP).

However, the relationship between financial intermediation and the real sector growth has received considerable attention in the economic growth literature of 1960s and 1970s. Goldsmith (1969), McKinnon (1973), Shaw (1973) offered detailed arguments for the role of finance in promoting long-run economic growth. However, these studies did not establish the direction, timing and relative strength of casual links between finance and real section growth. Kings and Levine (1993) addressed the issue of direction in a cross-sectional study that relates broad proxies for the intensity of financial intermediation to measure the

real sector performance using post-war international data, yet casual inference is restricted to the observation that economies with greater financial depth at a given point in time appear to grow faster in subsequent decades than those with lower initial level of financial activity. Time series studies of individual country (for example, Jung, 1986) found bi-directional causality between financial and real sector variables in post-war data, and seem to offer little hope for understanding direct effects from feedback.

However, the works of Goldsmith (1969), McKinnon (1973) and Shaw (1973) concerning the relationship between financial development and economic growth have created an important ground for debate in development economics. Most of the literatures mainly focused on the role of macroeconomic stability, inequality, income and wealth, institutional development, ethics and religious diversity and financial market imperfections. Among these factors, the role of financial markets in the growth process has received considerable attention. In this framework, financial development is considered by many economists to be of paramount importance for output growth. Economists are of the view that government restrictions on the banking system such as interest rate ceiling, high reserve requirements and direct credit programmes will hinder financial development and reduce output growth (McKinnon, 1973 and Shaw, 1973).

Contributions due to McKinnon, (1973) and Shaw, (1973) postulate that the government in the pricing and allocation of loanable funds impedes financial development and depresses real interest rates. McKinnon (1973) emphasizes that the order and appropriate sequencing of financial reforms in the financial sector would be much more effective once price stabilization has taken place.

The endogenous growth literature stresses the influence of financial markets on economic growth (Bencirenga, Smith and Stirr, 1995; Greenwood and Smith, 1997). Similarly, Benhabib and Spiegel (2000) agree that a positive relationship is expected between financial development and total factor productivity, growth and investment.

Some literatures provide key insights for understanding the potential role of financial intermediaries in economic performance. Broadly defining financial intermediaries as individuals or institutions that solicit loanable funds from surplus spending units and allocate these funds among deficit units whose direct debt they absorb, Bencivenga and Smith (1991), for example, formalized the “debt-accumulation” channel with an overlapping generation models in which the

disposition of savings shifts from unproductive liquid assets to the assets of emerging intermediaries that can exploit investment synergies and encourage output growth through the capital stock.

Greenwood and Jovanovic (1990) demonstrate in a dynamic general equilibrium setting, that as savers become able to avoid unnecessary risk and gain confidence in the ability of intermediaries to make profitable allocation decision, they place an increasing portion of their surpluses with intermediaries. Thus, increase in the efficiency of the financial sector leads to out-put growth, which in turn generates additional demand for deposits and financial services.

Similarly, Kings and Levine (1993) constructed an endogenous growth model in which intermediaries reduced inefficiencies by acquiring information about the qualities of individual projects that are available to private investors and public markets. The information advantage encourages the funding of less-established firms that are likely to develop innovative intermediate and final products. A reduction in the cost of productivity enhancement is then shown to accelerate economic growth rates.

Another class of model focuses on the role of financial intermediaries monitoring loan recipient. Sussman(1993) for example, shows that better monitoring of loan recipients in a monopolistically competitive banking sector reduces mark-ups, and encourages entry of participants. However, Rouseau (1998) investigation shows that a search for temporal rent among competitive financial intermediaries with credit rationing and informational asymmetries can lead to more effective monitoring; narrower loan-deposit rate spreads and increases in deposit. Furthermore, Beck, Levine, and Loayza (2000) found that financial development has a large and positive impact on total factor productivity, which feeds through to overall Gross Domestic Product (GDP) growth.

Empirical Studies

Owing to the differing opinions regarding the relationship between finance and economic growth, many empirical studies have been carried out to investigate the relationship between financial depth defined as the ratio of total bank deposit liabilities to real GDP and economic growth.

Adam (1998) examines how efficient financial intermediation process has been in Nigeria's economic growth performance. The study used second stage least-square (2SLS) method. The empirical results show that financial intermediation

process is sub-optimal and caused by high lending rate, high inflation rate, low per capita income and poor branch networking. Nzotta and Okereke (2009) examine financial deepening and economic growth in Nigeria between 1986 and 2007. The study concludes that the financial system has not sustained an effective financial intermediation especially credit allocation and high level of mobilization of the economy. Abdullahi (2009) studied the impact of banking sector consolidation on the real sector of Nigerian economy, using Raw Score computational approach of correlation coefficient; the study establishes that there is a strong positive relationship between size of bank lending and real sector growth in Nigeria. Azege (2004) examines the empirical relationship between financial intermediaries and economic growth in Nigeria. The study employs data on aggregate deposit bank credit over time and GDP to establish that a moderate relationship exists between financial deepening and economic growth in Nigeria. He concludes that the development of financial intermediary institutions in Nigeria is fundamental for overall economic growth.

Similarly, Ndebbio (2004) investigates financial deepening, economic growth and development for Sub-Saharan African countries. The study uses M2 (aggregate liquid liabilities) as a ratio to GDP and the growth rate of per capita real money balances. The study finds that a developed financial sector spurs overall but sustainable growth of an economy.

Odiambho (2004) in Agu; and Chukwu (2008) investigates the role of financial development on economic growth in South Africa. The study uses three proxies of financial development namely the ratio of M2 to GDP, the ratio of currency to narrow money and the ratio of bank claims on the private sector to GDP against economic growth provided by real GDP per capita. He employs the Johansen-Juselius co-integration approach and vector error correction model to empirically reveal overwhelming demand-following response between financial development and economic growth.

Waqabaca (2004) examines the casual relationship between financial development and growth in Fiji using low frequency data from 1970 – 2000. The study employs unit root test and co-integration technique with a bivariate VAR framework. The empirical results suggest a positive relationship between financial development and economic growth for Fiji with causality running from economic growth to financial development. He stresses that this outcome is common with countries with less sophisticated financial system. Ulamis (2002) investigates the direction of causality between a financial development and economic growth in

Turkey using Granger non-casualty in the context of vector error correction (VEC) model. Annual data from 1970 – 2001 were used. The study finds that except for one of the proxies used, causality runs from financial development to economic growth in the short run. The study shows that in the long run, there exists bi-directional causality between financial deepening and economic growth.

In another study, Wadud, (2005) examines the long run casual relation between financial development and economic development in three South Asian countries namely India, Pakistan and Bangladesh. He disaggregated the financial system into “bank – based” and “Capital –market based” categories. The study uses cointegrated vector autoregressive model to assess the long run relationship between financial development and economic growth. The empirical findings indicate causality between financial development and economic growth, but running from financial development to economic growth.

Mohammed and Sidiropoulos (2006) investigates the effects of financial development and economic growth in Sudan from 1970 – 2004. The study estimates the short-run relationship between financial development and economic growth using the Auto-Regressive Distributed Log (ARDL) model to cointegration analysis by Pesaran and Shin (1999). The empirical results indicate a weak relationship between financial development and economic growth in Sudan due to the inefficient allocation of resources by banks, the absence of appropriate investment climate to foster significant private investment in order to promote growth in the long run.

Agu and Chukwu (2008) examine the direction of causality using augmented Granger causality test approach developed by Toda and Yamamoto (1995) to know the direction of causality between “bank – based” financial deepening and economic growth in Nigeria between 1970 – 2005. The study uses cointegration test which shows that financial deepening and economic growth in Nigeria are positively cointegrated and that there is only one cointegrating vector, indicating a stable and sustainable long run equilibrium relationship in the Full Information Maximum Likelihood (FIML) multivariate Johansen and Juselius (1988, 1992) and Juselius (1990) framework. In the Toda-Yamamoto sense, the study finds that the Nigerian evidence supports the demand following hypothesis for “bank – based” financial deepening variables like private sector credit and broad money; while it supports the supply leading hypothesis for “bank – based” financial deepening variables like loan/deposit ratio and bank deposit liabilities. Thus the

empirical findings suggest that the choice of bank-based financial deepening variable influences causality outcome.

However, Ayedi, et al (2008) investigate the relationship between structural adjustment, financial sector development and economic prosperity in Nigeria, using time series data and spearman correlation coefficient technique to show that there is no consistent relationship between financial development and economic growth in Nigeria for the period 1986 – 2005.

Theoretical Framework

Financial intermediation theories as developed by Goldsmith (1969), McKinnon (1973), and Shaw (1973) point out that financial markets play a pivotal role in economic development; and that the differences in economic growth across countries are due to the quantity and quality of services provided by financial institutions. This view contrasts with Robinson (1952) who argued that financial markets are essentially handmaidens to domestic industry and respond passively to other factors that produce cross-country differences in economic growth. Robinson's school of thought believes that economic growth will lead to the expansion of financial sector.

Goldsmith (1969) attributed the positive correlation between financial development and the level of the real per capita Gross National Product (GNP) to the positive effects that financial development has on encouraging more efficient use of the capital stock. McKinnon (1973) argues that there is complementarity between money and physical capital, which is reflected on money demand. According to McKinnon, complementarities link the demand for money directly and positively with process of physical capital accumulation because the condition of money supply has first order impact on decision to save and invest. In addition, positive and high interest rates are necessary to encourage agents to accumulate money balances, and complementarity with capital accumulation will exist as long as real interest rate does not exceed the real rate of return on investment.

Shaw (1973) proposes a debt intermediation hypothesis whereby financial intermediation between savers and investors resulting from financial liberalization (higher real interest rate) and development increase the incentive to save and invest, stimulate investment due to an increased supply of credit and raises the average efficiency of investment.

However, with the emergence of the endogenous growth theories, there have been great emphases on the role played by financial intermediaries in the process of economic growth. Endogenous theory holds that government policy measures can have important impact on the long run rate of growth of the economy. In the neo-classical growth model (the exogenous growth model) the long run rate of growth is exogenously determined either by assuming a saving rate (the Harrod-Domar model) or a rate of technical progress (Solow model). However, the savings rate and the rate of technological progress remained unexplained.

The divergent views on the relationship between finance and economic growth resulted into the emergence of two broad schools of thought with two contrasting views; these are the supply leading view and the demand following view.

The supply leading theory is of the views that finance plays an important role in economic growth and development (Schumpeter, 1912; Hicks, 1969). However, Robinson (1952) argues “...where enterprise leads finance follows”. The argument put forward by Robinson (1952), which assumes that financial development primarily follows economic growth and the engine of growth must be sought elsewhere, forms the foundation for the second school of thought regarding the relationship between finance and economic growth. This line of thinking is known as “the demand leading theory”. According to this view, economic growth creates demand for particular types of financial system which respond automatically to those demands. In line with the demand leading theory, Adams (1819) in Blum et al (2002) asserts that banks harm the morality, tranquility, and the wealth of nations.

In view of these conflicting opinions, this study uses the supply leading theory to organize an analytical framework and assess the impact of financial intermediation on the real sector of the Nigerian economy using endogenous growth model.

The endogenous model that is used is presented below and it follows Mankiw, Romer and Weil (1992) and Ulasan (2008) but with modification because the model used in this study does not employ Cobb-Douglas function. The implicit model can be stated as:

$$RGDPGR = F(CPS, AMCU, INFR).$$

Where: RGDPGR is real gross domestic product growth rate;

CPS is credits to private sector;

AMCU is average manufacturing capacity utilization;

INFR is inflation rate; and
 μ is the random term or the error term.

3. Methodology

This study makes use of empirical analysis to assess the effect of CPS, AMCU and INFR on the real sector growth (represented by RGDPGR). The study uses the time series methods of unit root test, co-integration and vector error correction (VEC) model. The unit root is applied to assess the time-series properties of the data; the co-integration test is used to enable the researcher appraise the long-run relationship among the variables being modeled; and the VEC model is used to model the effect of financial intermediation on real sector growth in Nigerian economy.

Model Specification

The study employed in this study as stated earlier follows closely the endogenous model employed by Mankiw, Romer and Weil (1992) and Ulasan (2008). It is, however, different from their model in the sense that it does not employ Cobb-Douglas production function. Its implicit form is;

$$RGDPGR = F(CPS, AMCU, INFR) \dots \dots \dots 3.1$$

Where: RGDPGR is real gross domestic product growth rate;

CPS is credits to private sector;

AMCU is average manufacturing capacity utilization; and

INFR is inflation rate.

The explicit form of the model can be stated as:

$$RGDPGR_t = \beta_0 + \beta_1 RGDPGR_{t-1} + \beta_2 CPS_t + \beta_3 AMCU_t + \beta_4 INFR_t + \mu_t \dots \dots \dots 3.2$$

The a priori assumptions of the model are: $\beta_1, \beta_2, \beta_3, > 0$; and $\beta_4, < 0$.

Estimation Procedure:

The estimation is performed with the following variables: (i) credit to private sector (CPS) by deposit money banks; (ii) average manufacturing capacity utilization (AMCU); and (iii) inflation rate as independent variables and RGDPGR as the dependent variable. To avoid the problem of spurious regression, unit root test was first conducted to ascertain whether the time-series data are stationary or not. Then the Augmented Dickey – Fuller (ADF) test for stationarity was used to test for stationarity.

The study uses co-integration analysis to ascertain the variables that are related in the long-run. The method of co-integration used is Johansen method that uses co-

integrating vectors. The method compares computed eigenvalues and trace statistic with their critical values and if the critical values are higher than their computed values, we accept the null hypothesis but if less we reject the null hypothesis of no co-integration.

Thirdly, the study employs the vector error correction in assessing the impact of financial intermediation on real sector growth in Nigeria. If the variables are integrated of more than order zero, that is, there is non-stationary data, in the time-series, the study employs vector error correction (VEC) model.

The data used for this study are real GDP growth rate (RGDPGR), credit to private sector (CPS), average manufacturing capacity utilization (AMCU) and inflation rate (INFR). The RGDP was computed by subtracting the real GDP of succeeding year from the preceding year real GDP and multiplying the result by 100 to get the percentage growth rate.

The figure for CPS is obtained by dividing the private sector loan by the total loans giving by the deposit money banks in the economy and multiplying the result by 100. Lastly, inflation rate is retrieved directly from UNCTAD database (UNCTAD, 2013).

4. Data Presentations, Results and Analysis

This section presents the analyzed data, interprets the results and discusses the findings.

Table 1: ADF-Unit Root Test

Variable	Level	1 st Diff.	2 nd Diff	Remark
<i>AMCU</i>	-4.253788**	-3.2426**	-	Stationary at a Level
<i>CPS</i>	5.668722	-0.246129	-0.246129*	Stationary at 2 nd Diff
<i>RGDPGR</i>	-1.472303	-1.157674	-13.04636*	Stationary at 2 nd Diff
<i>INFR</i>	-3.308840***	-5.5436*	-	Stationary at a Level

Notes: *, ** and *** mean significant at 1 percent; 5 percent and 10 per cent respectively

From the above results, two variables are stationary at a level and these are average manufacturing capacity utilization and inflation rate. The remaining two variables are also stationary at second differencing and these are real gross domestic product growth rate (RGDPGR) and credit to private sector (CPS). The variables are stationary at 10 percent for inflation rate; 5 percent for average capacity utilization and 1 percent each for CPS and RGDPGR.

Table 2: Co-integration Test based on Johansen Test

<i>Hypothesized No. C.E(s)</i>	<i>Trace Statistics</i>	<i>5% Critical Value</i>	<i>Max Eigen Statistics</i>	<i>5% Critical Value</i>
<i>None *</i>	102.6853	63.87610	45.40905	32.11832
<i>One*</i>	57.27624	42.91525	32.37067	25.82321
<i>Two</i>	24.90557	25.87211	17.55267	19.38704
<i>Three</i>	7.352898	12.51798	7.352898	12.51798

Note: * signifies the rejection of the null hypothesis of no co-integrating number of co-integrating equations.

The above result shows that there are two co-integrating equations in the model. This is in line with the result of unit root test which shows that only two variables in the equation are integrated of order two. These are real gross domestic product growth rates (RGDPGR) and the credit to the private sector (CPS). The other two variables are stationary at a level. Co-integration does not apply to these variables.

Table 3: Vector Error Correction (VEC) Equation: RGDPGR is the Dependent Variable

<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>T – Statistic</i>
<i>Constant</i>	27.83	5.0550	5.5058
<i>ECM_{t-1}</i>	0.000068	1.3	5.1002
<i>RGDPGR_{t-1}</i>	-0.4329	0.2015	-2.1413
<i>CPS_{t-1}</i>	6.22	2.4	2,5555
<i>AMCU_{t,1}</i>	0.8103	0.7160	1.1321
<i>INFR_{t-1}</i>	0.0812	0.1959	0.4146
<i>Ajusted R²</i>		0.5331	
<i>F Statistic</i>		7.85	
<i>Akaike AIC</i>		8.8017	
<i>Schwarz SC</i>		9.0793	

From the above regression results, all variables in the model have the expected signs of their coefficients, except for inflation rate that is positive rather than negative. The signs of credit to the private sector and average manufacturing capacity utilization are as expected positive.

The ECM result shows that the economy is very sluggish in recovering from disequilibrium. The rate of recovery is less than one percent per year. The coefficient of ECM is 0.000068 and this means that the system will recover by the RGDPGR increasing its value as the RGDPGR is below its equilibrium value (see Hill, Griffiths and Lim, 2008).

The result shows that credit to the private sector significantly stimulate economic growth in Nigeria during the period under investigation. The coefficient of CPS is 6.22, meaning that an increase in CPS by one naira stimulates an increase in real GDP by over six naira. The fact that the t-ratio is statistically significant at 5 percent level of significance confirms our result to robust. Another feature of the finding is that the past real GDP value has significant negative impact on current real GDP value. The result is also statistically significant at 5% level of significance.

The result also shows that average manufacturing capacity has no significant impact on Nigeria economic growth. This is because the t-statistic is significantly very low. In fact the t-statistic is less than one. In the same way, the t-statistic of the inflation rate is very low. It is less than one. Thus, we cannot reject the null hypothesis that average capacity utilization has no impact on economic growth. In the same manner we cannot reject the null hypothesis that inflation rate has no impact on economic growth of Nigeria.

The overall model used for this study is statistically very significant. This is reflected in the F- statistic that is 7.85; and this is statistically significant at 5 percent. The explanatory power of the model is 53.3 percent, meaning the model explains 53 percent of income changes.

The above results show that the findings of the unit root test, co-integration test and vector error correction (VEC) model are consistent. The unit root test shows that there are only two variables that are related in the long-run; and they are credit to private sector and real GDP growth rate. In the same way, co-integration test shows that there is only one way co-integrating relationship. Lastly, the VEC

result shows that only the credit to the private sector is related to the real GDP growth rate in the long-run.

Test of hypotheses

The hypotheses formulated in section one of this study are tested in this section. The numbers of observations are 33 with 6 coefficients, meaning that we have degrees of freedom of $n-5 = 33-6=27$. The critical t-statistic with degrees of freedom 27 at 5% level of significance is 2.05. Thus the decision rule is to reject the null hypothesis if the computed t-statistic is greater than 2.05. But if the computed t-statistic is less than 2.05, we do not reject the null hypothesis.

The first hypothesis to be tested in this study is that credit to private sector by deposit money banks (DMBs) has no significant impact on real sector growth in Nigeria and this corresponds with the first objective to determine whether the credit to the private sector by deposit money banks (DMBs) have contributed to the growth of the real sector in Nigerian economy. The computed t-statistic is 2.555 which is greater than the critical t-statistic of 2.05. This study therefore rejects the null hypothesis and concludes that CPS contributes significantly to real sector economic growth in Nigeria.

The second hypothesis to be tested in this study is that average manufacturing capacity utilization has no significant effect on real sector growth in Nigeria; and this corresponds with the second objective to examine the impact of average manufacturing capacity utilization (AMCU) on the real sector growth of the Nigerian economy. The computed t-statistic is 1.1321 which is lesser than the critical t-statistic of 2.05. This study therefore accepts the null hypothesis and concludes that AMCU has no significant contribution to real sector growth in Nigeria.

The last hypothesis to be tested in this study is that Inflation rate has no significant influence on real output growth in Nigeria; and this corresponds with the third objective to investigate the effect of inflation rate in the real sector growth in Nigerian economy. The computed t-statistic is 0.4146 and this is lesser than the critical t-statistic of 2.05. This study therefore accepts the null hypothesis and concludes that INFR has no significant contribution to real sector growth in Nigeria.

Major Findings

The findings of this study are:

- i. Credit to the private sector (CPS) by DMBs contributes significantly to real sector economic growth in Nigeria.
- ii. Average manufacturing capacity utilization (AMCU) has no significant contribution to real sector growth in Nigeria.
- iii. Inflation rate (INFR) has no significant contribution to real sector growth in Nigeria.

5. Conclusion and Recommendations

Based on the above findings, it was revealed that the extension of credit to private sectors by DMBs equally goes a long way in stimulating the growth of Nigeria's real sector. This result is in line with the finding of Odiamblio (2004) and Chukwu (2008) and this finding is in line with the theoretical postulation that by mobilizing savings from the public and making available to entrepreneurs, DMBs enhances the capital available to entrepreneurs and this increases investment and output (Schumpeter, 1932).

Average manufacturing capacity utilization (AMCU) has not contributed significantly to the real sector growth in Nigeria. This finding is reasonable as during the period under study, the observed manufacturing capacity is most of the time under decline. This finding is therefore not surprising.

Inflation rate (INFR) exerts no significant contribution to the real sector growth. This finding is in line with the neoclassical economic growth that sees the price level as exerting no influence on the long-run period (Jhingan, 2008). The Keynesians, however, feel that it has a positive effect in the long-run, since they assume that there are idle capacities in the economy. The current thinking is that violent increases in prices amount to instability in the economy and it injures business expectation and contributes to loss of investors' confidence thereby reducing investment and output (Blachard, 2011).

Following from the findings and conclusions of this study, the following recommendations are made:

1. DMBs should be encouraged by public policies that will provide basic infrastructures to enhance efficient financial intermediations in the country.
2. The Federal Government through the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation should develop credit friendly policy for the DMBs to enhance their ability to lend more credits to the private sector. Again, the government should sensitize the public to save, so that more money

can be saved. This will increase availability of funds for lending to the private sector for investment purpose.

References

- Abdullahi, S.A. (2009), Assessment of the Import of Banking Sector Consolidation on the Real Sector of the Nigerian Economy. *Journal of Finance and Accounting Research*, 1(3), 1 – 23.
- Adenuga, A.O. & Akpan, N.I. (2007). Financial Resource Mobilization and Investment in Nigeria: The Role of Financial Sector. *CBN Bulletin* 31(1), Jan-March.
- Adams, J.A.(2019) Financial Intermediation and Economic Growth: Evidence from Nigeria, *Journal of Economic Management* 5(2) June
- Ayadi, O.F. Adegbiti, E.O., & Ayadi, F.S. (2008). Structural Adjustment, Financial Sector Development and Economic Priority in Nigeria. *International Research Journal of Finance and Economics*, 15, 318 – 331.
- Azege, M. (2004). The Impact of Financial Intermediation on Economic Growth: The Nigerian Perspective. In Agu, C.C. and Chukwu, J.O. (2008). Toda and Yamamoto casualty tests between ‘Bank-based’ Financial Deepening and Economic Growth in Nigeria. *European Journal of Social Studies*, 33(2), 121 – 136.
- Blanchard, O. (2011). *Macroeconomics*. Boston: Pearson
- Black J (2002), *Dictionary of Economics*, Oxford University Press, New York.
- Blum, D., Federmai, K. Fink, G., & Haiss, P. (2002).The financial Real Sector Nexus Theory and Empirical Evidence. *IEF Working paper, Number 43*.
- Central Bank of Nigeria (CBN) (2007). *Annual Report and Statement of Accounts*, December 31, Central Bank of Nigeria.
- Central Bank of Nigeria (CBN) (2008). *Annual Report and Statement of Accounts*, December 31, Central Bank of Nigeria.
- Central Bank of Nigeria (CBN) (2009). *Annual Report and Statement of Accounts*, December 31, Central Bank of Nigeria.
- Central Bank of Nigeria (CBN) (2010). *Annual Report and Statement of Accounts*, December 31, Central Bank of Nigeria.
- Fry, H.J. (1988), *Money, Interest, and Banking in Economic Development*. Baltimore and London: John Hopkins Studies in Development Series.
- Geo-Jaga, M.A. & Mangum (2001) Structural Adjustment as a Inadvertent Enemy of Human Development in Africa. *Journal of Black Studies*, 32(1), 30 – 49.
- Goldsmith, R.W. (1969) Financial Structure and Development, In: Nnanna, O.J., Englama, A and Odoko, F.O. (ed.) (2004). *Financial Market in Nigeria*. A Central Bank of Nigeria Publication, Abuja: Kas Arts Services.

- Goldsmith, R.W. (1987). *Financial Structure and Development*: Nnanna, O.J., Englama, A. and Odoko, F.O. (Ed) (2004). *Financial Market in Nigeria*. A central bank of Nigeria Publication, Abuja: Kas Arts Services.
- Hashim, Y. (2011), *Impact of Financial Intermediation in the Real Sector of the Nigerian Economy*. Department of Business Administration, Ahmadu Bello University, Zaria.
- Hicks, J.R. (1969). *A Theory of Economic History*. Oxford: Clarendon Press.
- King, D.T. (2003). *Nigerian Financial Sector Assessment*. Report for USAID/Nigeria.
- King, R. & Levine, R. (1993). Finance and Growth: Schumpeter Might Be Right. *Quarterly Journal of Economics*, 108(3): 717 – 737. Available at SSRN: <http://ssrn.com/abstract=1101960>
- Levine, R. (2003), *More on Finance and Growth: More Finance, More Growth?* Federal Reserve Bank of St. Louis Review, 85(4), 31 – 46.
- Levine, R. (2005), Finance and Growth: Theory and Evidence. In Aghion, P. and Durlaufi, S.N. (Eds.) *Handbook of Economic Growth* in North Holland.
- Hill, R. C., Griffiths, W. E. & Lim, G. C. (2008). *Principles of Econometrics*. Hoboken: John Wiley.
- McKinnon, R. (1973). Money and Capital in Economic Development. In: Nnanna, O.J., Englama, A. and Odoko, F.O. (Ed), (2004). *Financial Market in Nigeria*. A Central Bank Publication, Abuja: Bab Arts Seavices.
- Mankiw, G. N., Romer, D. & Weil, D. N. (1992). A Contribution to Empirics of Economic Growth. *Quarterly Journal of Economics*, 107(2): 407-437.
- Ndebbo, J.E.U. (2004), *Financial Deepening, Economic Growth and Development: Evidence from Selected Sub-Saharan African (SSA) Countries*, AERC, RP 142.
- Oresotu, S.O. (1991). Interest Rates Behaviour under Programme Reforms: The Nigerian Case. *CBN Economic and Financial Review* 30(2).
- Robinson, J. (1952). The Generalization of the General Theory and Other Essays, In: Nnanna, O.J., Englama, A. and Odoko, F.O. (Ed.) (2004) *Financial Markets in Nigeria*. A Central Bank of Nigeria Publication. Abuja: Kas Arts Seavices.
- Schumpeter, J.A. (1932). The theory of Economic Development; In Graff, H.M. (2001). *Financial Development and Economic Growth in Corporatist and Liberal Market Economies*, Paper presented on the 30th Annual Conference of Economists (September 24th).
- Shaw, E.S. (1973). Financial Deepening in Economic Development. In: Nnanna, O.J., Englama, A. and Odoko, F.O. (Ed), (2004). *Financial Market in Nigeria*, A central Bank Publication, Abuja: Kas Arts Services.
- UNCTAD (2013). *Statistical Database*. Geneva: United Nations' Conference on Trade and Development.

Impact of Financial Intermediation by Deposit Money Banks on the Real Sector of the Nigerian Economy (1989 – 2021)

Ulasa, B. (2008). Trade Openness and Economic Growth: A Cross Country Empirical Investigation. A PhD Thesis Submitted to the University of Nottingham

Relationship between Government Expenditure on Security and Exportation in Nigeria

Ebhotemhen, Wilson¹ & Olusola, Abere Benjamin²

^{1,2}Department of Economics, Edo State University Iyamho – Uzairue Edo State, Nigeria.

Email: harlyns1974@gmail.com, ebhotemhen.wilson@edouniversity.edu.ng

Phone NO: 08023477157

Abstract

This research work examined the impact of Government expenditure on security and export in Nigeria for the period 1986-2020. In a bid to actualize the main objective of the study, data were collected from secondary sources such as 2020 editions of CBN statistical Bulletin and National Bureau of statistics. The model of this study was built based on Keynesian National income model and data were analyzed using the Vector Autoregressive Technique. The result of the study showed that one lagged period of export ($\ln(EPT(-1))$) has a direct and significant effect on export performance in Nigeria. The result further established that two lagged period of government expenditure on emergency care ($\ln(GSE(-1))$) has no significant, but positive effect on export performance. The result proved that one lagged period of government expenditure on Amnesty ($\ln(GSA(-1))$) has no significant, but positive effect on export performance. The finding also show that one lagged period of government expenditure on Ammunitions ($\ln(GSM(-1))$) is positive and statistically significant on export performance. The study recommends that governments should introduce policies that will promote exports through effective spending on security and infrastructural development; while firms should be encouraged to spend more on fixed capital which include properties, plants, and equipment.

Keywords: National Insecurity, Investment, Government Spending, emergency case, Amnesty, Ammunitions.

1. Introduction

Before the discovery of oil in 1960's, agriculture was the main stay of the economy and the greatest foreign exchange earner, and as a result the Nigerian government was able to executed investment projects through domestic savings, earnings from exports of agricultural products and foreign aids (Ezike & Amah, 2017). But since the advent of oil in 1974 as a major source of foreign exchange earning in Nigeria, the picture has been almost that of general stagnation in agricultural exports. This led to the loss of Nigeria's position as an important producer and exporter of palm oil produce, groundnut, cocoa and rubber (CBN annual report, 2016). Between the year 1960 and 1980, agricultural and agro-allied exports constituted an average of 60% of total export in Nigeria, which is now accounted for, by petroleum oil export, (CBN annual report 2014).

However, the dominant position of the oil sector in the country's total export, foreign exchange earnings and government revenue generation cannot be overemphasized, as it is the determinant of the federal government yearly budget (CBN annual report, 2006). Notwithstanding, the agricultural sector performance is non to be ignored as in the pre-oil boom era accounted for about 40% of the GDP; contributes around 80% of non-oil exports and generates employment for over one third of the labour force in Nigeria (CBN annual report, 2006). The post oil boom era saw a drastic change in the composition of Nigeria's export. Olaleye, Femi and Taiwo, (2013) asserts that Nigeria experienced an "oil boom" during the period 1973-1977, and its effect lingered on through a substantial part of the second quarter of the decade of the 1970s, and well up to 1981. The oil boom, did not only create tremendous changes in the patterns of economic indicators such as consumption, investment and production, but also altered the country's societal values, political and economic style of management. A further effect is on the perception and the role of government in the economy, which is reflected in the policies and programs that it embarked upon through the various development plans implemented from 1970-1980.

Despite the impressive performance of the major sector of the Nigeria economy as drivers for economic growth, notwithstanding, the country has over decades experience national insecurity across the regions in the country, prominent among them is the unrest in the North East part of Nigeria due to the activities of Boko-Haram ideologies.

Boko Haram emerged as radical fundamentalist Islamic sect, formed by Ustaz Mohammed Yusuf in (2002) in Maiduguri, Borno state. In 2004, it moved to Kanamma, Yobe state, where it set up a base called Afghanistan (Ikenga & Efebeh, 2013). The sect officially calls itself “jama’atul Alhul Sunnah Liddo’ wati Wal Jihad” which means “people committed to the propagation of the prophet’s teaching and Jihad” (Nwanegbo & Odigbo, 2013; Ikenga & Efebeh 2013; Meehan & Speier, 2011). Their violent activity started in 2009. The report by World Bank (2014) on conflict, security and development reveals that about 1.5 billion people live in countries affected by political and criminal violence, which has exacerbated human misery and disrupted development. Consequently, more proactive initiatives regarding tackling menace of insecurity are needed in Nigeria since security is to growth and development, and the national transformation agenda of the current administration may not be achieved if there is no solution to the menace of insecurity.

According to Punch “Nigeria newspaper of October 31st, 2018”, over 1.1 million Nigerians have stripped into extreme poverty through loss of job, loss of business and displacement from Boko-haram insurgencies areas in just four months which brings the total number of Nigerians living below poverty (mark of \$1.90 per day) to 88million, overtaking India. In June (2020), the world poverty estimated that 95,816,700 are currently living in poverty, a number that accounts for about 49% of its total population of 201million. If the issue of insecurity continue to linger in Nigeria, poverty and income inequality are likely to get worse as the gap between the rich and the poor has continued to widen. Moreover, the issue of growing rate of unemployment in Nigeria increased to 27.30 percent in the third quarter of 2019 from 23.10 percent in second quarter.

According to Crupta (2004), a country that is experiencing insecurity will be characterized with low investment which is the fundamental factor for low export in any economy. Nigeria is reputed to be buoyantly blessed with enormous minerals and human resources. Nevertheless, the country has been known to be high risk market for insecurity, thus affecting investment, export and economic growth.

It is against this background that this study therefore prepares to critically provide a comprehensive analysis of national insecurity and its resultant effects on export in Nigeria. While other studies on insecurity such as Otto and Ukpere (2012), Kumain and Mathera (2014) have looked into numbers of death rolls in the country due to national insecurity, this study shall examine government

expenditure on emergency case, government expenditure on ammunitions and government expenditure on amnesty in relationship to exports in Nigeria. The study is structured into five section, the next is empirical review follow by methodology, while the remaining take a look at the results and discussion of findings and the last section is conclusion and policy recommendations.

2. Empirical Review

The literature on the government expenditure on insecurity–macro-economy relationship has largely been motivated by the seminal paper by Blomberg (2004), who conducted an empirical investigation of the macroeconomic consequences of international terrorism and its interactions with alternative forms of collective violence. Their findings indicate that, on average, the occurrence of terrorism may have a significant negative impact on economic growth. They also discover that terrorism is associated with a shift in economic activity away from investment spending and toward government spending, with varying degrees of occurrence across different groups of countries.

Similarly, Gassebner and Luechinger (2011) used extreme bounds testing to evaluate more than seventy previous terrorism studies and discovered that economic activity had a robust and negative relationship with insecurity. In the case of Pakistan, Mehmood (2014) calculates the cumulative cost of terrorism to the Pakistani economy between 1973 and 2008 to be 33.02%.

Otto and Ukpere (2012) carried out a study on national security and development in Nigeria. They observed that there is a positive relationship between security and development in Nigeria. They found a positive relationship between security and development, while insecurity is debilitating to the economic development of many less developed economies.

Crupta (2004) studied the impact of armed conflict and terrorism on macroeconomic variables using sample size of 68 low and middle income counties. It was observed that conflict indirectly reduces economic growth by increasing defense spending share of government expenditure.

Kumari and Malhotra (2014) who conducted a research on trade led growth in India and China between 1980-2012 using Toda-Yamamoto (TY) approach and Cobb-Douglas production function on macroeconomic variables such as GDP per capita, export, import, gross capital formation and labour. The result found a

unidirectional causality running from GDP per capita to export in India and bi-directional causality between GDP per capita and export in China.

3. Methodology

3.1 Theoretical Framework

This study is based on the Keynesian analysis that paved way out of depression after the second world war. In the early 1930s there was a great depression caused by war and insecurity. During this period, Keynes suggested that contrary to the ideas of the classical economists that the free market forces of demand and supply could stabilize the economy, the government should intervene through increase in the economic activities by way of increase in investment spending which guarantee the economy out of depression, by this macroeconomic model of the national income accounting is found relevant stated as follow:

$$Y = C + I + G + (X - M) \dots\dots\dots(1)$$

Where

Y = national income

I = investment

C = consumption

G = government expenditure

X = export and

M = import

3.2 Model Specification

Based on the theoretical framework of this study the model for this work is specified as follows

$$EXP = \lambda_0 + \lambda_1 GSE + \lambda_2 GSA + \lambda_3 GSM + \mu_i \dots\dots\dots (2)$$

Where

EXP = Export

GSE = Government Spending on Emergency Case

GSA = Government Spending on Ammunitions

GSM = Government Spending on Amnesty

$\lambda_1 \lambda_2 \lambda_3$ = Coefficient of Insecurity Variables for the Model

μ_i - Stochastic Variable or Error Term.

The hypothesis that the coefficients of the lag level variables are zero and are to be tested. The null hypothesis of non-existence of the long-run relationship is defined by:

$$H_0: \lambda_1 = \lambda_2 = \lambda_3 = 0$$

$$H_0: \lambda_1 \neq \lambda_2 \neq \lambda_3 \neq 0$$

Reject H_0 of no long-run relationship if $\lambda_1 \neq \lambda_2 \neq \lambda_3 \neq 0$
 If $\lambda_1 \neq \lambda_2 \neq \lambda_3 \neq 0$, therefore reject the hypothesis of no co-integration, if otherwise accept

3.3 Estimation Techniques

This study employed Vector Autoregressive approach to analyze the relationship between investment, government expenditure on emergency care, government expenditure on ammunitions and government expenditure on amnesty. The vector Auto-regression (VAR) model is one of the most successful, flexible, and easy to use models for the analysis of multivariate time series (James & Mark, 2015). It is a natural extension of the univariate autoregressive model to dynamic multivariate time series. The VAR model has proven to be especially useful for describing the dynamic behavior of economic and financial time series and for forecasting. It often provides superior forecasts to those from univariate time series models and elaborate theory-based simultaneous equations models. Forecasts from VAR models are quite flexible, because they can be made conditional on the potential future paths of specified variables in the model. In addition to data description and forecasting, the VAR model is also used for structural inference and policy analysis. In structural analysis, certain assumptions about the causal structure of the data under investigation are imposed, and the resulting causal impacts of unexpected shocks or innovations to specified variables on the variables in the model are summarized. These causal impacts are usually summarized with impulse response functions and forecast error variance decompositions

4. Results and Discussion of Findings

Table 4: Results of Vector Autoregression Model

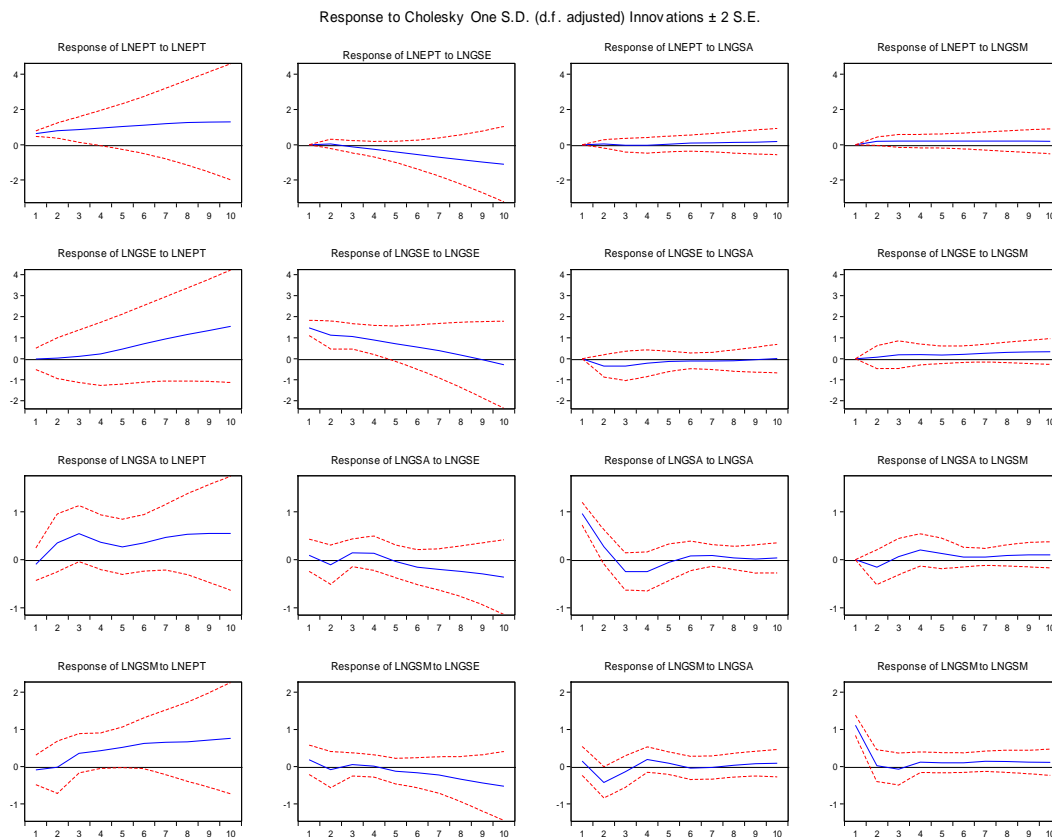
Variable	Coefficients	Standard Error	P-value
<i>C</i>	1.275155	0.81240	0.0117
<i>LN EPT (-1)</i>	1.289654	0.29939	0.0045
<i>LN EPT (-2)</i>	-0.283794	0.28185	0.0029
<i>LN GSE (-1)</i>	0.005542	0.08885	0.4002
<i>LN GSE (-2)</i>	-0.104402	0.08886	0.2109
<i>LN GSA (-1)</i>	0.017659	0.11732	0.5006
<i>LN GSA (-2)</i>	-0.009875	0.12093	0.1405
<i>LN GSM (-1)</i>	0.172857	0.10590	0.0012
<i>LN GSM (-2)</i>	-0.033801	0.11663	0.0430

R-Squared – 0.927320, Adjusted R-squared- 0.903093. F-Statistics – 38.27657

Source: Computed by the Authors

The results of the Regression estimates from Table 4 indicates that export for one lagged period and two lagged period have coefficient values of 1.289654 and -0.285794 respectively. The findings showed that one lagged period of export ($\ln(EPT(-1))$) had a direct and significant effect on export performance using p-value. In economic term, this implies that increase in sales and profits earn from the goods or service produced or manufactured in Nigeria and sold out to other developed and developing countries was due to immediate past performance in export. The one lagged and two lagged periods coefficient of government expenditure on emergency care in Nigeria were 0.005542 and -0.104402 respectively. The result established that two lagged period of government expenditure on emergency care ($\ln(GSE(-1))$) had no significant but positive effect on export performance using probability value. The one lagged and two lagged periods coefficient of government expenditure on Amnesty in Nigeria were 0.017659 and -0.009875 respectively. The result established that one lagged period of government expenditure on Amnesty ($\ln(GSA(-1))$) has no significant but positive effect on export performance using p-value. The one lagged and two lagged periods coefficient of government expenditure on Ammunitions in Nigeria were 0.017659 and -0.009875 respectively. The result established that one lagged period of government expenditure on Ammunitions ($\ln(GSM(-1))$) has a significant and positive effect on export performance using probability value. In economic term, this implies that increase in sales and profits earn from the goods or service produced or manufactured in Nigeria and sold out to other developed and developing countries was due to immediate past performance in export.

Figure 4.1: Impulse Response Function of the Model



From the first row of the figure above the response of export to itself is positive and increase gradually during the 1st to 10th period. The response of export to Government expenditure on Emergency case is negative and reduced drastically from the 3rd to 10th period. The response of export to Government spending on amnesty takes zero value from 3rd to 10th period. The response of export to Government spending on ammunition is positive, but does not increase appreciably from the 3rd to 10th period.

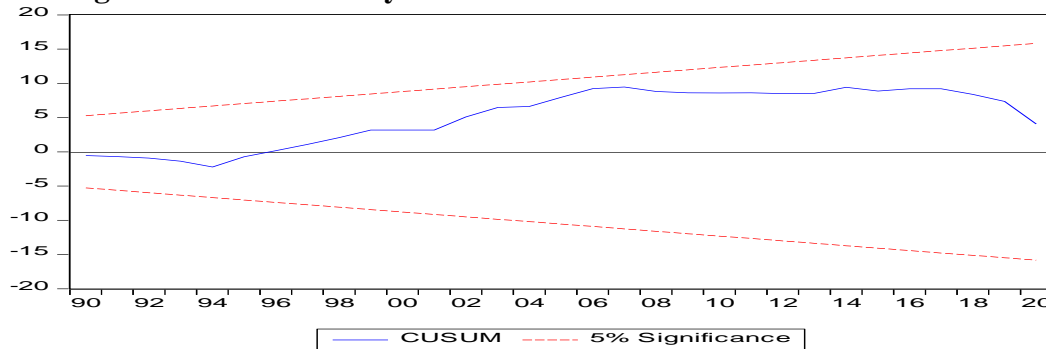
From the second row, the response of Government expenditure on Emergency case to export is positive and has increased considerably from the 2nd to 10th period. The response of GSE to itself though positive between the 1st to 9th period has reduced drastically from the 1st to 10th period, maintaining a negative value in the 10th period. The response of GSE to Government spending was

negative and reducing between the 1st and 4th period and maintained a zero value from the 5th to 10th period. The response of GSE to Government spending on Ammunitions is positive with increasing value from the 1st to 10th period.

From the 3rd row, the response of Government expenditure on Amnesty to export is positive and increase appreciably from the 1st to 10th period. The response of GSA to GSE reduced to negative from 1st to 2nd period and increase up to positive value between the 3rd to 5th period and fell drastically to negative value from 5th to 10th period, the response of GSA to itself maintained a high and positive value in the first period and fall drastically from positive to negative value within the 6th and 8th period to maintain zero value from 8th to 10th period, the response of GSA to GSM started reducing and maintained a negative value from the 1st to 2nd period. It increases to positive from between the 2nd and 6th period and started to fall back to a positive value from 7th to 10th period.

From the fourth row, the response of GSM to Export started increasing from negative value from the 1st period and increased drastically from the 2nd to 10th period. The response of GSM to GSE decreased from positive to negative value within the 3rd and 4th period and later declined drastically to the negative value from the 4th to 10th periods. The response of GSM to GSA drops from positive to negative value in the first period but rose back to positive in the 4th period and maintain a zero value from the 6th to 10th period. The response of GSM to itself fell sharply from a high value to zero between the 1st and 2nd periods and further reduced to negative between the 2nd and 3rd periods and later maintained a positive value from the 4th to the 10th periods.

Figure 4.2: The Stability Tests



The result of CUSUM test above obtained from the model showed that there is evidence of stability in the coefficient at 5% level of significance, since the cumulative sum is located inside the area between the two critical lines.

Discussion of Finding

The results of the Regression estimates from Table 4 indicates that export for one lagged period and two lagged period had coefficient values of 1.289654 and -0.285794 respectively. The findings showed that one lagged period of export ($\ln(EPT(-1))$) has a direct and significant effect on export performance. This is in line with the work of Ma'ale (2019) on the same topic. The one lagged and two lagged periods coefficient of government expenditure on emergency care in Nigeria were 0.005542 and -0.104402 respectively. The result established that two lagged period of government expenditure on emergency ($\ln(GSE(-1))$) has no significant but positive effect on export performance. This is in line with the work of Collier (2018) on the same topic.. The one lagged and two lagged periods coefficient of government expenditure on Amnesty in Nigeria were 0.017659 and -0.009875 respectively. The result established that one lagged period of government expenditure on Amnesty ($\ln(GSA(-1))$) has no significant but positive effect on export performance. This is in line with the work of Nwolise (2019). The one lagged and two lagged periods coefficient of government expenditure on Ammunitions in Nigeria were 0.017659 and -0.009875 respectively. The result established that one lagged period of government expenditure on Ammunitions ($\ln(GSM(-1))$) has a significant and positive effect on export performance, this is in line with the work of Nwogu (2017).

5. Conclusion and Policy Recommendations

The major conclusion of this study is that the primary role of any government is to provide adequate security for life and properties of its citizens, and Nigeria is not an exception. In an economy like Nigeria where there is National insecurity, killings, and kidnapping of people and destruction of farmland plantations by Fulani herdsmen is a re-occurrence issue. Urgent and emergence care must be taken to curb the situation speedily. On this note, this study recommends the followings:

- (i.) The government should increase its spending on emergency case of insecurity, procure ammunitions to the Military troops and be ready to spend on Amnesty in Nigeria.
- (ii) The governments should introduce policies that will promote exports through effective spending on security of its citizens .
- (iii) Nigerian government should continue spending on its fixed capital formation especially in areas like infrastructural development; while firms should be encouraged to spend more on fixed capital that include properties, plant, and equipment. This is capable of facilitating movement of goods and expands investments which have a greater influence on export performance.
- (iv). Export facilitating scheme like export bonus, export financing and export credit guarantee scheme be promptly announced to encourage exportations in Nigeria. There is also the need for more friendly environment in the economy by reducing tariff and putting exchange rate policies to promote rapid exportations.

References

- Abolagba, E.O.,Abolagba, O.O.,Omokhafe, K. O., Musa, E.,Mesike , S.C., Osazuwa, S. & Ogwuche, P.(2016). The Performance of Rubber Exports in Nigeria. *Journal of Sustainable Development*.(9):52-67.
- Achumba, I.C, Ighomereho, I. and Akpor Robaro M.O, (2013). ‘Security challenges in Nigeria and the Implications for business Activities and Sustainable. Development ‘*Journal of Economics and Sustainable Development Vol 4 No 2*.
- Aghaulor K.C.(2020). Growth impact of Insecurity on the Nigerian Economy. *UJAH* vol 21, no 3 Special Edition.
- Bahvan, T.(2016). *International research Journal of Social Science*, 5(8):4-8.
- Blomberg, S.B, Hess, G.D, Ophandes A. (2004). The macro-economic Consequences of Terrorism. *Journal of monetary Economics*, 51(5).

- Collier Paul (2018). Economic causes of civil conflict and their implication for policy "Oxford University Press
- Eckstein, Z. & Tsiddon, D. (2004). Macro-Economic consequences of Terror; Theory and the case of Israel' *Journal of Monetary Economics* 51(5).
- Ewetan, O. & Urhie E. (2014). Insecurity and social economic Development in Nigeria. *Journal of Sustainable Development. Vol 5 no1*
- Gaibuloevik, K & Sandler, T. (2009). The impact of terrorism and conflict on growth in Asia. *Economics and Politics. Vol, No 3.*
- Gupta, S. (2004). Fiscal Consequences of Armed Conflict and Terrorism in Low and Middle Income Countries. *European Journal of political Economy* 20(2).
- Ikenga, F.A & Efebeh, V. (2013). Boko Haram; A New Wave of Terrorism Movement in Nigeria. Warri: Grace Communications International.
- Ma'ale, S. A.-D. (2019). The Impact of Public Debt and Public Investment on Economic Growth in Jordan. *International Journal of Academic Research in Accounting, Finance and Management Sciences* ", 9(2), 149–157.
- Mogaji, O. & Falade A. (2020). Export Performance in Nigeria and China; A Comparative study. *International journal of Research and Innovation in social sciences* 4(9), 531-536.
- Nwanegbo C.J, & Odigbo. (2013). Security and National Development in Nigeria; The threat of Boko Haram. *International Journal of Humanities and Social Science Vol No 4.*
- Nwogu, M. (2017). How Abia state governor missed gunmen"s bullet. Daily Sun Newspaper.P.4.
- Nwolise, O.B.C. (2019). National security and sustainable democracy
- Otto D. & Ukpere A. (2012). National Security and Development in Nigeria, *International Journals of sustainable Development. Vol No 6 (4).*
- Onime, B.E. (2018). Insecurity and economic growth in Nigeria: A Diagnostic Review. *European Scientific Journal* vol 4 (8).
- Sandlers T & Ender W. (2008). Economic Consequences of Terrorism in Developed and Developing Countries; An overview, in P keefer and N Loayza eds, *Terrorism, Economic Development and political openness*" Cambridge University Press.
- Tavaries J. (2014). The open society Asses its Enemies; Disasters and Terrorist attack. *Journals of monetary Economics.*(6): 41-56
- Usman, O. (2011). Performance evaluation of foreign trade and economic growth in Nigeria, *Journal of Finance and Accounting, (2):2-12.*
- World Bank Report (2013).Galoping poverty in Nigeria, *Journals of Sustainable Development in Africa* 12(6).

Relationship between Government Expenditure on Security and Exportation in Nigeria

World Bank Report. (2016). Galloping Poverty in Nigeria. *Journals of sustainable Development in Africa* 16(4)