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# GLOBALISATION AND THE POVERTY CHALLENGES OF SUB-SAHARAN AFRICAN (SSA) COUNTRIES

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**Abstract**

*The last five decades have witnessed an increased intensity of globalisation in its entire dimension across regions in the world. Sub-Saharan Africa (SSA) has been relatively more integrated into the world economy as shown by increasing trade openness and foreign direct investment. Over the same period, the quality of life in terms of access to basic necessities of the proportion of people living above $2 per day, as well as other poverty indices have not been significantly influenced. The paper identified resource endowment, poor governance, unguided global integration, poor infrastructural facilities, poor asset distribution, persistent civil unrest, low technological base and slow response to external shock as the obstacles militating against smooth transmission between globalisation and poverty reduction. Arising from this and the need for the region to derive immense benefits from globalisation in terms of growth, poverty reduction and welfare improvement, good governance, more guided integrations and institutional reforms were recommended.*

***Keywords: Poverty, globalization, Sub-Saharan Africa (SSA).***

## 1.0 Introduction

Over the last few decades, the world has become more knitted owing to globalisation across all regions. The scope of this global integration in all its ramifications has turned the world to a global village. Globalisation as a process is not limited to its economic perspective, rather it has also profoundly shaped the socio-political, technological and cultural landscapes of countries and regional groups.

Globalisation has brought a lot of benefits such as helping countries and regions by adopting a number of programmes and policies, aimed at deriving immense benefits accruable from the rapid and intensive global interactions and interconnections especially with respect to poverty alleviation. However, globalisation has also brought with it a variety of problems that have worsened the state of poverty. How the sub-Saharan African (SSA) countries have fared in this direction remains controversial among social science scholars and policy makers. The literature on the impact of globalisation on poverty points to highly variable outcomes (positive and negative) as well as multiple causalities, channels and mechanisms that link globalisation with human welfare. On the one hand, are those who find that globalisation worsens poverty (Milanovic and Squire, 2005; Ravallion, 2006; Wagle, 2007; Fosu and Mold, 2008). While some authors point to evidence of improvement in poverty alleviation arising from globalisation (Bhagwati and Srinivasan, 2002; Dollar and Kraay; 2004). Yet, some economists argue that there is no specific link between them (Sylvester, 2005 and Choi, 2006). Thus, there is no general consensus on how the integration of developing economies into the global market affects degree of poverty of the people.

In spite of the controversies surrounding the impact of globalisation on poverty, evidence points to a high incidence of poverty in the era of intensive globalisation among the poor nations especially in sub-Saharan Africa. People in sub-Saharan Africa (SSA), as well as those in South Asia, are among the poorest in the world, in terms of real income, well-being status and access to social services. About 48.3 percent of the population of SSA live in poverty with an average life expectancy of 47 years (World Bank Report, 2011).

Since the Second World War, SSA has been relatively more integrated into the world economy, with high trade/GDP ratios (World Bank, 2006). In spite of the increasing degree of openness of the region to the global market, most of her social and human welfare indicators have recorded a downward trend (UNDP, 2008). If more openness stimulates growth, as pro-globalisation advocates claim, such integration should have led to greater sustained growth in the SSA region than in Latin America, and South and East Asia. These regions have managed to lift their people out of abject poverty, deteriorating human welfare and high income inequality, which the SSA region, to a large extent has not.

This has been blamed on lack of institutional capacity, poor assets distribution, poor governance, persistence of civil strife and diseases, as well as low technological base. All these tend to make SSA unattractive to both foreign and domestic investors. Despite the rapid changes in world trade in the past few decades, SSA is characterised by low value added exports, especially of agricultural commodities and minerals, which it exchanges for manufactured goods. The enclave nature of mineral production in the region, not only accounts for the exposure of the economies to international price fluctuations and adverse effects of technological backwardness, it is also to blame for her current status in the global market.

The major goals of the economic reforms in the region since the 1980s have been to reduce structural vulnerability by the integration of trade and capital flows and social contacts into the world economy as well as ensure sustained growth, poverty reduction, and human welfare improvements. Despite the long period of economic reforms in SSA, the majority of the region's population are still living in abject poverty. African countries have introduced reforms in more structural matters such as market deregulation, trade liberalization and public sector restructuring, including privatization, but all have failed to keep human welfare crises in check.

Despite several various programmes and policies put in place in the past four decades such as (Structural Adjustment Programmes, (SAPs); Poverty Reduction Strategies, (PRSs); Millennium Development Goals, (MDGs); Social Protection, and Pro-Poor growth programmes), the level of poverty in SSA remains very high. For example, 46.4 percent of the people in the region were living below the one dollar per day poverty line in 2004 as against 41.6 percent in 1981(Chen and Ravallion, 2004). In 2007, the World Bank poverty database put the proportion at 48 percent. Between 1975 and 2005, Africa recorded an overall decline of about 20 percent in the consumption of goods and services (UNDP Reports, 2006). Between 1980 and 2006, sub-Saharan Africa's private consumption per capita grew at an average of about 1.2 percent (UNDP, 2007). This was the worst in the world, when compared with other regions such as Latin America and the Carribbean (1.6 percent), South Asia (2 percent), East Asia and the Pacific (5.6 percent), (World Bank Report, 2007).

The objective of this paper is to assess critically the impact of openness of SSA countries to the global market, on the degree of poverty and human welfare deterioration in the sub region. The remaining part of this paper is divided into three Sections. Section II examines the background to the study with particular attentions to the trend and comparison of globalisation and poverty between SSA and the rest of the world. Section III reviews the conceptual issues, empirical issues and the theoretical literature. The concluding section summarises the paper and provides recommendations on how the SSA countries should be integrated to the global economy in order to derive immense benefits from the integration especially with respect to poverty alleviation and human welfare improvements.

## 2.0 Literature Review

### 2.1 Conceptual and Theoretical Issues

Precise definitions of globalisation are elusive but it is usually interpreted as an increase in integration and interaction between countries manifested through an increase in the movement of commodities, labour, capital (financial and physical capital), communication, information and technology. Yashin (2002) defines globalisation as an economic revolution of the new millennium in information and communication technology (ICT). Clark (2000), Norris (2000) and Keohane and Nye (2000) define globalisation to be the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. According to KOF Swiss Economic Institute (2010), globalisation is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence.

In terms of scope and dimension of globalisation, opinions vary from one scholar to another. Hveen (2002) identifies four processes in the current globalisation which he considers analytically separate but interrelated. The first is the convergence of ideas, norms and values, the second is the propagation of industrial organization, the third is the emergence of one global market while the fourth is the erection of super national institution with a global legitimacy and reach. Musa (2000) in his own perspective, identifies three basic forces driving globalisation as technology, preference and public policy while the United Nation Institute for Social Development (UNRISD) lists six key trends of globalisation as the spread of literal democracy; the dominance of market forces; the integration of global economy; The transformation of the product system and labour market; the speed of technological change and media revolution (UNRISD, 1995).

A recently designed index for globalisation is the 2010 KOF index of globalisation. The index was introduced in 2002 by the Economic Research Institute *Konjunkturforschungsstelle* at ETH Zurich, Germany and reviewed annually. It provides the overall index which covers economic, social and political dimensions of globalisation. The index conceptualizes globalisation as a process that erodes national boundaries, integrates national economies, cultures, technology and governance with complex relations of mutual interdependence. The three dimension of the index are:-

(i) Economic globalisation - characterized as long distance flow of goods, capital and services as well as information and perceptions that accompany market changes;
(ii) Social globalisation – which expresses the spread of ideas, information, images and people; and
(iii) Political globalisation –characterized by diffusion of government policies.

Poverty and human welfare are closely related concepts. Poverty is not only blessed with rich vocabulary, it is a multi-dimensional concept that has been subjected to different definitions and interpretations. There is no universally acceptable definition of poverty and there is no objective way of measuring how people are poor (Afonja and Ogwumike, 1999). However, there are three major broad concepts in poverty. These are absolute poverty (lack of resources to buy bundle of goods and services); relative poverty (which compares the welfare of those with lowest amount of resources with others in the society); and subjective poverty (which requires individuals including the poor to define what they consider to be decent or minimally adequate standard of living) Afonja and Ogwumike (1999).

World Bank (1990) defines poverty as the inability to attain a minimal standard of living as well as the lack of adequate income to purchase or command the basic goods for subsistence living. Watts (1997) refers to poverty as a lack of command over basic consumption needs, in other words, there is an inadequate level of consumption giving rise to insufficient food, clothing and shelter. Generally, poverty is measured based on income or consumption level. A group of people is considered poor if their consumption or level of income falls below some minimal level necessary to meet basic needs. The minimum level is usually referred to as poverty line.

The dictionary meaning of welfare is “satisfactory state, health and prosperity, well-being, usually of person and society”. Welfare is a function of goods and services, changes in the quality and quantity of goods and services, as also their distribution among individuals in the society, will affect the welfare of the individuals and, through them, aggregate social welfare. Human welfare on the other hand embraces the performance of social indicators. These indicators may be positive or negative. The negative indicators include degree of hunger and malnutrition as a component of poverty, infant mortality and prevalence of child labour.

Positive indicators include life expectancy at birth, access to basic social needs (sanitation, health, water, etc.), and human development index (Todaro and Smith, 2007). Hunger and under-nutrition retard education, human development, productivity and life expectancy. The inability of parents to provide children with their needs makes them (the children) prevalent to child labour while infant mortality has been one of the nature's cruel mechanism for keeping motherhood in great sorrow and grief. All these negative indicators have the tendency of worsening the incidence of poverty.

Measurement of poverty has not only been difficult, it is equally controversial. The monetary approach is the most commonly used. It identifies poverty with a shortfall in consumption (or income) from some poverty line. However, the approach faces the problem of how to appropriately determine the basic income level. The capability approach to the measurement of poverty, pioneered by Sen (1985, 1999), rejects monetary income as its measure of well-being based on the shortcomings of the approach.

The HDI is the value for each country's journey covered towards the maximum possible value of 1 and how far it has to go to attain certain goals: an average life span of 85 years, access to education for all decent standard of living, etc. Developed by the United Nations Development Programme (UNDP) as a composite of three dimensions-health, education and standard of living-and four indicators-life expectancy at birth, mean years of schooling, expected years of schooling, and Gross National Income per capita. In the past, the HDI dimensions weight has been seriously questioned and this serves as its short comings. But the HDI has been reworked and assigned equal weight to all the three dimension indices (HDR, 2010). The choice of HDI in measuring human welfare in a broader scope has also been justified by Noorkbakhsh (1998), Riley (2005), Deceanq and Lungo (2009), and Maddison (2010).

The poverty of globalization theory is based on the claim that in recent years there has been a reduction in poverty in the global order, and that this development is a product of nation states adopting "globalization friendly" policies (DFID, 2000; World Bank, 2002). The World Bank argues that globalization generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused. This is because reduction in world barriers to trade could accelerate growth, provide stimulus to new forms of productivity-enhancing specialization and lead to a more rapid pace of job creation and poverty alleviation around the world.

This claim is explicitly made by the World Bank (2002) in *Globalization, Growth and Poverty: Building an Inclusive World Economy,* which are of latest of numerous attempts to establish a causal relationship between globalization-friendly (including structural adjustment) economic growth and poverty reduction. Given that world poverty may not have been falling as globalization has increased, there is good reason to immediately question this contention, but again, the Bank attempts to establish a causal relationship, for specific "more globalized" countries. This differentiation between more or less globalized countries is based on measuring changes in the ratio of trade to GDP between 1977 and 1997. The countries in the top third are designated as more globalized, and the bottom two-thirds as less globalized. The more globalized are said to have had faster economic growth and poverty reduction than the less globalized.

Evidence from developing countries that include a large number of very poor nations dependent on the export of a few primary commodities, and which have had very low and sometimes negative rates of growth (UNCTAD, 2002), have raised serious controversies on the World Bank claims. An exaggeration of the relation between high growth and growing openness is also apparent when evidence from China and India are examined critically. The World Bank (2002) concludes that the claim on the causal relationship between globalization and welfare improvement through growth is not straightforward in the case of developing countries.

### 2.2 Empirical Issue

Many studies exist on the linkage between globalisation and macroeconomic indicators and some of these studies did focus on the precise linkage between globalisation, poverty and human welfare. Santarelli and Figni (2002) attempt to ascertain whether globalisation reduces or escalates poverty for some selected developing countries. They find that financial openness, not trade, did have significant effects on poverty.

Khor (2002) studied the relationship between trade and poverty and in relation to other factors for Bangladesh. He finds that technical change and endogenous growth are more important factors than trade which seems quite less significant. In a more relevant scenario Siddigni and Kemal (2002) examine the precise determinants of poverty through globalisation and non-globalisation channels. They find non-globalisation variables are key to poverty measures. Also, Heshmati (2003) investigates the relationship between income inequality and globalisation in developing economies and finsd that globalisation indices explain 7 to 11 per cent in income inequality among the countries. Neutel and Heshmati (2006) equally found relationship between globalisation and poverty when there is control of heterogeneity.

Hammoriis and Kai (2004) study on the SSA in relation to the issue of globalisation, financial deepening and inequality for the period 1980-2002 shows that globalisation deteriorates inequalities but the effects depend on the level of development of the country just as it deteriorates the equalising effects of financial depth. Geda (2006) explores the relationship between openness, poverty and inequality in Africa. He comes to the conclusion that African countries were effectively marginalised in the global markets given its low degree of trade and financial integration with the rest of the world.

There was positive impact of globalisation on poverty alleviation through employment creation and labour market participation in Senegal (Maertens, Colen and Swinnen, 2009) while Gold (2009), in his quest to address the linkage of globalisation and poverty in Bangladesh and Nigeria finds that there is the need to implement policies that would integrate many developing economies into the world economy such that the poor could take advantage of opportunities offered by globalisation. Eighty-eight countries were investigated by Heinrich (2009) to the effect that he estimates effect of national symbols and globalisation on the well-being of some selected countries. He finds that conventional determinants of production affect national well-being measured as Human Development Index (HDI). The effects of HDI of national symbols are unstable while those of globalisation are strong with social globalisation having the strongest effects.

## 3.0 Globalisation And Nature Of African Economies

### 3.1 Socio-economic Issues in Sub-Saharan Africa

Sub-Saharan Africa (SSA) is arguably more vulnerable to changes in the international market than many other regions of the world. This is due to a number of factors, such as the composition and direction of its trade, the size of its aggregate output, its dependence on external financial flows, its low technological base and weak adjustment mechanisms against macroeconomic shocks (UNCTAD, 2005). It is worth noting that, in spite of the increasing degree of openness of SSA countries to the global market, most of her social and human welfare indicators have remained very low relative to other regions. Table 1 presents data on some of the non-monetary indices of poverty. For example, though infant mortality rates in SSA in the last five decades (1960-2012) have declined by 32.2 percent from 149 in the period 1960-69 to 101 in 2000-12 the region recorded the highest infant mortality rates compared to all other regions. Similarly, life expectancy in SSA has remained the lowest in the world in the last thirteen years (2000-2012) was just slightly higher than the 1960-69 level and about the same with the level attained in the 1970s.

**Table 1: Infant Mortality Rates and Life Expectancy at Birth (years)**

| | Infant Mortality Rates/ thousand | | | | | Life Expectancy at Birth (years) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1960-69 | 1970-79 | 1980-89 | 1990-99 | 2000-12 | 1960-69 | 1970-79 | 1980-89 | 1990-99 | 2000-12 |
| ***World*** | ***119*** | ***93*** | ***78*** | ***66*** | ***57*** | ***52.5*** | ***58.1*** | ***61.4*** | ***63.7*** | ***65.4*** |
| **Asia** | 123 | 96 | 77 | 63 | 54 | 48.5 | 56.4 | 60.4 | 64.0 | 67.4 |
| **Europe** | 33 | 23 | 17 | 11 | 9 | 69.6 | 71.0 | 72.0 | 72.6 | 73.3 |
| **Latin America and Caribbean** | 96 | 75 | 52 | 35 | 26 | 56.8 | 60.9 | 64.9 | 68.3 | 71.5 |
| **North America** | 24 | 16 | 9 | 7 | 7 | 70.1 | 71.6 | 74.3 | 75.5 | 77.6 |
| **Oceanic** | 49 | 43 | 36 | 32 | 9 | 63.7 | 65.8 | 69.3 | 71.5 | 74.0 |
| ***SSA*** | ***149*** | ***130*** | ***115*** | ***107*** | ***101*** | ***42.4*** | ***46.3*** | ***49*** | ***47.7*** | ***45.9*** |

**Source: United Nations Human Development Report, 2013.**

In comparison with other developing economies, the African continent has not done well. A pictorial view of the Gross National Income (GNI), using purchasing power parity (PPP) and GNI per capita for developing countries and income levels are presented in figures 1 and 2. The bar representing Sub-Saharan Africa in figure 1 is hardly discernable, indicating that, relative to other developing countries, Africa has the least national income and by implication the highest level of poverty.

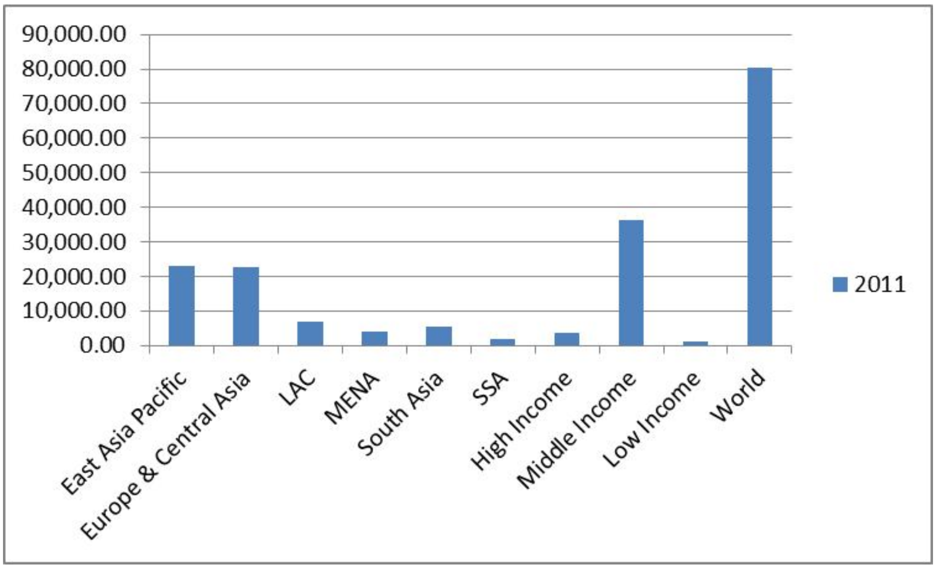


Fig. 1: PPP Gross National Income

Figure 2 is the chart representing the PPP income per capita. It is quite clear that the SSA bar remains the shortest or the lowest income per capita in the world. The low per capita income in the LICs, where most African countries belong, dragged down the world's average as indicated in the chart.

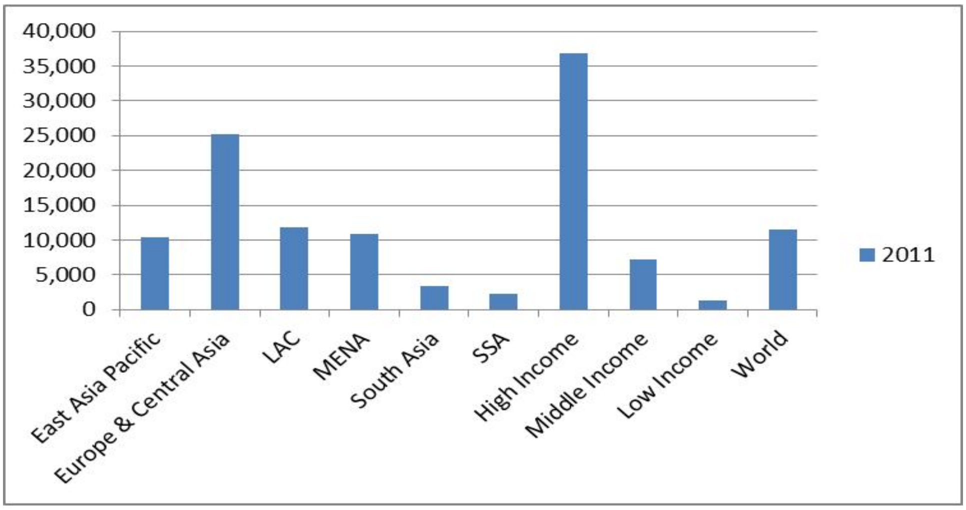


Fig. 2: PPP Gross National Income per capita

Adult literacy level is lowest in Sub-Saharan Africa with average at 62 per cent of the population as against 98 per cent in Europe & Central Asia and 99 per cent in high income countries. Figure 3 exhibits the adult literacy level across regions and Africa presents the lowest bar. Studies have shown that countries with poor health status and low literacy level are prone to low life expectancy and this is reflected in Figure 4 where the bars for males and females in Africa are the lowest.

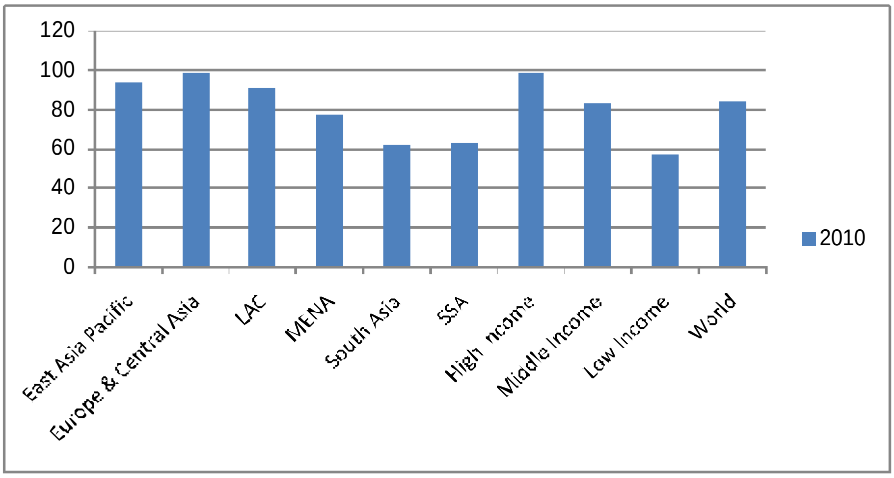


Figure 3: Literacy level across region

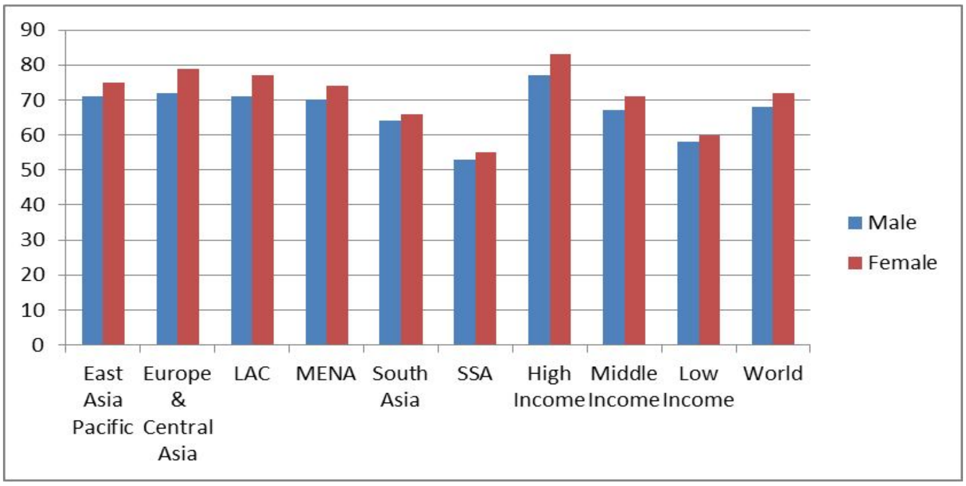


Fig.4: Life Expectancy by Region (2011)

With these social indicators, particularly the issue of low incomes which have implications for effective demand for goods and high level of illiteracy which naturally impacts negatively on technological invention, advancement and absorption, the following reports on trade, competitiveness of the African economies within the world and flow of foreign direct investments are not surprising.

The region's integration into the global market in the last half of a century has been assessed with mixed reactions as can be gleaned from the preceding Section. The oil crises in the early 1970s sharply reduced SSA's trade openness (measured by sum of export and imports divided by total GDP). This was probably largely as a result of policies that restrict trade and more widespread use of foreign exchange controls.

Countries in the region have varied degree of factor endowments. Their socio-economic and political structures also differ as a result of the differences in their legacy of colonialism and natural resources endowment. Generally, SSA countries are richly endowed with land and labour which make both subsistence and export crop farming major sources of income.

To some extent, the region has been more integrated into the global economy in the last three decades (Table 2 and 4). Table 2 compares SSA with other global regions in terms of trade openness (market integration) between 1980 and 2012, a period which marks the era of intensive globalisation, not only in SSA countries but globally. The table provides trade openness data covering the period when many SSA countries embarked on economic reforms and programmes. Table 2 shows the general trend towards greater openness over the past three decades across all global regions (1980-2012) based on GDP weights. The trend is not uniform, either across regions or over time, and this is an important feature. At first sight, openness in SSA is higher than most other regions in almost all years shown, but this is potentially misleading because of region-specific factors (IMF, 2005). Average trade intensity has increased in Africa in line with the overall global increase, but not as rapidly as almost all other low-and middle-income regions.

**Table 2: Global Comparison of Trade Openness: (X+M/GDP) (US $ estimate)**

| | 1980-84 | 1985-89 | 1990-94 | 1995-99 | 2000-12 |
|---|---|---|---|---|---|
| ***Sub Saharan Africa*** | ***55.4*** | ***53.0*** | ***54.8*** | ***60.1*** | ***65.3*** |
| Latin America and Caribbean | 27.3 | 29.2 | 32.0 | 39.3 | 43.4 |
| South Asia | 19.2 | 17.8 | 22.4 | 27.5 | 32.6 |
| East Asia | 29.2 | 36.6 | 50.7 | 59.8 | 73.9 |
| East Europe and Central Asia | na | na | 59.1 | 67.3 | 73.9 |
| Middle East and North Africa | 57.6 | 41.5 | 59.7 | 54.0 | 56.9 |
| ***World Total*** | ***37.9*** | ***36.6*** | ***38.8*** | ***43.9*** | ***48.5*** |

Note na = not available

**Source: World Bank (2013).**

In spite of the increase in trade intensity, Africa's share of total world trade has fallen over the last three decades (see table 4). This confirms the assertion that, relying solely on trade intensity as an indicator of trade liberalization is problematic and it is a misleading measure of globalisation because there are many factors that may influence the ratio besides liberalization policies. In fact, Africa's international competiveness in the world trade has not been encouraging. For example, the World Bank Annual Competitiveness Report (2013) indicates that 14 out of 20 lowest-ranked economies are from Africa. The Report states *inter alia*:

> They (African countries) underperformed by a wide margin on human development indicators, and armed conflict and recurrent food crises continue to make headline news. Indeed, for many African economies, sources of growth are insufficiently diversified. Mineral exports make up over half of the region's total export, rendering them vulnerable to commodity shocks. The share of gross domestic product (GDP) held by the manufacturing sector has remained largely unchanged since the 1970s, and more than two-thirds of the labour force is employed in the agricultural sector, implying limited structural transformation.

Factors relating to the barriers to external competitiveness of the African economies include external balance, capital flows, currency convertibility and relative value of exchange rates (Tella, 2008).

Since trade openness as a measure of globalisation has shortcomings, there is the need to look at indicators such as foreign direct investment (FDI). The relative increase in growth of FDI has sometimes been used as another indicator of globalisation (Geda and Shimeless, 2005). Since the early 1990s, many developing countries have enhanced their efforts to attract foreign direct investment (FDI), and the most successful have been those engaged in exporting fuels and mining products as well as fast-growing exporters of manufactures (UNCTAD, 2005). Within Africa, as in any of the global regions, there is considerable variance across countries in this regard.

Table 3 shows at the regional level, the estimate of FDI flows (inflow and outflow combined) expressed relative to GDP and net inflow as share of total FDI received by developing countries. Since FDI is a relatively volatile measure, the table shows the estimates smoothed as five-year averages, except in 2000-2012.

The Table 3 confirms the marked increase in FDI relative to GDP in SSA countries over the 32-year period and especially in the last thirteen years. Sub-Saharan Africa in particular has done better than most other regions; increasing from 0.3% in 1980-1984 to 2.74% in 2000-2012. The same ratio based on (equal) country weights suggests a greater increase, reflecting the high ratios in some low-income countries. In terms of the regional share of FDI, the estimates are far less favourable for SSA countries.

**Table 3 Global comparison of Foreign Direct Investment**
**Foreign Direct Investment: FDI (I+0/GDP).**

| | 1980-84 | 1985-89 | 1990-94 | 1995-99 | 2000-12 |
|---|---|---|---|---|---|
| Sub Saharan Africa | 0.30 | 0.50 | 0.72 | 2.04 | 2.74 |
| Latin America and Caribbean | 0.83 | 0.75 | 1.17 | 3.26 | 3.16 |
| South Asia | 0.07 | 0.10 | 0.23 | 0.68 | 0.67 |
| East Asia | 0.57 | 0.90 | 2.99 | 3.98 | 3.13 |
| East Europe and Central Asia | 0.06 | 0.07 | 0.47 | 2.22 | 2.81 |
| Middle East and North Africa | 0.46 | 0.47 | 0.91 | 0.76 | 1.08 |
| World Total | 0.54 | 0.77 | 0.84 | 2.00 | 2.64 |

**Notes: I-Inflow and 0-Out flows**
**Source: World Bank (2013) average annual rates**

**Table 4: Foreign Direct Investment: FDI (regional shares of total)**

| | 1980-84 | 1985-89 | 1990-94 | 1995-99 | 2000-12 |
|---|---|---|---|---|---|
| Sub Saharan Africa | 0.06 | 0.09 | 0.04 | 0.04 | 0.06 |
| Latin America and Caribbean | 0.47 | 0.42 | 0.31 | 0.40 | 0.34 |
| South Asia | 0.01 | 0.02 | 0.02 | 0.02 | 0.03 |
| East Asia | 0.31 | 0.35 | 0.51 | 0.37 | 0.33 |
| East Europe and Central Asia | 0.01 | 0.02 | 0.01 | 0.15 | .021 |
| Middle East and North Africa | 0.13 | 0.01 | 0.04 | 0.02 | 0.03 |

**Source: World Bank (2013) average annual ratio.**

A glance at Table 4 shows that around 6 percent of the total net FDI inflow to developing countries accrued to SSA throughout this period. The increase in the share of world FDI received by SSA countries in the 1990s did not significantly impact on Africa: Africa's share fell to 4% of the total during the period (World Bank, 2011).

Capital flow is also an important aspects of globalization in terms of global financial movements. Studies have shown that even in instances where capital outflow from African is relatively lower than that of other developing countries in the world, the impact or burden has been much higher (Ndikumana and Boyce, 2003; Collier, Hoeffler, and Pattillo, 2004). A more recent article by Ndikumana and Boyce (2011) presents new evidence on how African economies have been traumatized with unwarranted capital flight in the last four decades. The estimates of the study show that "for the sample of 33 countries as a whole over the period 1970–2004, capital flight amounted to $443 billion in real terms (in 2004 dollars) and $640 billion when imputed interest earnings are included". They find that the stock of capital flight exceeds the combined external debts of the countries by $447 billion and that out of every dollar loan, as much as 67 cents left the country in form of capital flight in the same year (Ndikumana and Boyce, 2011). This becomes increasingly possible because of the capital account liberalization arising from increasing globalization.

## 2.2 Poverty and Human Welfare in Global Context

Comparing poverty among regions is usually a difficult task because it requires that an appropriate measure is chosen and more often than not all measures have one shortcoming or another.

Since the late 1980s, poverty in SSA, defined by those living on less than $1 per day, increased from 217.2 million in 1987 to 290 million in 2010 which represents over 46 percent of the total population in SSA (Table 5). Within the same period, SSA's share of the world poor rose from less than 20 percent to close to 25% (World Bank, 2011).

**Table 5: Poverty in Global Context, 1987-2010**

| Poverty Indices by Regions | **1987** | **1990** | **1993** | **1996** | **2010** |
|---|---|---|---|---|---|
| SSA poor population (millions) living on less | 217.2 | 242.3 | 273.3 | 289 | 290.0 |
| than $1 per day (% of world total in brackets | (18.4) | (19) | (21) | (24) | (24.3) |
| SSA headcount (%) | 46.6 | 47.7 | 49.7 | 48.5 | 46.3 |
| South Asia headcount (%) | 44.9 | 44 | 42.4 | 42.3 | 40.0 |
| World headcount (%) | 28.3 | 29.0 | 28.1 | 24.5 | 24.0 |

**Source: The World Bank's Poverty Data Base (2011).**

Table 5 and Figure 5 show that both the absolute number of people living in abject poverty (on less than $1 a day) and the percentage of poor population (or headcount) in SSA increased steadily from 1987 and reached a peak in 1993 after which it declined slightly in spite of the rapid waves of globalisation during this period.

Also, Table 6 shows an elaborate comparison of the incidence of poverty in SSA countries vis-à-vis other regions of the world.

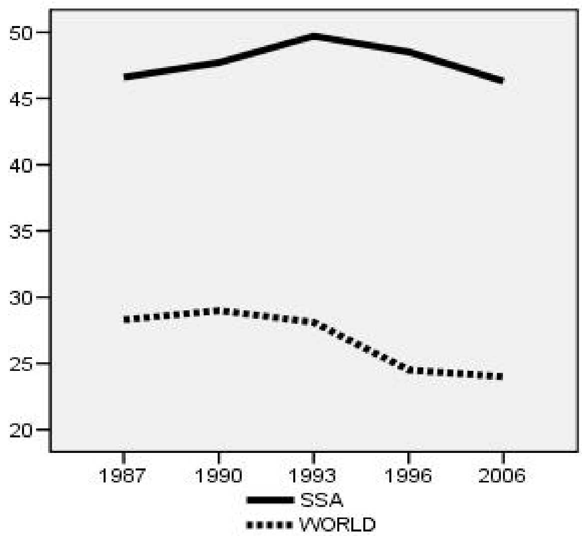


*Figure 5: Plot of Poverty based on the Headcount (%)*

**Table 6: Global Comparison of Poverty Trend**

| **A** | **[a]Income poverty (headcount ratios)** | | | | |
|---|---|---|---|---|---|
| | **1981** | **1987** | **1993** | **1996** | **2010** |
| Sub Saharan Africa | 41.6 | 46.8 | 44.1 | 45.6 | 46.4 |
| Latin America and Caribbean | 9.7 | 10.9 | 11.3 | 10.7 | 9.5 |
| South Asia | 51.5 | 45.0 | 40.1 | 36.6 | 31.3 |
| East Asia | 57.7 | 28.0 | 24.9 | 16.6 | 14.9 |
| Eastern Europe and Central Asia | 0.7 | 0.4 | 3.7 | 4.3 | 3.6 |
| Middle East and North Africa | 5.1 | 3.2 | 1.6 | 2.0 | 3.4 |
| World total | 40.4 | 28.4 | 26.3 | 22.8 | 21.1 |
| SSA/World (%) | 103 | 165 | 168 | 200 | 220 |
| **B** | **[b]Income poverty (numbers in million)** | | | | |
| | **1981** | **1987** | **1993** | **1996** | **2010** |
| Sub Saharan Africa | 163.6 | 218.6 | 242.3 | 271.4 | 312.7 |
| Latin America and Caribbean | 35.6 | 45.1 | 52.0 | 52.2 | 49.8 |
| South Asia | 474.8 | 473.3 | 476.4 | 461.3 | 431.1 |
| East Asia | 795.6 | 425.6 | 415.4 | 286.7 | 271.3 |
| Eastern Europe and Central Asia | 3.1 | 1.7 | 17.5 | 20.1 | 17.0 |
| Middle East and North Africa | 9.1 | 6.7 | 4.1 | 5.5 | 7.1 |
| World total | 1481.8 | 1171.2 | 1207.5 | 1097.2 | 1089.0 |
| SSA/World (%) | 11 | 19 | 2 | 25 | 29 |

**Source:** (a) Chen and Ravallion (2011): based on international poverty line ($1.08 1993 PPP)

(b) Chen and Ravallion (2011): based on international poverty line ($1.08 1993 PPP).

Table 6A shows that, for SSA countries, the estimates are significant with little or no progress over the three decades; the number of the poor increased in this region, almost doubling from about 164 million to 313 million. Over the same period, the world total fell, largely due to a dramatic reduction in the number of the poor in Asia (China and India in particular). The table shows that the proportion of the world's poor in SSA rose from about 11 percent in 1981 to approximately 29 percent in 2010. In terms of headcount indices which normalize these poverty estimates to levels of population, the results look somewhat different. For SSA, the incidence of poverty is approximately constant, between 44 and 46 percent for much of the three decades although a slight rise is perceptible on a year-on-year basis (Chen and Ravallion, 2011). Using the world headcount ratio as a benchmark, it is evident that the outcome for the SSA region is far worse and poverty incidence increased sharply, the ratio rising from just over 103 percent in 1981 to 165 percent in 1987 and 220 percent in 2010.

Apart from the monetary indices of poverty highlighted above, the social indicators of poverty (with emphasis on infant mortality, life expectancy and access to social infrastructure) on regional basis vis-a-vis the global average are presented in Table 7. Each of the regions had an infant mortality rate worse than the global average in the period under review. However, the East African countries had relatively better infant mortality rates. Also, the life expectancy at birth was worse in each of the regions compared with the world average, with Central African countries having the lowest set of figures for life expectancy at birth. Access to social services in all the regions was also worse than the world average, while the human development index in each of the regions fell below the world average (UNDP, 2008). Overall, the above trends show that SSA countries have been experiencing an alarming rate of poverty and deteriorating human welfare in the period under review (1981-2010).

**Table 7: Social Indicators of Poverty and Human Welfare (SSA Regions)**

| | INFANT MORTALITY RATE (PER THOUSAND BIRTHS) | | | LIFE EXPECTANCY AT BIRTH (YEARS) | | | % OF POPULATION WITH ACCESS TO SANITATION | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1981-1990 | 1991-2000 | 2000-2009 | 1981-1990 | 1991-2000 | 2000-2009 | 1981-1990 | 1991-2000 | 2000-2010 |
| Southern Africa | 106 | 90 | 80 | 52 | 55 | 41 | 30 | 63 | 68 |
| West Africa | 112 | 92 | 78 | 48 | 50 | 53 | 32 | 63 | 48 |
| Central Africa | 110 | 100 | 89 | 48 | 49 | 49 | 31 | 53 | 49 |
| East Africa | 95 | 76 | 60 | 53 | 55 | 56 | 56 | 62 | 63 |
| SSA (Average) | 115 | 96 | 81 | 49 | 52 | 53 | 35 | 55 | 60 |
| World (Average) | 78 | 66 | 57 | 61 | 63 | 65 | 55 | 70 | 81 |

| | % OF PUPULATION WITH ACCESS TO SAFE WATER | | | % OF POPULATION WITH ACCESS TO BASIC HEALTH SERVICES | | | HUMAN DEVELOPMENT INDEX (HDI) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1981-1990 | 1991-2000 | 2000-2009 | 1981-1990 | 1991-2000 | 2000-2009 | 1981-1990 | 1991-2000 | 2000-2010 |
| Southern Africa | 44 | 63 | 71 | 54 | 66 | 53 | 0.32 | 0.451 | 0.437 |
| West Africa | 35 | 63 | 65 | 64 | 57 | 63 | 0.336 | 0.361 | 0.387 |
| Central Africa | 30 | 53 | 52 | 33 | 42 | 64 | 0.306 | 0.341 | 0.346 |
| East Africa | 51 | 62 | 54 | 72 | 83 | 63 | 0.404 | 0.346 | 0.349 |
| SSA (Average) | 42 | 55 | 60 | 61 | 66 | 62 | 0.336 | 0.361 | 0.387 |
| World (Average) | 49 | 73 | 82 | 65 | 75 | 85 | 0.519 | 0.567 | 0.597 |

Source: World Bank:- African Development Indicators (Various Edition); UN:- Human Development Report (Various Edition); ADB:- Statistical Division; UNDP Data Base (Various years)

Figure 6 shows the state of sanitation in Africa vis-à-vis other regions of the world. It shows that while other regions are improving in this area, the sub-Saharan Africa's condition remained precarious.

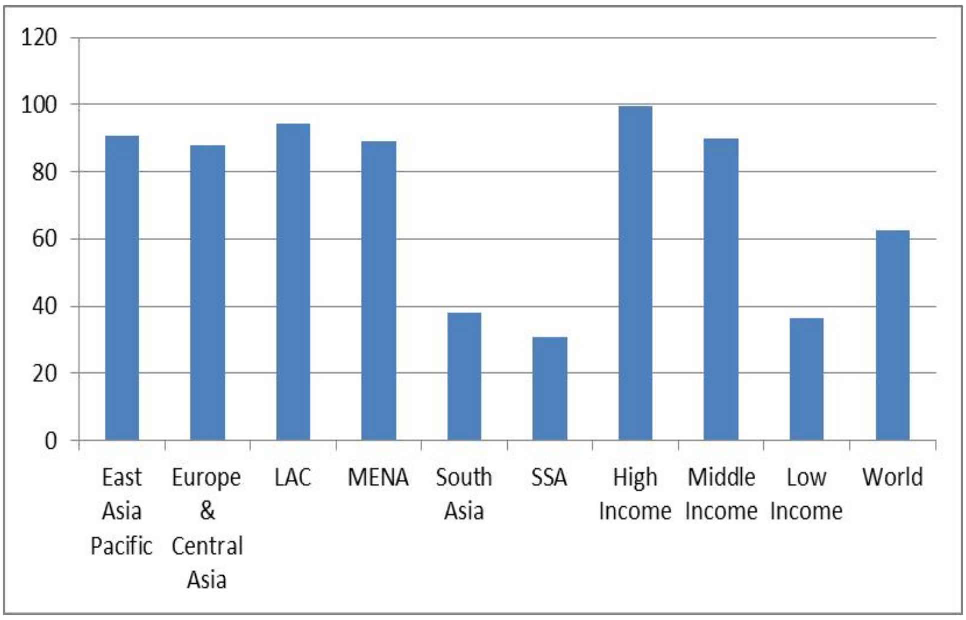


Figure 6: Access to improved sanitation in 2010

The foregoing scenario has demonstrated that despite globalisation, which, expectedly should enhance improved living standards through some bandwagon effects, the countries in Africa are far behind other developing countries in almost all variables that represent good living conditions while they are enmeshed in everything that connotes poverty. A number of factors, some of which we have identified above contributed largely to this. The additional factors include low income per head and consequence on effective demand and production, low literacy level and effects of technology compliance, low life expectancy, poor access to improved sanitation and HIV prevalence and their health challenges with effects on the macro-economy, low financial integration within the world, weak institutions and ineffective leadership with problems of transparency and accountability.

## 4.0 Summary And Recommendation

The consensus in the theoretical and empirical literature is that globalisation promotes economic growth and reduces poverty, because it (globalisation) behaves as a channel through which surplus national production can exchange the products and ideas of other countries. Trade as a major component of economic globalisation encourages the allocation of resources based on the perceived comparative advantages of participating countries and drives economic growth and poverty alleviation. While globalisation has made some contribution to economic growth and poverty alleviation in SSA, it has not yet facilitated the process of structural transformation required for countries in SSA to reach the take-off stage and accelerate economic development and poverty reduction. Instead, it has increased intra-country and intra-regional inequality and promotes poverty through unequal trade, easy capital flight, inadequate or relatively declining foreign direct investments.

In general however, the limited scope of globalisation in SSA appears to be the result of a combination of poor economic and social conditions on ground, such as issue of low incomes which have implications for effective demand for goods and high level of illiteracy which naturally impacts negatively on technological invention, advancement and absorption; extremely under-developed physical and social infrastructure, and a related high risk investment climate encouraged by political instability.

For the region to derive immense benefits from globalisation, especially with respect to poverty reduction, the following recommendations, among others, become germane:

(i) A need for a more guided integration of the region to the global economy in terms of direction and flow of trade. There is need for harmonised reforms, diversification of the economies with promotion of backward integration industrialisation.

(ii) SSA countries must strengthen their human and institutional capacity in the area of trade, investment and communication. In this connection, massive investments in education, health and other social infrastructure become imperative.

(iii) Good governance is equally imperative for the region to reduce poverty via transparency and accountability in governance; political enlightenment and stability. That is the region (SSA) should pay serious attention to the quality of governance, rule of law, welfare programmes and pro-poor reforms.

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# GENDER AND ENTREPRENEURSHIP IN NIGERIA

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## Abstract
*Female entrepreneurs are considered imperative for economic development and they are expected to contribute positively to employment creation and economic growth through their increasing numbers and make a contribution to the diversity of entrepreneurship development in the economic process. Diversity in terms of products, processes forms of organization and targeted markets as input for selection process where customers are at liberty to choose according to their preferences. In essence, entrepreneurs learn about what is technological and organizationally viable as springboard for higher quality of entrepreneurship. Despite the economic importance of female entrepreneurs, literature revealed that their number still lags behind than that of male entrepreneurs with slight variations amongst countries. The statement of research problem in this study takes a cursory look on the degree of marginalization of women in this part of the globe. The objective of this study is to determine some of the factors relevant for the success or otherwise of women in entrepreneurship and its benefit on the economy. The theoretical base for the paper is based on the Harrod- Domar Growth model in economics using the ordinary least square of econometrics as method of analysis. The scope of the study covers the period between 1981 and 2009. The study concludes that women approach to resource and enterprise development is expedient and needs to be consciously tackled and despite its might and challenges the need for definite roadmap is feasible.*
**Keywords: gender, entrepreneur, development, relevance, econometrics**
**JEL CODES: A12; B23; C32; J16; J21; M13**

## 1.0 Introduction
The zeal to determining an appropriate definition of an entrepreneur seems like a herculean task. As business concepts and ownership structure evolves with deep reliance on the gender issue, the method of analysis relevant for such investigation as well as the principles underlying the entrepreneurial phenomenon becomes feasible. According to Drucker (2007), the characteristic features of an

entrepreneur includes direction, supervision, control and risk taking. However, innovation rather than risk taking may constitute an important distinction. Sani, (2001) highlights the historical perspective on women which reveals women generally occupy position of importance in various climes. Even in the spiritual aspect of life, women are accorded a noble role. As such, a cursory look into women developmental process could be seen and described as a shadow of the original purpose. This is because the ideal feminine roles are intertwined with strong and potent cultural values and beliefs. These cultural values and beliefs are more of myths to the present generation and as such could be likened to a foreign exchange trader who is trading against the trend.

In our part of the world, women are expected to exhibit a natural attachment or affiliation to her family over any other requirements. Thus, women are expected to be primarily responsible to their family. In essence, Sesay, (1998) emphasises that a growing need subsists within the confines of the gender-natured careers in line with the attendant career goals and demands. In addition, Crawford, (2004) opines that women participation in labour force is on the rise. Due to this move, there is increased involvement of women in science and technology related chores.

The statement of research problem in this study stems from the degree of marginalization of women in this part of the globe. Women are expected to play the second fiddle in the scheme of things. It must be noted that sex stereotype roles limit the full participation of individuals and as such limits the development potential of such human capital. However, most women have proved their mettle in men dominated environment with the signal that they possess the required ability and agility to perform excellently in both the private and public sectors of the Nigerian economy.

The objective of this study is to determine some of the factors relevant for the success or otherwise of women in entrepreneurship. It is also expected to prove that it will be beneficial for the economy to encourage women to take the bull by the horn in developmental assignment of the nation. The need to play a pivotal role continually in the economy will be sustained in this instance. In the course of achieving a sustainable level of entrepreneurial development, it is imperative for women to play an active role as a panacea for an enhanced entrepreneurial development. The relevance of encouraging women to engage in economic activities is becoming increasingly beneficial particularly in most developing economies such as Nigeria. This approach could be viewed from two major scenarios. Either to empower women by bringing them into the mainstream of development and improve their economic status or to provide new employment opportunities to women from different socio-economic environments through income generation, self employment and entrepreneurship.

Women as an emerging economic force that policymakers cannot afford to ignore requires needed attention. What are the implications of this for businesswomen throughout the world? How can women's business associations best channel this potential and maximize it to improve the status of women in the world economy? The global economy and democratic ideals depend on the participation of both sexes. Would it not be ideal to envision as normal a global international order based on democracy, free enterprise, and international law? The theoretical base for the paper is based on the Harrod- Domar Growth Model. The theory emphasized that every economy is expected to save a certain proportion of her national income for purpose(s) of growth and development. The scope of the study is expected to cover the period between 1981 and 2009.

## 2.0 Literature Review

The pivot for development of any nation is the relevant schedule of importance of entrepreneurship in terms of linkage with the level of economic development. This plays an important role in the development and growth of such society. It is not questionable to affirm that there exists large number of women in most developing economies capable of and willing to be involved in economic activities. In many nations on the globe, there is a lack of integrated and need-based training programmes as well as a paucity of skilled trainers and facilitators, which inhibits the efforts at promoting women entrepreneurs. The Harrod-Domar Growth Model in economics has the national income, national savings, gross capital formation as well as the gross domestic product as required variables in this instance. This is expected to capture the relative importance of entrepreneurship in an economy and Nigeria is not an exception.

According to Trigg, Nabangi and Onifade (1997), Nigerian women unlike their male counterparts, have not made any significant contribution in terms of the socio-economic development of Nigeria and as such the possibility of making this contribution is very much in doubt due to the high level of illiteracy prevailing among Nigerian women. Over 62 percent of the adult illiterates in Nigeria have been found to be women. This posture discloses that serious work needs to be done in the area of women literacy programmes for the possibility of an improved situation occurring. It is endorsed in this exposition that one will not expect much from illiterate women-folks who definitely lack the basic functional education and training which will lead to their effective participation in the socio-economic development of this country.

In addition, poor level of literacy could have also accounted for the zeal to be a front-burner on issues concerning successful entrepreneur. However, activities of most international agencies regarding the creation of awareness and sensitization on the rights, privileges and presumed benefits to the individuals and the economy at large is required and should be encouraged. Most Non-Governmental Organisations (NG0s), Development organisations and Government agencies adopts a social welfare-oriented approach in women's developmental programmes. As such, they lack understanding of the various concepts of entrepreneurship and how gender related issues impact on enterprises development. The socio-economic background of potential women entrepreneurs has made it possible to observe that women from different areas such as cities, towns and villages have diverse economic, social and educational backgrounds coupled with varied experiences. These could result in a variety of target groups relevant for different types of economic development programmes. It may be noted that women have diverse backgrounds and their economic activities may be undertaken at home, be it seasonal or frequently.

Casson (1995) notes that some women break into these networks by developing mentor relationships with men or women in higher level organizational positions. Generally, women are gradually beginning to develop their own networks. Other factors impeding women from accessing top management positions include the fact that women lose out on access to formal training opportunities and access to firm sponsored training and development schemes, partly because of the high labour turnover rates of women, which amounts to indirect cost for employers (Anna, 1999). A prevalent perjured perception of the leadership behaviour or abilities of women exists therefore. The workplace experiences of women cannot be divorced from prevailing sex stereotypes in the society. Thus, opportunities for women in the business environment could result not from a single stand-alone event but rather from complex interactions and convergence among multiple forces. These forces include political and legal activities, societal beliefs, values, practices, organizational and individual actions, myths as well as societal perception.

Most enterprises could be categorized into three variants based on the kind or scale of activity and income of stakeholders. Survival enterprise ( mostly for poor and low income women) are generally involved in traditional business activity at the survival level. These activities include handicrafts, food-processing, tailoring, vending, et cetera and as such, most people do not consider these women to be entrepreneurial. Based on empirical research, it was crystal clear that in order to foster the growth and development of women entrepreneurs, many things are required. Firstly, women had to be more aware of the entrepreneurship option and be more motivated to explore such opportunities. Furthermore, access to opportunities for knowledge, exposure and skills necessary to start and grow a viable enterprise becomes feasible. In essence, exposure to networks of other women entrepreneurs to learn from their experiences and gain moral support and encouragement is needed. Access to information and professional business development and advisory services to help develop their management and production capacity becomes recognizable for their achievements individually and collectively.

What was happening at the enterprise level also had to be supported at both the micro and macro levels of operation. The need to ensure the existence of favourable attitudes and conditions for both enterprise creation and growth should be put in place. This would require coordinated policy action as well as better integration of public and private sector programme activities. Depending on the range and extent one of the major observations was that countries in the high level of support category such as Canada and the United States of America are the ones with the highest percentage of women entrepreneurs in the Small and Medium Enterprise (SME) sector.

Gender discrimination has had very serious negative consequences on development of the women-folks in Nigeria. Thus, vocational aspirations and choices are somehow influenced by certain variables including gender and family background. These researchers reveal that males choose male-stereotyped occupations while females choose female-stereotyped occupations. Thus sex-roles and sex-stereotyped concepts, as sanctioned by the Nigerian cultural value traditionally insists that the place of women is the home. This cultural expectation is responsible for the domination of males in some job areas and females in other areas.

It is conceded that in spite of the gender issues and problems which largely derive from the stereotyping of women's role-behaviour and status, women make up about 50 percent of Nigeria's population. In spite of their numbers, this section of the Nigerian population is characterized to a very large extent by widespread illiteracy particularly in the rural areas. About 90 percent of the women in Nigeria are uneducated yet, these women are central to the issues on over population crisis in Nigeria which currently stands at 167million according to Nigerian Population Commission. If women were well educated and well-informed, they could understand the implications of excess population as well as the problems of over-population and unemployment. The type of leaders a nation attracts depends largely on how their formative years were guided or misguided by mothers.

Countries with weak support for women entrepreneurs as a target group had the lowest proportions of women in the Small and Medium Enterprise population. Therefore, comprehensive targeting of women with tailored policies and programme measures is expected to lead to a higher level of performance. Some of the following factors will be of relevance for proper placement in this work: Strategy which refers to the pursuit of a realistic economic opportunity; innovation is the concept of being conversant with new ideas and concepts at all times as core principle for positive achievement and sustenance; leadership is the instrument of human capital development used in building and connection with local and indigenous capacity and capability as a reliable base; implementation on the other hand is to be value-added, specific and focused; while sustainability is to leverage on resources available to achieve the optimal.

According to Wells (1998), few years back, banks were not focusing on women entrepreneurs but now they see a growing opportunity in catering for women specifically minority-owned women's businesses. Wells Fargo created a 10-year, \$3 billion lending commitment to Asian-American owned businesses in 1997. In 2002, Hispanic women-owned businesses were offered a 13-year, \$5 billion commitment, while a 12-year, \$1 billion lending commitment became available to black women-owned businesses. In a survey conducted in 2003 among some minority women business owners on obstacles to financing, 47 percent of African American women answered in the affirmative, as did 27 percent of Hispanic women. When asked if they had access to bank credit, only 39 percent of African-American women businesses owners, 46 percent of Asians and 47 percent of Hispanic women did when compared to 60 percent of Caucasian women business owners. In Nigeria, the attitude towards women entrepreneurship has some cultural colouration. In order to advance beyond this level, a positive change in this order becomes necessary.

Getting enough businesses, going global, securing contracts and customers, gaining access to capital for cash flow tends to be the main concerns of minority women business owners. There is what seems a direct link between networking and revenue generation. For many minority women entrepreneurs, success in business is no longer just about joining a network. It is about getting access to influential networks that will increase knowledge, spur deal making, provide mentoring and propel growth and development. More minority women entrepreneurs are joining professional groups to enhance connections and accessibility to influence business development swings

Personal challenges will always threaten to get in the way of business and for those that believe in efforts, and hard work will put an entrepreneur in a vantage position. It is often these personal challenges that motivate entrepreneurs to achieving beyond the ordinary. Many successful women entrepreneurs working towards a larger goal can serve as a purpose to get up each morning even when other parts of their bodies are not moving smoothly (Hugo, Pablo and Mosonkreiig, 2005).

Most women whether they work outside the home or not are already multi-task oriented up to the maximum and women also have the wherewithal to handle a lot of activities at a time. This is exactly what an entrepreneur does on a daily basis so as to juggle tasks, takes on new challenges and moves to the next level. When it comes to finding the time to start a business, prioritizing your to-do list is critical (Fischer, Reuber and Dyke (1993).

The specific needs of women entrepreneurs identified are improved access to financing; enhanced strategic entrepreneurial and management competencies; stronger business networks; opportunities for trade development; exposure to higher potential business opportunities; technology enhancement; and sustained promotion of entrepreneurship. The focal point for women's enterprise development should be within the Micro and Small Enterprise policy area. Government departments and donor agencies should develop a coordinated approach to support growth of women owned enterprises and enforce gender equality objectives in enterprises and policy documents (Delmar, 2003).

Female entrepreneurs are considered important for economic development in most climes in the present dispensation and as such contribute immensely to employment creation and economic growth through their increasing numbers. In addition, they also make input to the diversity of entrepreneurship in the economic process value chain (Davidson and Honig, 2003).

Female and male entrepreneurs differ with respect to their personal and business profile: they start and run businesses in different sectors, develop different products, pursue different goals and structure their businesses in a different fashion (Brush, 1992; Chaganti and Parasuraman, 1996). Diversity in terms of products, processes, forms of organization and targeted markets is input for a selection process where customers are at liberty to choose according to their preferences and where entrepreneurs learn about what is technological and organizational viable. This in turn may lead to a higher quality of entrepreneurship (Coleman and Pencavel, 1993).

Despite the economic importance of female entrepreneurs, their number still lags behind that of male entrepreneurs. According to Carter, (2000) men are likely more involved in entrepreneurial activity than women with substantial variation between countries.

The attitudinal approach to women being in the forefront of entrepreneurship activities needs a paradigm shift. The need to encourage the feminine gender as part of developmental effort and growth is feasible. This will help in no small measure to the positive contribution needed for the benefit of developing economies like Nigeria.

## 3.0 Method of Analysis

The variables in this study are expected to draw inferences from the theoretical base of the work. The theoretical base of this work is the Harrold-Domar growth model in financial economics. This study attempts to determine the likely factors relevant for the success or otherwise of women entrepreneurs and how beneficial for the economy. The ordinary least square method of analysis will be employed in this study due to its uniqueness and simplicity. This study intends to make use of the following variables implicitly stated as:

$$GDP = f\,(GCF, LBF, SAV) \qquad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (1)$$

where: GDP: Real Gross Domestic Product
f :functional relationship
GCF: Gross Capital Formation
LBC: Labour Force
SAV: National Savings

Thus, the linear equation stated in equation 1 above will now be stated as follows in an explicit form:

$$GDP = \beta + \beta_1 GCF + \beta_2 LBC + \beta_3 SAV + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

## 4.0 Interpretation of Results

The gross domestic product (GDP) is regressed on gross capital formation (GCF), total labour force (LBC), and national savings (SAV). The estimates in Table 1 show that all the variables are significant. The *p-value for each of the coefficient is less than 0.05 which indicates 5 percent level of significance*. The constant term (C) is also significant which implies other variables not captured by this model may be relevant in explaining the contributions of entrepreneurship to economic development in Nigeria.

The results also show that the sign on the coefficients of national savings is negative while the signs on the coefficients of gross capital formation and labour force are positive. The negative sign on national savings implies that there is an inverse relationship between national savings and gross domestic product. This conforms to the conventional theoretical expectation about the relationship between savings and national output. The positive sign on the coefficient of gross capital formation and labour force indicates positive relationship.

In terms of overall model fitness and robustness, all the parameters show that the model fits the data well. For instance, the R-squared and "Adjusted R-squared" are above 90 percent. This suggests that over 90 percent variations in the gross domestic product are explained jointly by the three variables (gross capital formation, labour force and national savings). In addition, the F-statistics is significant at 1%, thus confirming that the joint effects of these variables are significant in explaining the variation in the gross domestic product. The Durbin-Watson of about 1.5 which is very close to 2.0 implies that the null hypothesis of first order serial correlation can sufficiently be rejected. This suggests that the possibility of serious first order serial correlation in the model is remote.

**5.0 Conclusion and Recommendations**

In conclusion, women approach to resource and enterprise development is expedient and needs to be consciously tackled. Despite its might and challenges the need for definite roadmap becomes feasible. Such relevant factors include improved access to adequate financing, enhanced strategic entrepreneurial and management competences. In addition, building stronger business networks, opportunities for trade and investment as well as development of and exposure to higher potential business opportunities are of the essence for the overall national development. Thus, technology enhancement; and sustained promotion of entrepreneurship is expected to contribute extensively to the ultimate position of development and growth necessary for women entrepreneurship within the societal arena.

There is need to identify established women entrepreneurs and introduce them to potential women entrepreneurs in forum such as exhibitions, conferences and talk shows because they are expected to be role models worthy of emulation. Women success stories should be published as knowledge base and motivation. The scope and quality of affordable, accessible entrepreneurial and management training targeting women should be expanded. A strategic, collaborative research agenda should fill gaps in knowledge about women entrepreneurs and their enterprises. A capacity of researchers should be built by hosting a symposium on women's entrepreneurship to share international approaches and experiences and transfer competence.

Access to credit schemes; Cheap credits with low interest rates should be introduced for women entrepreneurs. Commercial banks and Micro Finance institutions should advance credit to women entrepreneurs without stringent conditions. This should be linked with provision of business development services and technical assistance to women clients pursuing growth. Training programme should be implemented to enhance women entrepreneurs' capability to acquire financing

Women Entrepreneurs' Associations; Women Entrepreneurs' Associations are mostly young, fledging, resource poor and local or regional in scope. Their human resource should be developed to deliver value added services. Existing and new women entrepreneurs' associations should be networked into a national umbrella association to give them the required confidence and reckoning.

In the global economy of the 21st century, international trade will be a key source of economic growth and development. Recent surveys conducted in several countries by the National Foundation of Women Business Owners (NFWBO) indicate that women-owned firms involved in the global marketplace have greater revenues, are more optimistic about their business prospects and are more focused on business expansion than women-owned firms that are domestically oriented. Obviously, expanding into international trade can pay off for women-owned firms.

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# APPENDICES

## Appendix I

Dependent Variable: GDP
Method: Least Squares

Sample: 1981 2009
Included observations: 29

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| GCF | 0.262236 | 0.040037 | 6.549852 | 0.0000 |
| LBF | 2.133208 | 0.758402 | 2.812766 | 0.0094 |
| SAV | -0.038610 | 0.018011 | -2.143651 | 0.0420 |
| C | 114405.8 | 43550.50 | 2.626968 | 0.0145 |

| | | | |
|---|---|---|---|
| R-squared | 0.947317 | Mean dependent var | 344929.6 |
| Adjusted R-squared | 0.940995 | S.D. dependent var | 159867.1 |
| S.E. of regression | 38833.13 | Akaike info criterion | 24.09938 |
| Sum squared resid | 3.77E+10 | Schwarz criterion | 24.28797 |
| Log likelihood | -345.4410 | Hannan-Quinn criter. | 24.15844 |
| F-statistic | 149.8461 | Durbin-Watson stat | 1.477135 |
| Prob(F-statistic) | 0.000000 | | |

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## Appendix II

Table 1 : Data on Gender and Entrepreneurship

| Observations | GDP | GCF | LBF | SAV |
|---|---|---|---|---|
| 1981 | 205222.1 | 18220.59 | 43172.38 | 6562.6 |
| 1982 | 199685.3 | 17145.82 | 44096.91 | 7514.4 |
| 1983 | 185598.1 | 13335.33 | 45055.92 | 9443.9 |
| 1984 | 183563.0 | 9149.76 | 46087.20 | 10988.1 |
| 1985 | 201036.3 | 8799.48 | 47216.47 | 12521.8 |
| 1986 | 205971.4 | 11351.46 | 48323.88 | 13934.1 |
| 1987 | 204806.5 | 15228.58 | 49554.10 | 18676.3 |
| 1988 | 219875.6 | 17562.21 | 92731.30 | 23249.0 |
| 1989 | 236729.6 | 26825.51 | 52326.64 | 23801.3 |
| 1990 | 267550.0 | 40121.31 | 53834.99 | 29651.2 |
| 1991 | 265379.1 | 45190.23 | 55219.94 | 37738.2 |
| 1992 | 271365.5 | 70809.16 | 56708.36 | 55116.8 |
| 1993 | 274833.3 | 96915.51 | 58289.82 | 85027.9 |
| 1994 | 275450.6 | 105575.49 | 59948.77 | 108460.5 |
| 1995 | 281407.4 | 141920.24 | 61673.49 | 108490.3 |
| 1996 | 293745.4 | 204047.61 | 63240.96 | 134503.2 |
| 1997 | 302022.5 | 242899.79 | 64888.45 | 177648.7 |
| 1998 | 310890.1 | 242256.26 | 66619.36 | 200065.1 |
| 1999 | 312183.5 | 231661.69 | 68437.12 | 277667.5 |
| 2000 | 329178.7 | 331056.73 | 70337.41 | 385190.9 |
| 2001 | 356994.3 | 372135.65 | 72062.94 | 488045.4 |
| 2002 | 433203.5 | 499681.53 | 73907.65 | 592094.0 |
| 2003 | 477533.0 | 865876.46 | 75849.95 | 655739.7 |
| 2004 | 527576.0 | 863072.62 | 77866.43 | 797517.2 |
| 2005 | 561931.4 | 804400.82 | 79944.35 | 1316957.4 |
| 2006 | 595821.6 | 1546525.65 | 81871.49 | 1739636.9 |
| 2007 | 634251.1 | 1915348.83 | 83905.70 | 2693554.3 |
| 2008 | 672202.6 | 2030510.02 | 86039.82 | 4118172.8 |
| 2009 | 716949.7 | 2442703.53 | 88269.88 | 5763511.2 |

Source: Central Bank of Nigeria and International Labour Organisation (ILO)

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# ATTITUDE AND PERCEPTION OF CONSUMERS TO ONLINE SHOPPING

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## Abstract

*Online retail stores across the world continue to record improved traffic to their online stores. This arguably is as a result of growth in the access to internet. In Nigeria, however, shoppers still demonstrate some apathy to adoption of this innovative way of shopping with a very large percentage of shoppers still using the traditional shopping method. It is against this background that this study investigates the attitude and perception of the Nigerian consumers to online shopping. Primary data were sourced from a sample size of two hundred and sixteen respondents randomly selected to provide the basis for the study. The data analysed using both descriptive and inferential statistics, Price Product Moment Correlation (PPMC) indicates that of the various factors identified through literatures and tested, quality of products, security and trust in online vendors have the strongest predictive power of adoption of online shopping among the customers surveyed while website design and level of income are the least factors influencing customers adoption of the method of shopping. More so, the attitude of Nigerians to online shopping is significantly correlated with their perception of online shopping. The paper therefore suggests that just as government needs to protect online shoppers through appropriate laws, marketers need to do more in earning customers confidence through ethical marketing.*

**Keywords: OnlineShopping, Internet, Attitude, Risk, Security, Consumers.**

## 1.0 Introduction

The advent of electronic-commerce (also known as e-commerce) has made it possible for consumers to buy and sell goods and services on the web and making it possible for business to be facilitated from anywhere in the world without being present physically. E-commerce has given companies a fresh look of how businesses can be done. Thus, it is gradually becoming a strong medium for consumers to gain access to certain information about goods and services and also be able to do their shopping. This is known as online shopping.

Online shopping is becoming a preferable way for consumers to buy their desired products. It is a new innovative pattern of shopping that brings a great number and wide range of merchandise to consumers and also offers vast market and several business opportunities. Vijay and Balaji (2009) reveal that consumers, all over the world, are increasingly shifting from the crowded stores to the one-click online shopping format.

Online shopping has become one of the most popular web (Internet) activities, immediately following e-mail, instant messaging and web browsing. Teo (2006) note that the growth in the number of online shoppers is greater than the growth in internet users. This indicates that more internet users are becoming comfortable to shop online.

The internet has altered the way consumers shop and buy goods and services, and has rapidly evolved into a global phenomenon. It has helped companies cut marketing costs, thereby reducing the price of their products and services in order to stay ahead in highly competitive markets. Companies also use the internet to convey, communicate and disseminate information, to sell this product, to take feedback and also to conduct satisfaction surveys with customers. Customers use the internet not only to buy products online, but also to compare prices, product features and after sale service facilities they will receive if they purchase the product from a particular store (Shergill& Chen, 2005).

The two most frequently cited motives for online shopping have been convenience and price. The ability to purchase remotely from anywhere is of great interest to many consumers. Online shopping offers really good deals and also brings optimum convenience to the consumers (Gurleen, 2012). As a new channel for marketing, the internet is capable of accommodating many different kinds of products and services. However, people browse the internet more for information than for buying online (Teo, 2002). Li and Zang (2002) note that in the typical online shopping process, when potential consumers recognize a need for some merchandise or service, they go to the Internet and search for need-related information.

However, rather than searching actively, at times potential consumers are attracted by information about products or services associated with the felt need. They then evaluate alternatives and choose the one that best fits their criteria for meeting the felt need. Finally, a transaction is conducted and post-sales services provided.

In Nigeria, online shopping has emerged quite recently as a medium for transactions between consumers and firms. More consumers are being exposed to online shopping and companies in Nigeria are now joining other foreign companies by adopting online shopping. This is largely attributed to internet penetration in Nigeria which rose from 33.26% in 2013 to 37.59% in 2014 and ranked eighth in the world. Specifically, the number of internet user grew by 16% within the same period (International Telecommunication Union (ITU), 2014).

The success of an online store depends mainly on how the consumers perceive what product and service is on offer and what supporting mechanisms are proffered by the online store. Teo (2006) asserts that by understanding the reasons why consumers buy or do not buy online, online stores would be able to incorporate suitable marketing strategies, moderate consumers' concerns and convince even more people being transferred from offline to online shopping.

There have been few studies on attitudes towards online shopping in previous years. Most of them have attempted to identify factors influencing online shopping attitudes. Researchers (Case, Burns, & Dick, 2001; Ho& Wu) 1999; Schubert &Selz, 1999 seem to take different perspectives and focus on different factors in different ways. In Nigeria, the adoption of online shopping has been affected by low internet penetration, high level of illiteracy, cultural barrier, security issues, inadequate regulatory framework, and so forth, all of which have been accused of causing slow adoption of online shopping among shoppers (Aminu, 2013). Furthermore, privacy and safety have been the great concerns, resulting in many people browsing the internet for informational matters than for buying online. Thus, not many Nigerian consumers adopt online shopping.

Furthermore, most of the empirical studies on online shopping in Nigeria did not focus on attitudes and perception of consumers to online shopping. These studies have focused on determinants of Internet use (Anunobi&Mbagwu, 2009); effects

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of electronic banking facilities, employment sector and age-group on customers' choice of banks in Nigeria (Maiyaki&Mokhtar, 2010); business to consumer e-commerce in Nigeria (Ayo, Adewoye, & Oni, 2011); and challenges militating against adoption of online shopping in retail industry in Nigeria (Aminu, 2011).

This study therefore closes the gap by examining the attitudes and perception of consumers to online shopping in Nigeria. Specifically, it tries to answer questions like, what is the level of consumers' attitudes to online shopping in Nigeria? Why do customers engage in online shopping in Nigeria? What kind of products do they buy? What are the factors that influence consumer adoption of online shopping in Nigeria? And how is online shopping perceived by consumers in Nigeria? It is on this background that this research seeks to examine the attitudes and perception of consumers' to online shopping in Nigeria.

The remaining part of this paper reviews the relevant literatures on the subject, the methodology adopted in prosecuting the study, presentation of empirical results from the analysis of data, test of hypothesis, conclusion and recommendations.

## 2.0. Literature Review

Online shopping is a new channel of purchasing products or services on the internet. It is a non-store purchasing channel on the internet. The novelty to consumers might result in some problems. Previous studies have pointed out a relationship between the perceived risk of a new shopping channel and the choice of purchasing using that channel (Bhatnagar, Misra, & Rao, 2000). Tan (1999) asserts that online shopping is recent information technology related form of direct marketing and is similarly perceived by consumers as having higher risk, and found that risk-averse consumers are less likely to shop on the internet.

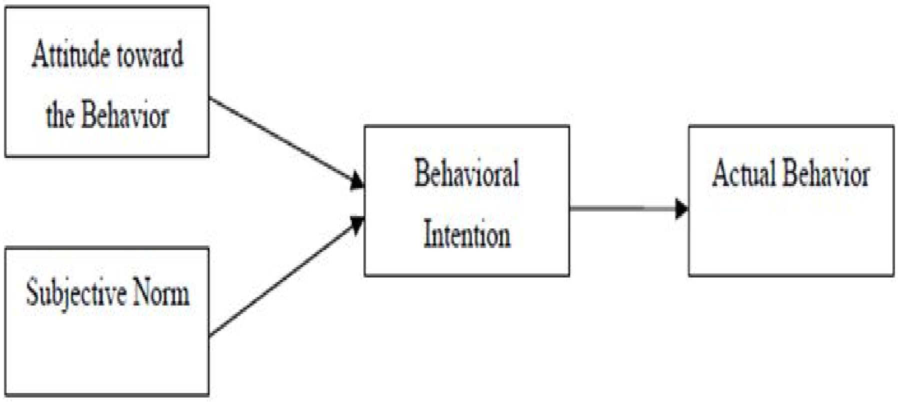
The theory of perceived risk proposed by Bauer (1967) best explains customers' attitude to online shopping. According to Dowling and Staclin (1994), perceived risk is a measure of consumer perception of the usefulness and perceived ease of of purchasing, using a particular channel. It pertains primarily to searching and choosing information of products or services before purchasing decisions. If the actual purchasing experiences of online customers differ from their purchasing goals, they will perceive higher risk. Cox and Rich (1967) contend that perceived risk depends on the subjective uncertainty of the outcomes of purchasing decision. For each purchasing decision, the consumers will have several buying goals or expected outcomes of purchasing products or services.

Several types of perceived risk have been widely used in previous researches. For instance, financial risk is the potential monetary loss that consumers may encounter after purchasing particular products or services (Huang, Schrank & Dubinsky, 2004). Performance risk is viewed as the likelihood that a product may not perform as expected (Lutz & Reilly, 1973). Physical risk is related to safety problems arising from using the product, especially those directly related to health and security, while psychological risk is the possibility that the selected product will be consistent with the consumer's self-image. Social and convenience risks have also been identified. (Lutz & Reilly, 1973; Cox & Rich, 1967).

The theory of reasoned action (TRA) demonstrates a unique accuracy for predicting behaviour by measuring beliefs, attitudes, and intention (Sheppard, Hartwick & Warshaw, 1988). The break point discovery of the TRA which was developed by Ajzen and Fishbein is the re-conceptualization of the causal relationship between attitudes and behaviour. The theory describes the psychological process behind conscious human behaviour, and aims to explore the determinants of that behaviour (Ajzen & Fishbein, 1980). It proposes that the determinants of intention are attitudes and subjective norms. Thus an individual's behavioural intention impacts the performance of their behaviour, and their attitudes toward a behaviour while attitudes toward a behaviour constitute an individual's evaluation of the behaviour (Ajzen, 1991). Furthermore, the TRA assumes that external factors such as an individual's characteristic will affect their behaviour only indirectly, through their influence on the attitudes and subjective norms. Vijayasarathy (2002) identifies four types of salient beliefs that collectively determine an individual's attitude toward internet shopping, product perception, shopping experience, customer service, and consumer risk. The individual's normative beliefs were constructed based on their evaluation of the opinions of spouse, parents, siblings, or friends about internet shopping.

Cho (2004) and Verhoef and Langerak (2001) adapt the TRA to study internet shopping behaviour. Specifically, Cho (2004) assumes that attitude toward internet shopping is determined by perceived consequences associated with internet, past behaviour, and attitudes toward other shopping channels, and that likelihood to abort an intended online transaction is jointly determined by these three dimensions as well as the attitude toward internet shopping.

**Figure 1. Theory of Reasoned Action**

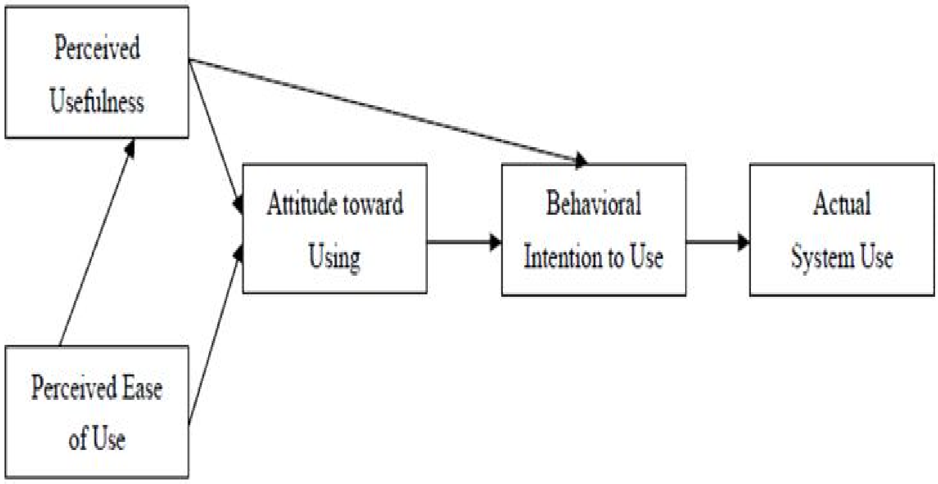



**Source: Ajzen (1991)**

Since shopping on the internet is a new trend in shopping which relies on technology, Technology Acceptance Model (TAM) developed by Davis (1989) has often been employed to explain how the innovation is accepted by consumers. According to the model, there are two determinants of adoption of technology: perceived ease of use and perceived usefulness. Perceived ease of use and perceived usefulness positively affect the attitudes toward an information system; and further, positively affect the individuals' intentions to use and the acceptance of the information system. In addition, perceived ease of use positively affects the perceived usefulness, and both in turn are influenced by external variables. Although this model was originally conceived to model the adoption of information systems in the workplace (Davis, 1989), Scholars in the area of consumer behaviour have identified two specific dimensions which are relevant to online shopping: perceived ease of use and perceived usefulness (Gefen, 1998; and Huang, 2003).

Legris*et al* (2003) support the usefulness of the TAM after reviewing a number of empirical studies, but they point out that results based on the TAM are not totally consistent or clear. Consequently, they recommend the incorporation of factors related to human and social change processes, and the adoption of an innovation, into the model. Moon and Kin (2001) extend the Technology Acceptance Model to explain the users' acceptance of World-Wide-Web context while Stern et al. (2008) propose a revised Technology Acceptance Model to investigate the consumers' acceptance of online auctions.

**Figure 2. Technology Acceptance Model**




Source: Davis (1989)

The internet shopping, compared to traditional shopping, is an innovative method of shopping which relies on the application of information technology. Therefore, Innovation Diffusion Theory (IDT) can be applied to explore consumers' internet shopping behaviour. Generally, the cumulative adoption of an innovation follows a Sigmoid curve, with adoption growing slowly in its initial years, growing steeply as it reaches its half-way point, and growing slowly again as it nears its saturation level (Cao &Mokhtarian, 2005).

The rate of adoption is mainly dependent on five attributes of an innovation: relative advantage (the extent to which an innovation is perceived to be better than the one it substitutes for or competes with), compatibility (the extent to which an innovation is perceived to be consistent with the experiences and requirements of potential adopters), complexity (the extent to which an innovation is perceived to be difficult to use), trial ability (the extent to which an innovation can be experimented with on a limited basis) and observability (the extent to which the utility of an innovation is visible to the public). Relative advantage, compatibility, trial ability, and observability of an innovation are found to be positively related to its rate of adoption, while complexity is negatively associated with its rate of adoption (Rogers, 1983). In the context of online shopping, most studies consider the influences of the constructs derived from IDT on disaggregate online shopping behaviour, rather than model the overall diffusion of online shopping at an aggregate level.

## 2.1 Review of Empirical Literature

Numerous studies have explored various factors that have significant effect on online shopping. Shergill and Chen (2005) in their empirical study in New Zealand find out that website quality i.e. quality of a web page is one of the most important factors that influences online shopping. They identify web site design characteristics as the dominant factor which influences consumer attitude to online purchasing. Ranganthan and Ganapathy (2002) find four key dimensions of online shopping namely web sites; information content, design, security and privacy. They conclude that, though all these dimensions have an impact on the purchase intention, security and privacy will have greater impact on the purchase intent of online buyers.

Commitment is one of the important factors that has the most influential effect on online shopping. Commitment is closely associated with risk since it is a measure of customers' perceptions about whether or not merchants can be counted on to deliver on their promises (Vijayasarathy & Jones, 2000). According to Jun (2004) online consumers apparently want to receive the right quality and quantity of items that they have ordered within specified time frame promised by the retailers, and they expect to be billed accurately.

Sultan and Henrichs (2000) in their study of preference for online shopping, conclude that the consumer's willingness to and preference for adopting the internet as shopping medium was positively related to income, household size, and innovativeness. However, in spite of the convenience offered, online shopping is far from being the most preferred form of shopping in India. A survey among 150 Internet users, including both users and non-users of online shopping was carried out to understand why some purchase online while others do not. The results suggeste that convenience and economies of time drive Indian consumers to shop online; while security and privacy concerns dissuade them from doing so (Vijay &Balaji, 2009).

On their part, Yoruk and Dundar (2011) carry out a comparative study on the drivers and attitudes towards online shopping between Turkey and Romania. The results of the study reveal that although consumers either buy or plan to buy books, tickets, CDs, software online, they don't want to buy groceries online. The most important reasons to shop online both in Romania and Turkey are being able to get detailed product information, home delivery, convenience, product quality and lower prices. Overall results regarding the attitudes of consumers toward online shopping was found to be generally positive.

Using a snowball sampling method to identify participants fitting the predetermined sample criteria, De Swardt and Wagner (2005) also carried out a study on the factors influencing the choice to shop online in a South African context. Their findings revealed that saving time, convenience and abilities to make price comparisons easily accounted for consumers' preference for online shopping. The main disadvantages were not being able to touch and feel products, and the absence of a salesperson.

Furthermore, Izogo (2012) carries out an empirical assessment of the deterrents of online shopping acceptance in Nigeria. The result reveals that perceived risk of uncertainty and poor knowledge in respect of the operational modalities of the computer and Internet are the root factors deterring online shopping acceptance in Nigeria. It was further argued that the cost and convenience associated with virtual shopping might have been underplayed because of the risk perception and poor knowledge of the consumers. The findings of Aminu (2013) seem to be in consonance with that of Izogo (2012). He finds that cultural barrier, infrastructural challenge, security concern, perceived risk and inadequate regulatory framework militate against adoption of online shopping in Nigeria's retail industry.

### 2.2 The Nigerian Case

Although online shopping started in the UK in 1979, it is already a global trend in shopping. The trend in Nigeria is not as advanced as it is in the UK and other developed countries. Although, people engage in online banking (e-banking), most people are still not open to the idea of shopping online and prefer to carry out their transactions traditionally. Past researches on the slow adoption of e-commerce and online shopping have identified various contributing factors (Adeyeye, 2008; Ajayi, 2008; Ayo, 2008; Adeshina & Ayo, 2010). One of such factors is accessibility to the Internet.

A recent study on internet usage in the UK reveals that 82.5% of the total population (62,348,447 people) are internet users and 29.4% (18,354,000 people) are broadband subscribers (Internet World Stats, 2010). This access to the Internet has been identified as one of the factors encouraging the adoption and growth of e-commerce and online shopping in the UK (Soopramanien & Robertson, 2007). A study on internet usage in Nigeria reveals that about 16.1% of the total populations (149,229,090 people) are internet users and less than 1% of the populace (i.e. 67,800 people) are broadband internet subscribers (Internet World Stats, 2009). From these, it is evident that only a fraction of the population uses the Internet and even those who access it do so through numerous cybercafés scattered all over urban parts of the country (Ayo, 2008). However, due to the public nature of these cybercafés, people are not comfortable carrying out e-commerce activities there for privacy, security and network reliability issues, and this negatively affects online shopping trends in the country (Adeshina & Ayo, 2010).

Another factor affecting the use of e-commerce for online shopping in Nigeria is the lack of a nationally acceptable payment method for online goods and services (Ajayi, 2008). Ayo (2008) suggests that the low level of e-Payment infrastructure in the country, constitutes a hindrance to public participation in e-commerce. More so, it has been observed that, online vendors that exist do not have a structured way of presenting information (product categories) to users and besides, they offer little assistance in helping customers find appropriate products (Ajayi, 2008). This makes it difficult for customers to use their websites for online shopping purposes. Thus, due to poor Internet access, lack of structured e-payment systems, few online vendors often requiring offline payments, and other factors affecting online shopping in Nigeria, only a small fraction of the Nigerians engage in online shopping. Most would rather engage in face-to-face transactions than go through these troubles associated with online shopping.

## 3.0 Methodology

For the purpose of this study, the exploratory survey design was adopted. This method was used because it does not manipulate or control variables. This was undertaken among consumers patronizing online shopping stores in Lagos state, Lagos state was selected as the choice of area of study because is believed to have the highest literacy rate in Nigeria. Also over 80% of the online shopping stores are located in Lagos state. The study adopts random sampling techniques. Survey participation was strictly voluntary and consumers were notified that they would not receive any compensation for taking or not taking part in the survey. A total two hundred and fifty (250) copies of the questionnaire were administered through e-mail and personal administration although only two hundred and sixteen were correctly filled and returned. The study was limited to respondents between the age of 20 and 60 years old who reside in Lagos state. The questionnaire has four sections and a total of 25 questions.The first section contains questions about the respondent's demographic information. The second section contains questions which seek to evaluate consumers' attitude to online shopping in Nigeria while the third section contains questions on the factors that influence consumers' adoption of online shopping in Nigeria and the fourth section has questions on the perception of consumers to online shopping in Nigeria.The data generated were analysed using simple frequency and percentages in order to bring all figures to the same

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base for easy comparison while the hypothesis was tested with the help of Correlation PPMC and regression analysis.

**H01**: The attitude of the Nigerians to online shopping is significantly correlated with their perception of online shopping.

**H02**: The perception of Nigerians about online shopping is significantly dependent on the factors which influence adoption of online shopping

## 4.0 Data Presentation, Analysis And Discussion

Table 1: Demographic Characteristic of Respondents

| | | Frequency | Percentage |
|---|---|---|---|
| **Gender** | Male | 105 | 48.6 |
| | Female | 111 | 51.4 |
| **Internet Usage** | Everyday | 172 | 75 |
| | 2-3 times a week | 33 | 15.3 |
| | Once a week | 21 | 9.7 |
| | Rarely | 0 | 0 |
| **Age** | 20-30 | 48 | 22.22 |
| | 31-40 | 114 | 52.78 |
| | 41-50 | 36 | 16.67 |
| | 51 and above | 18 | 8.33 |
| **Qualification** | SSCE | 42 | 19.44 |
| | Bachelors | 126 | 58.33 |
| | Masters | 48 | 22.22 |
| **Employment status** | Student | 57 | 26.4 |
| | Unemployed | 45 | 20.8 |
| | Employed | 63 | 29.2 |
| | Self-Employed | 41 | 23.6 |

The demographic table of the respondents shows that 51% of the respondents are females while 49% are males. A large percentage (75%) of the respondents use the internet every day. This may be as a result of increase in the access to the internet through various mobile appliances and gadgets like mobile phones and Ipads. The largest age category of the respondents is between 31 and 40 representing about 52% while about 22.22% fall within the age group of 21-30. More so, most of the consumers surveyed representing 29.2% are employed. This is immediately followed by students representing 26.4% of the respondents.

**Table 2: Distribution of Respondents by Income**

| Monthly Income | FREQUENCY | |
|---|---|---|
| | **Absolute** | Relative (%) |
| **Below 50,000** | 72 | **33.3** |
| **50,500-200,000** | 41 | **23.6** |
| **200,500 – 400,000** | 63 | **29.1** |
| **Above 400,000** | 30 | **13.9** |
| **Total** | **216** | **100** |

Source: Field Survey, 2014

**Analysis of Level of consumers' attitude to online shopping**

Table 4.7 shows the level of consumers attitude to online shopping in Nigeria. The analysis shows that 76% of the respondents will purchase only if there is provision for payment on delivery. 55% of the respondents prefer to buy from website that provides them with quality of information. The table also reveals that 62% of the respondents search online store to acquire information about products they desire to purchase. However, 55.56% of the respondents prefer traditional/conventional shopping to online shopping.

The analysis further reveals that 80.56% of the respondents prefer cash on delivery option rather than payment via credit/debit card. 90% of the respondents indicated to have hesitated to have given their credit card number while shopping online.

**Table 3: Level of consumers' Attitude to Online Shopping**

| Statements | SA | A | UN | D | SD |
|---|---|---|---|---|---|
| I will purchase only if there is provision for payment on delivery. | 41% | 35% | 7% | 17% | 0% |
| I prefer to buy from website that provides me with quality of information | 14% | 41% | 24% | 19% | 2% |
| I often make purchases on online stores | 17% | 31% | 19% | 23% | 10% |
| I search online store to acquire information about products I desire to purchase | 24% | 38% | 17% | 21% | 0% |
| I prefer traditional/conventional shopping to online shopping | 26.39% | 29.17% | 25.00% | 11.11% | 8.33% |
| I prefer cash on delivery than payment via credit/debit card | 43.06% | 37.50% | 6.94% | 6.94% | 5.56% |
| While shopping online I hesitate to give my credit card no | 40% | 55% | 5% | 0% | 0% |

Source: Field Survey, 2014

**Analysis of Perception of Consumers to Online Shopping In Nigeria**

From table 4.8 below, majority of the respondents accounting for 84% believed that shopping online saves time. 26% of the respondents believe that products sold on online stores are cheaper than traditional stores while 40% of the respondents feel that it takes less time in evaluating and selecting a product while shopping online.

Moreover, 60% of the respondents are of the view that information given about the product on the site is sufficient. 58% of the respondents believe that it is very safe and secure to shop online. 45.84% of the respondents believe that the descriptions of products shown on the websites are very accurate and sufficient.Furthermore, 61.81% of the respondents believe that internet reduces the monetary cost of traditional shopping.

**Table 4: Perception of Consumers To Online Shopping In Nigeria**

| Statements | SA | A | U | D | SD |
|---|---|---|---|---|---|
| Shopping online saves time | 37% | 53% | 10% | 0% | 0% |
| Products sold on online stores are cheaper than traditional stores | 5% | 21% | 27% | 23% | 24% |
| I feel that it takes less time in evaluating and selecting a product while shopping online | 15% | 25% | 11% | 33% | 16% |
| The information given about the product on the site is sufficient. | 19% | 41% | 21% | 15% | 0% |
| It is very safe and secure to shop online | 19% | 38% | 10% | 21% | 11% |
| The description of products shown on the websites are very accurate | 16.67% | 29.17% | 25.00% | 16.67% | 12.50% |
| Internet reduces the monetary cost of traditional shopping | 18.06% | 43.75% | 18.75% | 14.24% | 5.21% |
| Online shopping is as secure as traditional shop | 9.72% | 22.22% | 20.83% | 29.17% | 18.06% |

## Analysis of Factors That Influence Consumers Adoption of Online Shopping

Table 4.9 shows the factors that influence the adoption of online shopping in Nigeria. It can be observe that 62.50% of the respondents believe that accessibility to the internet influence their adoption of online shopping. 54.17% of the respondents believe that level of income influence their adoption of online shopping. 75.00% of the respondents believe that trust in online vendors influence their adoption of online shopping.Furthermore, 69.44% of the respondents believe that convenience influence their adoption of online shopping. 68.06% of the respondents are of the opinion that time savings influence their adoption of online shopping. 79.49% of the respondents agree that security influence their adoption of online shopping.

Moreover, 63.89% of the respondents accept that lower prices influence their adoption of online shopping. 56.95% of the respondents believes that web site design influence their adoption of online shopping. 71.88% of the respondents believe that availability of product influence their adoption of online shopping. While 83.34% of the respondents believe that quality of products influence their adoption of online shopping.

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From the analysis, it is apparent among the factors that influence the adoption of online shopping, quality of product was the first, followed by security; trust in online vendors and convenience. The least factor that influences the adoption of online shopping as indicated by the respondents is level of income.

**Table 5: Factors That Influence Consumers Adoption of Online**

| The following factors influence the adoption of online shopping | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Accessibility to the internet | 22.22% | 40.28% | 8.33% | 22.22% | 6.94% |
| Level of Income | 11.11% | 43.06% | 19.44% | 16.67% | 9.72% |
| Trust in online vendors | 25.00% | 50.00% | 9.72% | 13.89% | 1.39% |
| Convenience | 23.61% | 45.83% | 9.72% | 16.67% | 4.17% |
| Time saving | 13.89% | 54.17% | 12.50% | 15.28% | 4.17% |
| Security | 38.89 | 40.56% | 9.72% | 10.83% | 0.00% |
| Lower prices | 16.67% | 47.22% | 13.89% | 13.89% | 8.33% |
| Web site design | 13.89% | 43.06% | 31.94% | 11.11% | 0.00% |
| Availability of product | 32.64% | 39.24% | 16.67% | 8.33% | 3.13% |
| Quality of products | 30.56% | 52.78% | 12.50% | 4.17% | 0.00% |

Source: Field Survey, 2014

**Test of Hypothesis: Descriptive Statistics**

| | Mean | Std. Deviation | N |
|---|---|---|---|
| ATT | 3.69 | .703 | 216 |
| POS | 4.27 | .634 | 216 |
| FAA | 3.49 | 1.250 | 216 |

**Correlations**

| | | ATT | POS | FAA |
|---|---|---|---|---|
| ATT | Pearson Correlation | 1 | .731(**) | .818(**) |
| | Sig. (2-tailed) | | .000 | .000 |
| | N | 216 | 216 | 216 |
| POS | Pearson Correlation | .731(**) | 1 | .803(**) |
| | Sig. (2-tailed) | .000 | | .000 |
| | N | 216 | 216 | 216 |
| FAA | Pearson Correlation | .818(**) | .803(**) | 1 |
| | Sig. (2-tailed) | .000 | .000 | |
| | N | 216 | 216 | 216 |

** Correlation is significant at the 0.01 level (2-tailed).

The above hypothesis was tested using Pearson Product Moment Correlation Coefficient. The result indicates that the attitude of Nigerians to online shopping has a strong significant relationship with their perception to online shopping at r=.731, sig level = <.005. Furthermore, the result also indicates that consumers' attitude also have a strong significant relationship with the factors that influences consumers' adoption of online shopping, at r= .818, sig level = <.005. Finally, the result indicate that the perception of consumers to online shopping in Nigeria is highly correlated with the factors affecting consumers' adoption of online shopping, at r= .803, sig level= <.005.

## REGRESSION

### Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .831(a) | .691 | .690 | .671 |

a Predictors: (Constant), qualprod

### ANOVA (b)

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 215.633 | 1 | 215.633 | 479.061 | .000(a) |
| | Residual | 96.325 | 214 | .450 | | |
| | Total | 311.958 | 215 | | | |

a Predictors: (Constant), qualprod

b Dependent Variable: product sales

### Co-efficient (a)

| | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| Model | | B | Std. Error | Beta | B | Std. Error |
| 1 | (Constant) | -2.742 | .248 | | -11.050 | .000 |
| | qualprod | 1.303 | .060 | .831 | 21.887 | .000 |

a Dependent Variable: product sales

Hypothesis two above was tested using regression analysis, and the result show that the factors that influence the adoption of online shopping has a significant effect on the perception of Nigerians about online shopping at significant level <.005 with an 83.1% degree of relationship among them. This implies that the perception of Nigerians about online shopping is significantly dependent on the factors influencing the adoption of online shopping. From the analysis, it can be deduced therefore that for there to improvement in the performance of online retail vendors through sales, various factors identified (security, availability of products, lower prices, trust in the online vendor) must be ensured as these affect the perception of consumers to online shopping and in turn their attitude and adoption of the method of shopping. This finding seems to agree with earlier studies of both Izogo (2012) and Aminu (2013). Both have identified the undisputable nature of the role of such factors like trust in online vendors as well as security in the adoption of this innovative method of shopping in this modern age in Nigeria.

**5.0 Summary, Conclusion And Recommendations**

Online shopping is becoming more popular by the day with the increase in the usage of Internet. Understanding consumer need for online shopping has become a challenge for marketers. A special understanding of the consumers attitudes towards online shopping, making improvement in the factors that influence consumers to shop online and working on factors that affect consumers to shop online will help marketers to gain the competitive edge over others. This study has given an over view of the attitudes and perception of consumers to online shopping. The study also advances knowledge on the attitude of consumers to online shopping in Nigeria. On the overall, consumers have positive attitudes towards online shopping but basically prefer to purchase if the option to pay on delivery is available. This would give them the opportunity to cross check and examine the quality of the product before making the payment. The most important factor that influence the use of online shopping by consumers is the quality of products. Most consumers will adopt online shopping if the products sold are guaranteed to be of high quality. The other important factors are the security guaranteed by the online shopping stores, trust and convenience that online shopping brings.Given the findings of this study, we recommend as follows:

(i) Online shopping stores should provide more options for payment on delivery for customers. This payment on delivery could be in the form of POS in order to minimize carriage of cash in furtherance of the cashless economy policy being pursued by the central bank of Nigeria.

(ii) Another major factor identified in this study is the issue of trust. The high rate of cybercrime in Nigeria needs to be curbed and reduced significantly by the government and its agencies. Effective policies and legislations should be put in place to ensure safety in online environments and cybercrime perpetrators should be prosecuted appropriately to serve as a deterrent to others.

(iii) Online stores should make their websites safe and secure from unwanted intrusions by putting efficient security measures in place to protect consumers data

(iv) It is also important for Online stores to sell quality products at very affordable prices so as influence consumers to adopt the medium of online shopping

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# MENTORING AND ENTREPRENEURSHIP DEVELOPMENT

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## *Abstract*

*In recent years, mentoring has drawn substantial interest from policymakers, intervention theorists, and those interested in identifying promising and useful evidence-based approaches to interventions for entrepreneurship development (Grossman & Tierney, 1998; Jekliek et al., 2002). We here present a position paper on how mentoring as a form of intervention is related to and indeed represents an efficient and effective support mechanism for entrepreneurship development. We included studies with outcome measures of cultural influences, reported by individuals or groups; or derived from archival sources including relevant texts and journal articles, and other publications. The paper identifies the key aspects of mentoring relationship in term of its well researched influences on entrepreneurship development. Hence, in order to place this paper into context, it may be useful to outline the objectives of current research: (i) to determine what factors create productive and positive influence on entrepreneurship development through mentoring interventions; (ii) to characterize the evidence to date on the effects of mentoring interventions on entrepreneurship development; (iii) to help define mentoring in a more systematic fashion than has occurred to date to, in order to help clarify what constitute mentoring and what might be key components for future research; (iv) to identify gaps in this research area and make recommendations for further research.(v) to inform policy maker about the value of mentoring and the key features for utility. We hope our suggestions and recommendations will stimulate policy debate on the factors that foster or impede entrepreneurship through mentoring as an intervention support mechanism.*

***KeyWords: mentoring, entrepreneurship.***

## Introduction

For individuals seeking personal and professional development or for organizations seeking to facilitate knowledge and skills transfer, mentoring has emerged as an important means to achieve these ends (Klofsten, 2008). Today, entrepreneurship is considered a highly relevant skill, to be developed through lifelong learning. Fostering an entrepreneurial mindset and providing training and educational activities - starting with basic education - will contribute greatly to economic growth. So policy initiatives that focus on promoting entrepreneurship in European countries have multiplied in number over the past decade (Benneworth, 2007; Kirwan et al, 2008). We have also witnessed a broadening of the entrepreneurship concept; it no longer focuses solely on encouraging new start-ups but is concerned with other business like situations, such as in the academic and public sectors.

Promoting entrepreneurship can be done in various ways - but according to the literature, these issues seem to be important in most entrepreneurship support situations (Klofsten, 2008):

- *Inspiration of entrepreneurial behaviour and promotion of attitudes toward change.*
- *Provision of skills and tools germane to business development.*
- *Development of skills to handle environmental relationships with customers, financiers, and other stakeholders.*

Crucial to the entrepreneurship training process is the use of coaching and mentoring (Sullivan, 2000; Regis et al, 2007). Regardless of whether it is called coaching or mentoring, many entrepreneurs in all types of work environments are looking to improve their skills, personally *and* professionally. Choosing to work with a skilled coach or mentor can help individuals achieve their goals and increase their effectiveness in the particular job or task with which they are involved (Evered and Selman (1989).

From a practical viewpoint, mentoring is a strong tool, which enables young entrepreneurs to address various thoughts, opportunities, ideas, and business-related issues in a personal way with a senior colleague. The question before us is how to nurture and cultivate an entrepreneurial culture that promotes social and economic development. By this we mean the kind of development that permits people to realize their aspirations for decent work through the development of appropriate policy recommendations for enterprise / entrepreneur support mechanism as mentoring.

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## CONCEPTUAL FRAMEWORK

### Mentoring: Definitions and analyses

Mentoring has become a widespread intervention among socially excluded young people over the last two decades. Since its emergence in the US in the early 1990s, and in the UK in the middle of that decade, it has expanded at a rapid rate. Indeed, its exponential growth has resulted in a mass movement which could be seen as a social and historical phenomenon in its own right (**Colley, 2006**).

Mentoring takes place in a variety of socio-economic context and as such its precise role may change dependent on the environment and the objectives of that mentoring relationship. In this paper we are specifically interested in mentoring as a means of supporting new-start entrepreneurs through the provision of "expert" help and assistance in overcoming problems. In all, we are interested in whether a mentor gives the new- start a useful insight into running a small business, perhaps through learning from the mentor's previous experience (Sullivan, 2000).

However, the problem with any study of mentoring begins at the very beginning for, as Clutterbuck noted at the Third European Mentoring Conference in 1996 'the biggest problem for researchers into mentoring is still defining what it is' (Clutterbuck, 2004). Today, mentoring is receiving a lot of attention from researchers, providing multiple definitions and perspectives on what exactly a mentor is.

Generally a mentor is an individual of higher status who is willing to invest time, interest, and support in a subordinate person over an extended period of time (Elkin, 2006). Adding to this definition is the proposition of Ostroff and Kozlowski (1993, and quoted in Elkin, 2006), which suggests that a mentor is a senior, experienced organisational member who specifically helps a young professional develop their individual technical, interpersonal, and political skills.

However, this differs slightly to the view of Burlew (1991, as cited in Elkin, 2006) who states that the definition of a mentoring relationship has changed from the intense, exclusive, multiyear relationship between senior and junior colleague, to now include an individual involved in a variety of short-term, low-intensity interactions with peers and direct supervisors. Most definitions agree that a mentoring relationship is an interactive, dyadic relationship (Paice, Heard, & Moss, 2002). Even though these newer definitions have been proposed, most of the literature continues to draw its definition directly from, or bases its definitions on Kram (1985 as cited in Elkin, 2006).

Kram as quoted by Elkin (2006) defines a mentor as an individual who is advanced, experienced, and knowledgeable and is committed to providing upward mobility and career support to protégés. Taken together it is possible to define a mentor as usually (but not exclusively) a more senior, experienced, and knowledgeable individual who is in an interactive relationship with another individual and purposefully invests time, interest, and support to help them with their upward mobility {Elkin, 2006}.

Researchers have variously described the activities going on under the name of mentoring as follows: helping, coaching, tutoring, counseling, sponsoring, role modeling, befriending, bonding, trusting, mutual learning, direction setting, progress chasing, sharing experience, providing respite, sharing a laugh, widening horizons, building resilience, showing ropes, informal apprenticeships, providing openings, kindness of strangers, sitting by Nellie, treats for bad boys and girls, etc., etc (Pawson, 2004).

Indeed, definitions of mentoring vary, but there are common elements. For the purpose of this review, mentoring is defined by the following four (4) characteristics:

(1) Interaction between two individuals over an extended period of time,
(2) Inequality of experience, knowledge, or power between the mentor and mentee (recipient), with the mentor possessing the greater share,
(3) The mentee is in a position to imitate and benefit from the knowledge, skill, ability, or experience of the mentor,
4) The absence of the role inequality that typifies other helping relationships and is marked by professional training, certification, or predetermined status differences such as parent-child or teacher-student relationships.

Studies of this relationship show that mentoring provides two distinct functions for the mentee: ***one,*** a psychological function; and ***two,*** a career-facilitation function (Levinson et al., 1978; Kram, 1985 as cited in Elkin, 2006).

***These definitions underscore a number of key facets about mentoring.***
One, mentoring involves a relationship.
Two, mentoring entails learning.
And three, mentoring is a mechanism to achieve significant entrepreneurship development.

***Mentoring involves a Relationship:***

In order to fulfill these functions (psycho-social, career facilitation), the interaction between the mentor and the mentee depends upon a particularly relational experience (Stanley and Clinton, 1992) that may continue over an extended period of time. This relationship exists beyond the expectation of fulfilling a task and involves the development of the mentor-mentee relationship (Wright, 2004). There is an element of partnership and community (Kujawa-Holbrook, 2001 and quoted in Elkin, 2006).

***Mentoring entails Learning:***

The relational nature of mentoring is particularly relevant given the emphasis on learning within the context of the mentor-mentee interaction. To a large degree, the mentor's commitment to learning is more important than his or her commitment to the relationship (Bell, 2002; Clutterbuck, 2004). Wright (2004) adds that the bond between the two persons is one of mutual interest in the learning and growing process. The mentoring relationship also builds upon this learning and growth to facilitate the personal and professional development necessary to develop leaders.

***Mentoring and Entrepreneurship Development:***

Many would argue that mentoring has been shown to be one of the key components to a successful career (Zachary, 2005). Mullen (1999) notes that mentoring can be used in the contemporary organizational context to generate synergy, to inspire, to empower, with a view to fostering greater innovation and productivity. Mentoring also facilitates increased individual performance, productivity and achievement (Shea, 1999 and cited in Elkin, 2006).

**Everyone needs a mentor**

Effective interventions to assist entrepreneurs to grow and develop must help them to learn rather than simply impose prescribed solution as is the case through the provision of "expert" consultancy. Research by Cox and Jenning (1995, p. 9 as cited in Sullivan, 2000) suggests that it is this ability to learn from mistakes that makes successful entrepreneurs. Importantly, this research also investigates the role, or existence, of a mentor in successful enterprises. While they find that entrepreneurs who had started their own businesses and built them into large corporations did not appear to identify any one individual that had acted as "mentor" , they nonetheless could relate to the importance of learning from experience from critical incidents. They were, in fact, "individual who had to make their own way in the world, the process (of becoming innovative) seems to start early in their own childhood.

Successfully copying with extreme difficulties while very young seems to set a pattern of resilience and ability not only to cope with, but also to learn from, adversity. It is this ability to learn from their experience which is, we suspect, the key attribute of these successful individuals." Thus, to summarise the research of Cox and Jennings, elite (self-made), Sullivan (2000) notes that entrepreneurs do not see themselves as having a specific mentor. Those from family firms see the family as providing support and the intrapreneurs who worked their way up through an organisation do indeed acknowledge the support of mentors or senior colleagues in the organisation. This research supports the need for some support, the notion that experiential learning is performance in most, if not all, entrepreneurs.

Thus we believe that the ability to undertake reflective or "double-loop" learning, to draw on experience and to be in position to utilise the experiences of others (mentors) is indeed a valuable combination.

**Defining Entrepreneurship**

We live in an age of entrepreneurship. Entrepreneurship has emerged over the last two decades as arguably the most potent economic force the world has ever experienced (Davis, 2002). Given the mega star popularity of entrepreneurs as Bill Gates, the founder and CEO of Microsoft or Anita Roddick, founder of the Body Shop, Alhaji Aliko Dangote, the Chairman of the Dangote conglomerates who seems to be better known around the world than most heads of state, one might conclude that the age of the entrepreneur has arrived. Unfortunately, far too many people have not enjoyed the benefits of economic globalization. The global economy is not generating enough decent work for all who want or need it, nor is anyone predicting a scenario where such growth will occur in the foreseeable future. The International Labor Organization (ILO, *www.ilo.org, June 2002,)* estimates that 160 million women and men are officially counted as unemployed and another billion or more people are underemployed or working poor. Moreover, 500 million new entrants to the labor force are expected over the next ten years, mostly women and youth.

The ILO according to (Davis, 2002) emphasizes the critical role that entrepreneurs play in creating employment. It carries out significant promotional and technical activities to assist governments, employers' and workers' organizations create more and better jobs in countries around the world. Enterprise is at the heart of employment creation. Both public and private sectors create employment. While the majority of people aspire to work in the formal economy, the majority of new work opportunities in the last decade have been generated in the informal economy. Though significant deficits exist in the formal economy, workers in the informal economy are often poorly paid, unprotected, unregulated and unrepresented.

Given the large and growing numbers of people that seek decent work and better lives, the pressure is on our political leaders to respond to people's demands worldwide. Political leaders in every country campaign on promises for job generation and are often voted out of office when the economy is bad (ILO, *www.ilo.org, June 2002,)*. However, within the framework of potential efforts and strategies to boost employment and job creation for young people, entrepreneurship is increasingly accepted as an important means and a valuable additional strategy to create jobs and improve livelihoods and economic independence of young people. It is an innovative approach to integrating youth into today's changing labour markets {Schoof, 2006).

There are numerous definitions of entrepreneurship but in its essence it is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; and fundamental skill of building solid business plan; and finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion (*Erzetic and Drnovšek, 2007 as cited in* Kuratko & Hodgetts, 2004, p. 30)

Entrepreneurship is more than the mere creation of business. An "entrepreneurial perspective" can be developed in individuals. This perspective can be exhibited inside or outside an organization, in profit or not-for-profit enterprises, and in business or non-business activities for the purpose of bringing forth creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner (Kuratko, 2005). Obviously the phenomenon of entrepreneurship encompasses a host of economic and non-economic factors, such as societal, cultural, ethical, and environmental factors (Morrison, 1998 and quoted from *Erzetic and Drnovšek, 2007*).

In this paper, we draw upon the following definition of entrepreneurship, suggested by the authors of a scoping paper of the Australian Government.

> *"Entrepreneurship is the recognition of an opportunity to create value, and the process of acting on this opportunity, whether or not it involves the formation of a new entity." While concepts such as innovation and risk taking in particular are usually associated with entrepreneurship, they are not necessary to define the term",* ***(FaCS, 2003)***

This broad definition encompasses different types of entrepreneurial activities young people are attracted to (Schoof, 2006). Besides economic entrepreneurship, young people are also increasingly engaging in other entrepreneurial approaches like social entrepreneurship, intrapreneurship, cooperatives and even public entrepreneurship.

### *(i) Economic, social and public entrepreneurship*

According to the definition presented in the preceding section, entrepreneurship is the recognition of an opportunity to create value, and the process of acting on this opportunity.

### *Economic and Social Entrepreneurship*

For enterprises in the private sector (economic entrepreneurship), the main value or outcome is wealth creation and profit generation, for those who own the enterprise (Schoof, 2006). As the majority of young and old entrepreneurs engage in entrepreneurship of this type, most of the research and literature focuses on this aspect.

Another type of entrepreneurship, gathering momentum across the globe, is ***social entrepreneurship.*** Social entrepreneurship uses entrepreneurial activity to create social value; wealth creation is just a means to an end and a way of measuring value creation. As Dees (2001 and quoted in Schoof, 2006);) puts it,

> *"For social entrepreneurs, social mission-related impact becomes the central criterion, not wealth creation".*

Social entrepreneurs are therefore pursuing both financial self-sustainability and a social return on investment. It does not matter whether or not the venture is run by a non profit or a for-profit organization, as long as it is entrepreneurial in character and directed towards social problems or some public good.

However, social enterprises clearly differ from traditional non-profit or charitable institutions. Socially entrepreneurial ventures focus on innovative approaches to social problems, pursue financial self-sustainability and independence from the State, set clear performance goals and apply proven management skills to ensure efficiency, effectiveness and accountability.

***Public entrepreneurship***

Perhaps the least recognized type of entrepreneurship is public entrepreneurship. Though having the same characteristics as economic entrepreneurship (risk-taking, innovation, leveraging of resources, etc.), its objectives and motivations are not purely financially, but rather socially orientated (Schoof, 2006). This type of entrepreneurship is increasingly attractive for young people, working as independent consultants or collaborators on the efficiency of a public institution or on the expansion of its services.

***(ii) Intrapreneurship (corporate entrepreneurship) and co-operatives***
***Intrapreneurship***

The term "Intrapreneurship" has been coined by Pinchot (1985 and quoted in (Schoof, (2006);) to describe *"the emergence of entrepreneurial activities within an existing business structure in general and in large corporations in particular (corporate entrepreneurship)"*. Entrepreneurial skills are just as vital to large companies as to small business start-ups. Many large companies are encouraging and empowering employees to be more entrepreneurial and in so doing are creating new jobs and new internal small-business-like units that may later be spun off or integrated into other business units of the company. Today, the creation of an enterprise culture within an existing company is increasingly regarded as crucial and beneficial for companies that want to be more dynamic and profitable and that want to engage with today's young professionals, who are demanding such an environment.

***Co-operatives***

Co-operatives are another particular form of enterprise in which entrepreneurial activities are carried on for a mutual benefit and in an egalitarian fashion. *A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.* They deliver well-being to citizens, wealth to nations, promote entrepreneurship and participation. Young people are increasingly involved in this very particular form of business

(Schoof, 2006). Mentoring as an intervention support mechanism directly or indirectly has its impact on each level entrepreneurship typology as highlighted above particularly at the cooperative level (Ogundele, 2000).

**Mentoring entrepreneurs**

A mentor or advisor is an essential asset to a growing company. They can warn of problems on the horizon, help craft solutions to problems and be a sounding board for the entrepreneur (Cull, 2006). A mentor's many years of experience can save a business from major errors and costly mistakes with just a few words.

From the available literature it can be argued that intervention at pre-start and start-up stages of a business is beneficial in reducing the known high failure rates (Deakins et al, 1997 as cited in Cull, 2006). One of the problems generally has not been *when* interventions have taken place, but *how* those interventions have taken place. The impact on the small firm and the ability of the entrepreneur to learn from mistakes is poorly understood. Yet, theoretically, in the early stages of business development, such interventions should have a major impact. Deakins, comments that the entrepreneur, through experience, acquires the ability to learn. Rarely is this learning process planned, but it is the result of a series of reactions to critical events in which the entrepreneur learns to process information, adjust strategy and take decisions.

Beresford and Saunders (2003), who evaluates MBA graduates in their role as mentors to small business projects, finds that whilst academic skills were initially identified as essential requirements, it was the inter-personal skills, such as listening, which were considered to be more important. The balance of a head and heart approach to mentoring is described by Pegg (1999 as cited in Cull, 2006) in the application of his mentoring model which helps people to focus on the challenges, choices, consequences, creative solutions and conclusions. *In discussions between mentor and mentee, two main methods are used: 'pulling' and 'pushing'.*
***Pulling*** calls on the ability to offer a sanctuary; to offer a safe place where the mentee feels able to share their agenda, interests and goals and to offer support by listening, asking the right questions and drawing out the mentee's own answers to problems. ***Pushing,*** on the other hand, calls on the ability to offer stimulation; to offer creative ideas, challenges, knowledge, success stories, models and tools, leading-edge thinking and wisdom.

***Factors in mentoring success***

Hall (2003 as cited in Cull, 2006) argues that successful mentoring requires the following key features: ***(i)*** screening of prospective mentors; ***(ii)*** matching of mentors and youth on relevant criteria; ***(iii)*** pre-match and on-going training; and ***(iv)*** frequency of contact. By contrast, mentoring is in danger of being unsuccessful when any of the following conditions apply: ***(i)*** social distance and mismatch between the values and mentor and mentee; ***(ii)*** inexpert or untrained mentors; ***(iii)*** mismatch between the aims of the mentoring scheme and the needs of the person being mentored; and ***(iv)*** a conflict of roles so that it is not clear whether the mentor is to act on behalf of the person being mentored or is present as an 'authority'.

The dilemma is whether the relationship between mentor and mentee should be formal or informal. Cox (2005) suggests that the rapport between mentors and mentees in informal mentoring relationships frequently challenges the organisers of many formal mentoring schemes. Cull, (2006) reports that the problem in most cases is that, when people come together without guidance and without clarity about the mentoring role, it becomes a hit or miss affair. Not only is the quality of the relationship highly variable, but the pairings tend to exclude people who don't fit the mould, by virtue of their gender, race, culture or some other differentiating factor. It is the view of Clutterbuck that such an environment would contain some elements of structure and concludes that the mentoring "package" that will give organisations the greatest value is one that integrates formal and informal mentoring.

Barrera Associates (2003) find that individuals or organisations engaged in mentor-protégé programmes repeatedly cited as critical, *the time required for relationship-building.* Notably, they report that more time invested in the mentoring relationship contributes to the relationship's growth, but a long mentoring programme is not required for achieving results if the mentor and protégé are focused on a goal or a business issue. The pairing of mentor and client in a formal relationship is an important issue and has a substantial bearing on the success of the relationship. A mismatch can cause discomfort for the mentor, but more importantly for the mentee this can be disastrous. Cox (2005) suggests that compatibility can only be developed from within a relationship, it cannot be anticipated beforehand.

Role modelling is another factor in mentoring success. McVey (1997, as cited in Cull, 2006) studiesthe impact of role models within mentoring relationships and suggests that the presence of an entrepreneurial role model can positively affect the level of entrepreneurial success. A role model can also help entrepreneurs who may rely too much on personal experience to guide decision making. Although taking risks is important, the presence of role models, mentors and networks can provide a moderating effect on the overconfidence of entrepreneurs.

**Understanding the Evolution of Entrepreneur: A Life-Cycle Approach**

In attempting to recognise the evolution of entrepreneurs and their enterprises a "life-cycle approach or model" would usefully reflect the types of challenges businesses encounter as they mature (Sullivan, 2000). One such model is Churchill phases of Management model; essentially, Churchill portrays small business as moving through a life-circle over which the managerial needs and, therefore, the nature of support required would alter. An assessment of the impact of mentoring and the challenges likely to be encountered in each phase of entrepreneurship development are detailed in ***Table 1.***

**Table1: Assessment of mentoring impact on the emergence behaviour and performance phase of new-start entrepreneur**

| Phase 1 Conception | Phase 2 Survival | Phase 3 Stabilisation | Phase 4 Growth orientation | Phase 5 Rapid growth | Phase 6 Resource maturity |
|---|---|---|---|---|---|
| Develop Viable product/ service expenses controls | Sufficient sales for break-even | Maintain customer base and market niche inefficiencies | Developing resources and sales for growth | Maintain adequate cash flow and establish | Control Financial gain from growth and eliminate |
| Deliver product/ service expenses, | Generate cash to grow, pay systems to | Eliminate problems draining cash market share | Develop management and internal etc. | Increasing customer base and survive in business | Professionalizing management finance, budgets, growth |
| Develop an adequate customer base | Continue business development within niche | Company can stay here barring environmental/ other changes | If cash flow outstrips growth, firm may "drop back" to Earlier phase or go bankrupt | Professional managers may replace original owner | Well-developed financial resources |

**Source:** Adapted from Sullivan (2000), *"Entrepreneurial Learning and Mentoring", International Journal of entrepreneurial Behaviour and Research. Vol.6. No.3; Pp. 160 – 175.*

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It is therefore interesting to note the skills that our new-start entrepreneurs believe they require as they and their enterprises evolve and grow. In addition, if support is to be effective and is provided "just-in -time" as opposed to delivered in a pre-set and prescribed manner, then such a "model" would prove to be somewhat convenient for planning and resourcing purposes. In other words, if we are attempting to support entrepreneur through the conception and survival phases then we require to facilitate learning in those skill areas identified as important at that time.

***Promoting an Entrepreneurial Culture among Young People***

According to Stevenson and Lundström (2001, as cited in Schoof, 2006), promoting an entrepreneurial culture is one of the most underdeveloped strategic areas of entrepreneurship development worldwide, poorly articulated in policy terms and the most subject to rhetoric. To change the pattern of cultural determinates is a medium or long-term process. Moreover, it is a multi-faceted commitment, as culture is complex and difficult to change. It requires a combination of specific programmes and initiatives to create positive attitudes towards entrepreneurship and entrepreneurs. Best practice countries are probably those such as the United States, Canada, Australia and New Zealand that use a combination of approaches to promote entrepreneurship.

In the following section we outline the major initiatives and instruments currently used in different countries to raise the profile and attractiveness of entrepreneurship for young people and present various examples.

***(a)*** *Research: Understanding cultural influences on entrepreneurship and assessing the attitude, awareness and aspirations of young people towards it*

In order to promote an entrepreneurial culture among young people, it is crucial to know more about young people's attitude, awareness and aspirations towards entrepreneurship and business. Before targeting them with particular interventions and initiatives to raise their entrepreneurial profile (see below), appropriate research and testing are necessary. In this context it is advisable to (Schoof, 2006):

1. *Assess young people's level of awareness, attraction and involvement with business and enterprise, in order to establish a benchmark of their current attitudes and behaviours with the subject topic.*
2. *Identify and test initiatives that would increase young people's interest with business and entrepreneurship.*

***b)** Promotion of role models*

Successful social or private, youth or adult entrepreneurs are probably the best ambassadors for promoting entrepreneurship among young people. By delivering an image of independence, success and achievement, they can motivate young people to consider and explore entrepreneurship and self-employment. The more a young person knows a successful entrepreneur, the more likely he or she might become interested in starting a business because they have a role model to follow. Moreover, when supported by media campaigns, credible role models can have an influence on young people's personal environment, so that parents and relatives will change their attitude to entrepreneurship as well and encourage their children to engage in this field. In this context it is important to note that role models are most effective when reflecting the image of the group whose behaviour is to be influenced (e.g. youth in general, young women, parents, etc.).

***(c)** PR-Campaigns, competitions and awards, media coverage, youth business events*

Public relations *(PR)* campaigns, events, competitions and awards are another way of raising the profile of entrepreneurship for young people. Youth business events (e.g. gatherings, expositions, fairs, galas, concerts, open business days), whilst tapping into youth culture, can be useful instruments for introducing entrepreneurship to youth. Moreover, they provide good opportunities for media exposure. Business competitions and awards provide special incentives for ambitious young people. The impacts of business competitions (business plan competition, simulation games, minicompanies, awards) are much broader – they attract young men and women to the support services that are offered as a part of the competition. Through appropriate media coverage and PR- campaigns (e.g. TV/radiospots and programme shows), public interest in entrepreneurship and familiarity with the concept can also be increased.

*(d) Introduction and promotion of the entrepreneurial culture through education*

Enterprise-focussed education has an important impact upon young men and women. One important aim of enterprise education is the promotion of entrepreneurship as a viable career path. Learning about business development, administration and management as well as learning the necessary skills, attributes and behaviours creates positive attitudes towards entrepreneurship and has a significant impact on a young person's decision to become an entrepreneur. Modern government programmes aiming at fostering an entrepreneurial culture among young individuals try to focus more on a coherent combination and coordination of entrepreneurship education initiatives and other measures to raise the profile of entrepreneurship in society.

**Aboriginal Mentoring Cultural imperatives on entrepreneurship development**

From an Aboriginal perspective, informal mentoring has also had a long history, developing around shared societal values. Prior to contact with European culture, First Nations people had tribal customary practices for providing mentor-like guidance for children and youth. The whole tribe (or community) contributed to raising children; everyone had a role to play in teaching the young. "Children were regarded as a gift from the Creator and members of the community shared responsibility for their upbringing" (Rail 1996: 141, as cited in Klinck, et'al,2005).

According to Makokis (2001), family relationships have been central to social organization among Aboriginal people. Indigenous tribes, in the past and the present, hold the extended family in high regard as they assist in mentoring the children. Several extended families combine to form a band. Several bands combine to form a tribe or nation; several tribes or nations combine to form confederacies. The circle of kinship can be made up of one circle or a number of concentric circles. These kinship circles can be interconnected by other circles such as religious and social communities. This approach to Aboriginal organization can be viewed as a "spider web" of relations (Little Bear 2000: 79).

Little Bear's analogy reflects the importance of kinship ties not only with the nuclear and extended families, but also the community. It is through this complexity of interweaving and interconnecting social circles that Indigenous people usually find themselves relating to each other. Therefore, when considering the mentor/mentee relationship the mentor's knowledge of the Aboriginal social context can be helpful in establishing a strong connection.

The Indigenous family structure, however, was disrupted by the policies imposed by the colonial administration. Strategies of assimilation were established by the state and church to enforce the adoption of European lifestyles, such as work, agriculture, and religion (Milloy 1999: 6). Education, via residential schooling, was a critical element of assimilation (Jaenen 1995, Milloy 1999, as cited in Klinck, et'al,2005), forcefully separating young children from their families, language, and culture.

In contrast to the style of education imposed through residential schools, Aboriginal views on education are more holistic, rather than individualistic (Henderson 2000), and inclusive of immediate family, extended family, and the community (Steinhauer 2002). Indigenous realities (such as culture, values, and customs) represent a world view that is different from that of non Aboriginals (Steinhauer 2002b) and, from this perspective, learning through mentoring should emphasize beliefs and values in accordance with this world view, such as respect for all things that are living, individual responsibility, self-reliance, and proper conduct (Barman et al. 1995).

Finally, the way families traditionally shaped behaviours was through the use of positive examples and role modeling (Barman et al. 1995, Hall 1996, Miller 1996 as cited in Klinck, et'al,2005). Mentors and mentees can learn from stories, examples, and actions that are based on their relationship with each other.

***Enterprise Culture** is a* set of values, attitudes and beliefs supporting the exercise in the community of independent entrepreneurial behaviours in a business context. "By defining the entrepreneur in terms of a set of attributes and the small business in terms of a set of tasks, it has been possible to explore the relationship between the two and to clarify their interdependency" while at the same time distinguishing between the two (Gibb, 1987:35 as cited in Bhidé, 2000).

Ogundele (2000) finds that mentoring is one of the elements of social relations in his study having positively significant influences on the entrepreneurial processes of emergence, behaviour and performance. It was found specifically that the existence of mentors who were also in business related occupations had significant influence on entrepreneurial pre-emergence phase. The impact of mentor on the emergence behaviour and performance phases were in terms of provision of business ideas, moral and financial supports in times of needs. They also act as refrees for banking and other forms of business related transactions.

In a recent survey investigation, Idemori, (2008) provides important insights into the central characteristics rooted in Nnewi cultural imperatives that aid entrepreneurial success and managerial excellence among Nnewi people. Idemori notes that the culture of Nnewi enhances the entrepreneurial zeal and managerial excellence of Nnewi indigenous entrepreneurs. Nnewi indigenous culture with base on the 'Afia Olu' and 'Ikwu – Aru' cultural virtues positively propell entrepreneurial zeal and pursuits in the people.

In response to the questions on the impact of culture on the entrepreneurial pursuit of Nnewi people and Nnewi culture and encouragement of entrepreneurship, analysed opinion of the respondent (tables 2 & 3) reveal that the proportion of respondents who said *'yes'* to the question of the people's culture playing a significant role in their business endeavours, is enough to conclude that the urge and desire to succeed inherent in the people is as a result of their unique way of life.

**Table 2: Opinion of respondents on the impact of culture on the entrepreneurial pursuit of Nnewi people**

| Q/ No. | Question | Alternative Responses | Frequency | Percentage |
|---|---|---|---|---|
| Does | Nnewi culture have a strong impact on the entrepreneurial pursuit of Nnewi People? | Yes | 210 | 78.9 |
| | | No | 50 | 18.8 |
| | | Don t know | 6 | 23 |
| Total | | | 266 | 100 |

**Source:** Idemori, I. Ellis (2008), Cultural Influences on Entrepreneurial and Managerial Activities of Nnewi Manufacturing Enterprises of Anambra State; Analysis of questionnaire.

**Table 3: Opinion of respondents on Nnewi culture and the encouragement of entrepreneurship**

| Q/ No | Question | Alternative Responses | Frequency | Percentage |
|---|---|---|---|---|
| | Would you say that Nnewi Indigenous culture encourages entrepreneurship and survival of the fittest? | Yes | 255 | 95.9 |
| | | No | 11 | 4.1 |
| | | Don't know | - | - |
| Total | | | 266 | 100 |

**Source:** Idemori, I. Ellis (2008), Cultural Influences on Entrepreneurial and Managerial Activities of Nnewi Manufacturing Enterprises of Anambra State; Analysis of questionnaire.

Idemori infers from table 3 that the proliferation of manufacturing concerns by the people of Nnewi has basis in their culture which encourages entrepreneurship and survival of the fittest. He notes that the Afia – Olu cultural festival encourages hard work, individual efforts, perseverance and dedication to duty and that this aspect of Nnewi people's culture is the basis for ingenuity, shrewdness, attachment to everything of value, self effort, determination to succeed, service to masters with absolute loyalty, and submissiveness and the attributes that encourage entrepreneurship. Indeed according to Idemori (2008), with this background, highly resourceful and industrious people of Nnewi have done remarkable entrepreneurship with great energy and determination. Owning a factory today as part of what can be showcased during the 'Afia – Olu' festival has a pride of place in Nnewi culture.

These findings are corroborated by Ewurum (2001, as cited by Idemori, 2008) where it is stated that, traditionally agriculture is the chief occupation of the people of Nnewi. A good percentage had engaged in it. They love labour and hate idleness. Culturally there are no beggars. But the land is not fertile and as such does offer encouragement. And yet one must show something as achievement. They begin diversifying into other life pursuits such as trading, transportation and small product making. Even in all these they still attach great importance to 'Afia – Olu' annual festival and always strive to show something of achievement in their great determination to succeed. Competition is very keen in all aspect of life of Nnewi people. Only those who are able to showcase achievement are important personalities or are respected for their age in the culture of the people.

Trust, intimacy and openness are also observed at the shop floor of most of the firms with everyone including owner chief executives. As a result, discussion between owner chief executives and the rest of the workforce on work related problems are frank and open. This cultural inclination corroborates Pawson's (2004) *position that, everyone appreciates that one learns from experience and so much the better if one can trade on the wisdom of others. Here, then, is the kernel of the 'mentoring movement'*. Furthermore, (Phillips-Jones, 2003 as cited by Klofsten, and Öberg, 2008) argues that *"individuals seeking personal and professional development or for organizations seeking to facilitate knowledge and skills transfer, mentoring has emerged as an important means to achieve these ends"*.

**Relationship Processes in Mentoring**

The relationship level, evidence is mounting that relationship duration and strength are associated with youth outcomes (Grossman & Rhodes, 2002; Herrera et al., 2007). Longer matches tend to be associated with more positive benefi ts for youth (Grossman & Rhodes, 2002; Herrera, 2004; Herrera et al., 2007), as do relationships in which participants feel a sense of closeness or personal connection ( Parra, DuBois, Neville, & Pugh-Lilly, 2002). There is also some evidence that matching mentors and youth on the basis of shared interests may facilitate the development of closer relationships.

Other process factors that appear to distinguish more and less enduring and supportive relationships include the consistency of contact between participants (Karcher, 2005) and the mentor's approach to the relationship (Morrow & Styles, 1995, as cited in Renee, 2006). Mentors who engage in more social activities with youth, even in entrepreneurial-based mentoring relationships, tend to report higher levels of closeness in their relationships (Herrera et al., 2000). Further, youth in matches with adults who take a more prescriptive approach tend to be less satisfied with the relationship than youth in relationships where the adult takes a more developmental or youth-centered approach (Morrow & Styles, 1995, as cited in Renee, 2006).

***Prescriptive mentors*** place primary emphasis on their own goals for the young person, which are often unrealistic or not developmentally appropriate, and pay less attention to building an emotional connection with the young person. In contrast, ***developmental mentors*** tend to devote their efforts in the early months of the match to establishing a strong connection with the young person. These mentors place a high value on making the relationship enjoyable, and set developmentally appropriate expectations that are informed by the youth's preferences and interests (Morrow & Styles, 1995, as cited in Renee, 2006).

Given that some matches can continue for months with little or no contact between mentor and mentee, it is important to consider whether dosage, or amount of contact between mentor and mentee, is the more critical factor. The school-based mentoring impact study (Herrera et al., 2007) suggests that both dosage and duration may be important. Matches that persisted into the summer but had little to no contact (i.e., less than monthly contact) during those summer months tended not to last as long.

Further, relationships with infrequent summer contact were perceived by youth as lower in quality as compared to matches that had communicated at least biweekly during the school break (Herrera et al., 2007).

**Conclusion**

Mentoring relationships have changed from traditional and hierarchical to dynamic relationships that are contemporary, open, and flexible. And as evident from our review of the literature. Individuals can now learn from each other in reciprocal partnerships where they are both the giver and receiver of wisdom and information. Modem mentoring is designed to boost individual capability and corporate capacity by giving individuals the tools to see and create a learning network. Multiple mentoring relationships can form at all levels of a company which in turn stimulates the growth and development of a learning culture and entrepreneurial spirit in organization and the wider society

The authors are convinced that the mentor has different roles for supporting the young individual to be a better entrepreneur.The wealth and poverty of developing countries has been linked in modern times to the entrepreneurial nature of their economies. Where it has existed in plenty, entrepreneurship has played an important role in economic growth, innovation, and competitiveness, and it may also play a role over time in poverty particularly where all mentoring programmes aim to promote positive outcomes.

More systematic qualitative research in this field would help us to better understand the processes of mentorship (i.e., relationships, matching skills, and time and resource issues) and allow us to raise relevant research questions and develop practical tools to improve those processes that lead to positive outcomes from all mentoring programmes.

**Recommendations**

Based on the reviewed literatures and reported findings of the impact of mentoring on entrepreneurial process, and also acknowledging the fact that future development of Nigeria is dependent on industrial entrepreneurship, we provide the following recommendations:

**Relationship:** Mentoring should be real as reported in the Nnewi model. A cosmetic approach that was employed by politicians should be discouraged. This was the practice of attaching the supposed apprehentice to a master without caring about their relationship.

We have shown in this paper that the pattern of relationship is central to mentoring success. There should be concrete relationship that would ensure the success of the mentoring programme.

**Learning:** The learning environment should be made conducive to both the mentors and the mentees. That is, there should be trust, and willingness to give knowledge and to receive knowledge.

***The model*** of training and development that we here suggest is the people change approach. This approach as highlighted by Ogundele, Hassan, and Okafor (2007) has three broad components. The people change approach is concerned with the individual and the relevant environments for learning. The components are behaviour, functional and environment.

***The behavioural approach*** is centered on building valued or cherished forms of behaviour. This will call for massive re-orientation of large scale dimension, to centrally locate the desirable, honest, fair, and decent behaviour which are sure to sustain the spirit of entrepreneurship in Nigeria.

***Functional approach*** is anchored on providing specialized skills that the entrepreneur requires to succeed. These include technical, managerial, marketing, accounting, production, financing and several other narrow specializations that can ensure smooth operations entrepreneurial organizations. This is because competencies in each key area of operations and their applications will ensure success.

***Environmental approach*** is concerned with the context of entrepreneurial organization. It is a focus on the types and nature of nurturing environment that is available. This will be from the family, religious, educational and other social environments. It also includes the political, economic, technological and various support systems e.g. National Directorate of employment, Agencies that are charged with entrepreneurship development must be made to facilitate the process of entrepreneurship through mentoring as an intervention support mechanism.

## Future Research Ideas

Mentoring is a process that requires further research and is believed to lead to a high level of success in both personal and professional endearvours (Bloom .A.G *et'al* (1998) as cited in Merriam, 1983)

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Most of the researches have been conducted on the benefits and reasons to use mentoring relationships in entrepreneurship development. As already suggested, this may have led to an overly optimistic view of mentoring. A relatively small body of work has been conducted looking into the area of dysfunction and negative mentoring relationships and its outcomes for those involved. Therefore, more researches should be conducted looking into why and how dysfunctional mentoring relationships occur, and their outcomes.

Another research gap that exists is a lack of research into the universal applicability of mentoring relationships to all organisations. Mentoring needs to be explored to see its applicability for all types of organisations, and to see which types of organisations are most likely to benefit.

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# MANAGEMENT DEVELOPMENT AND SUCCESSION PLANNING: AN EXPLORATORY STUDY OF SELECTED FIRMS IN KWARA AND NIGER STATES, NIGERIA

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***Abstract***

*The paper examines the relevance of management development to succession planning. The basic issues in succession planning as well as ways of improving the implementation of succession planning were also discussed. In carrying out this exploratory study, both primary and secondary data were generated for use. The primary sources include a structure interview technique and questionnaires; the secondary source is the extensive review of related literature. The respondents are the management staff of the selected firms randomly selected. Using the Likert five point scale the relative qualification index was determined. That is the extent of Relative Premium placed on Succession Plan, as well as Management Development as assisting in the implementation of Succession Planning. The findings reveal among others that many organizations have succession plans. That, management development assists in the implementation of succession planning. The paper recommends that, management development should be accorded the necessary attention in terms of quality and modernization; succession planning should be regarded as an issue that involves everybody in an organization and also seen as life planning.*

**Keywords:** ***Succession Planning, Management Development, Premium, Firms, Nigeria***

## 1.0 INTRODUCTION

Managing Directors of organizations tend to focus on certain relevant issues when discussing succession. Some of these issues are that they want to have qualified people ready to fill key positions now and grow the business in the next three to five years, have a sufficient number of qualified candidates ready in five to ten years to fill key positions, and are also interested in what happens if in the future a government legislation affects the operation of their organization.

Many organizations are challenged by ever dynamic work environment which requires that the implementation of succession planning should be accorded adequate attention. Succession planning is about the development of management talent within all capacities, which is the process through which a company plans for and fills senior-level openings (Tillman, et al 1998; Caligiuri, 2006). Effective succession planning is a key issue in manpower development, which according to Beardwel and Holden (1994) is to develop the abilities of employees and meet the present and future requirements of the organization. An important factor here is that management development and succession planning are closely related and cannot be separated.

Objectives of the study are:

i. To examine the relationship between management development and succession planning,

ii. To clearly bring out the basic issues in succession planning,

iii. To see if organizations actually have succession plans, and

iv. To recommend ways of improvement in the implementation of succession planning in the context of Nigeria.

The study is therefore undertaken to determine if management development has effect on succession planning. In carrying out effective management development and succession planning, the consideration of certain basic issues is relevant. Having stated the research objectives, the paper is organized into following sections: literature review, research objectives, research methodology, findings and discussion, and ended with conclusion and recommendations.

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## 2.0 LITERATURE REVIEW

The study has to do with management development and succession planning. Based on this, we reviewed the concepts of management development and succession planning as conceived by various scholars.

## 2.1 MANAGEMENT DEVELOPMENT

Development enhances the general potential of the employee. Development, to Griffin and DeNisi(2005), usually refers to teaching managers and professionals the skills needed for both present and future jobs. That is, rather than focusing on specific job-related skills, such as using new software or performing certain specific task and job functions, development is more generally aimed at helping managers better understand and solve problems, make decisions, and capitalize on opportunities. For example, managers need to understand how to manage their time effectively. Thus, some management development programme have a component dealing with time management. Other management development programme may help managers better understand how to motivate employees. Thus, managers do not necessarily return from development programme with a specific new operational method for doing their jobs more effectively. Instead, they may return with new skills that may be of relevance to them in a general sense at some point in the future. They may have a better understanding of how to work more effectively, how to motivate their employees better, and how to make better decisions, and they may possess a more complete understanding of how the overall organization functions and their roles within it. Development is often considered a human resource function in most organizations, but because of its strategic nature and importance, one or more senior executives are usually given specific responsibility to ensure that management development is approached systematically and comprehensively.

Although, management development has been defined in many ways, Werner and DeSimone (2006), feel the following definition captures the essence of management development as it can and should be practiced in organizations: An organization's conscious effort to provide its managers (and potential managers) with opportunities to learn, grow, and change, in hopes of producing over the long term a cadre of managers with the skills necessary to function effectively in that organization.

In similar work, French (2007) see management and career development programme as representing efforts to increase the organization's present and future ability to meet its goals by providing educational and developmental experiences for managers and all employees above and beyond the immediate technical requirements of their jobs. However, management development in the words of Armstrong (2009) is concerned with improving the performance of managers in their present roles and preparing them to take on greater responsibilities in the future. It has been described by Mumford and Gold (2004) as “an attempt to improve managerial effectiveness through a learning process”. In his own contribution, Mullins (2010), sees management development as concerning with not only improving the effectiveness of individual managers but also with an improvement in management performance as a whole. It must be integrated with the development of the organization and the associated improvement in organizational effectiveness.

Management development in view of Dessler (2011), is any attempt to improve managerial performance by imparting knowledge, changing attitudes, or increasing skills. Dessler (2011) further sees management development as a process consisting of (1) assessing the company’s strategic needs (for instance, to fill future executive openings or to boost competitiveness), (2) appraising managers’ current performance, and then (3) developing the managers (and future managers).

In a nutshell, management development efforts should be seen as an alignment to the organization’s strategic objectives so that the right people will be available at the right time and in the right places to meet the right objectives.

## 2.2 SUCCESSION PLANNING

Succession planning is the process most often done for upper-level management positions. It requires senior managers to identify employees who should be developed to replace them. Information generated during succession planning may not be communicated to the employee. Soderquist (1998) believes that we have an obligation and responsibility to those who work with us and those who work for us to develop them and ensure that people come into the organization, no matter one’s level. To Soderquist (1998), some of us might need a wake-up call about succession planning. Most people are asleep and not thinking about tomorrow as related to their business. To him, succession planning today is not an option, it is a necessity. Succession planning must be an integral part of one’s strategic plan, in allocating resources. That is where are we going to put our money, what we are going to build for the future? What Soderquist is trying to paint is that not only to plan the usage of our resource, we must also consider how we are going to get there—our target. This then leads us to some questions. How are we going to achieve the results that we would like to achieve? Who is going to get us there?

One needs to decide who in one's organization is going to carry forth the plans of the future. One should note here that, you cannot rely on tactics alone, strategic thinking is vital. Succession management, or management inventory, as succession planning is sometimes referred to, is more than who can be the Chief Executive Officer; it's about the development of management talent within all capacities.

In a similar work, Tillman, McDonough, and Soderquist (1998) state that effective succession planning is closely aligned to strategic planning applying a real strategic approach to understanding what lies ahead and what your major characteristics and qualities and fit your needs. What should be noted here is that an organization that is futuristic in its thinking should see succession planning as a must. Though, each might approach succession planning differently. As earlier on noted, succession planning is an integral part of strategic planning. One cannot think of driving a company into the future without considering who is going to take it there. The true test of progress and the best measures is a legacy translates into shareholders 'value personified in the people who succeed the individual.

Succession planning in the view of Greenyard (2001) is no simple task. Mapping out the future involves more than an organizational chart displaying the corporate hierarchy. It is essential to know which employees have the particular skills and competencies required to assume positions higher on the corporate ladder, what talents will be required in the future, and how best to train employees for management positions or hire from the outside.

It should be noted that changing organizations succeed by having the right people in the right places at the right times. Preparing employees to take on the necessary roles to help your organization requires that you develop their leadership skills. Based on its research into executive development, the center for creative leadership in Greenshard, North Carolina according to Buckner and Slavenski (2000) recommends planning structured activities that enable executives to acquire leadership skills naturally as a part of their professional growth. You would not design a succession planning programme by copying another organization's plan. The key to developing a successful programme is to ask the questions that pertain to the specific issues of your changing organization now and continue to ask these questions as your organization progresses through inevitable transformation. A good succession planning programme is always part of continuous improvement.

Many entrepreneurs dream of the time when they will be able to "pass the torch" of their successful businesses on to their children. Unfortunately, Hatten (2006), said many factors, such as jealousy, lack of interest, or ineptitude, can cause the flame to go out. Less than one-third of family businesses, according to Hatten (2006), survive through the generation, and fewer than one in ten makes it through the third generation. The major cause of family business failure is lack of a business succession in plan. However, French (2007), sees succession planning as the process of anticipating future managerial staffing needs and making plans for the development and/or recruitment of managers to meet those needs. This, in view of French (2007), has never been more important in this age of global terrorism following the september11 attacks on New York City and the subsequent bombings in Madrid and London. The plane crash in Europe in 1996, which killed Committee Secretary Brown and eleven business executives, was a pivotal event in the evolution of corporate succession planning. Some of the firms affected found they had no succession plan, while others were prepared to name successors immediately after an appropriate period of mourning. Gerald Roche, chairman of an executive search firm, as reported by New York Times (1996), suggestes that companies should have two succession plans, one based on "normal succession" and the other for disasters such as plane crashes.

Armstrong (2009), in his contribution views management succession planning as the process of assessing and auditing the talent in the organization in order to answer three fundamental questions. First, are there enough potential successors available – a supply of people coming through who can take key roles in the longer term? Second, are they good enough? Third, have they the right skills and competencies for the future? At different stages in their careers, potential successors may be ranked in order, such as, (a) being ready to do the next job now, (b) being ready for a certain higher-grade position in, say, two years time, (c) being ready for job rotation at the same level, and (d) being ready for lateral assignments on temporary relief or project work. Succession planning is based on the information about managers gleaned from supply and demand forecasts, talent audits and performance and potential reviews. *In some large organizations in which demand and supply forecasts can be made accurately, highly formalized succession planning processes exist based on the sort of management succession schedule illustrated in figure 1.* Management succession planning, to Mullins (2010), aims to ensure that a sufficient supply of appropriately qualified and capable men and women is available to meet the future needs of the organization. Such people should be available readily to fill managerial or supervisory vacancies caused through retirement, death, resignation, promotion or transfer of staff, or through the establishment of new positions. The issue here is that, succession planning should be related to the overall corporate strategy.

Most firms in the view of Dessler (2011), call the process of deciding how to fill executive jobs succession planning. That is the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance. To Dessler (2011), succession planning entails three steps: identifying key needs, creating and assessing candidates, and selecting those who will fill the key positions. Other names for succession planning include replacement planning, workforce planning, progression planning, succession management and succession inventory.

At this juncture, one could then conclude that succession planning is having the right person in the right place at the right time for the right job. It means knowing your people, knowing their strengths, experience and career goals, and knowing where they need development. That is succession planning helps organizations know what to do if a position becomes vacant. In fact succession planning is life planning. If you do not have a succession plan, you will be either forced to sell or close your doors.

<table>
<tr><td colspan="5">MANAGEMENT SUCCESSION SCHEDULE</td><td colspan="4">Department: Director/manager:</td></tr>
<tr><td colspan="5">Existing managers</td><td></td><td colspan="2">Potential successors</td><td></td></tr>
<tr><td rowspan="2">Name</td><td rowspan="2">Position</td><td rowspan="2">Due for replacement</td><td colspan="2">Rating</td><td rowspan="2">If promotable to what position and when?</td><td rowspan="2">Names: 1st and 2nd choice</td><td rowspan="2">Positions</td><td rowspan="2">When</td></tr>
<tr><td colspan="2">Performance Potential</td></tr>
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Figure 1: Management Succession Schedule (Armstrong, 2009, p. 587)

## 2.3 SUCCESSION PLANNINIG VIS-A –VIS MANAGEMENT DEVELOPMENT

In the case of management development, the notion of succession management according to Werner and DeSimone (2006) can be seen as a way for succession planning to better serve organizations in a rapidly changing environment. One of the main properties of succession management is viewing the goal of the process as one of creating a cadre of individuals who have the competencies needed to work as part of a senior management team. Succession planning and management development, both, according to Stern (2005), stem from the employer's strategy, vision, and personal plans. For example, strategies to enter new businesses or expand overseas imply that the employer will need managers who have the skills to manage these new businesses. Development is usually part of the employer's succession planning.

Allied to management development to succession planning should be a programme of planned career progression. This should provide potential managers with—(a) training and experience to equip them to assume a level of responsibility compatible with their ability; and (b) practical guidance, encouragement and support so that they may realize their potential, satisfy their career ambition and wish to remain with the organization

## 3.0 RESEARCH METHODOLOGY

The study is basically an exploratory one designed to examine the relevance of management development to succession planning. Both primary and secondary sources were used in obtained information from both management and senior staff of selected organizations. The primary sources include: a structure interview technique and questionnaires; the secondary source is the extensive review of related literature.

The respondents are the management staff randomly selected from organizations in Kwara and Niger States. Using the Likert five point scale, the relative qualification index was determined. Two hundred and sixty (260) copies of questionnaires were administered, 203 copies were however returned.

Likert five point scale was also used in determining the Relative Qualification ($RQ_i$) Index of their responses. That is the extent of Relative Premium placed on Succession Plan, as well as Management Development as assisting in the implementation of Succession Planning.

The relative index of the responses was given. The relative qualification index (RQI) was determined using the following formula:

$$\text{Relative Qualification Index} = \frac{\text{Attained Summation of } P_iU_i}{\text{Attained Summation}}$$

$$\frac{\sum_{n=i}^{n} P_iU_i}{n \times (4 + 3 + 2 + 1 + 0)}$$

P = Subjective importance of the variable
U = Number of respondents
n = Number of different years respondents have been with their organizations

## 4.0 DATA PRESENTATION AND ANALYSIS

Tables 1, 2 and 3 give the summary of returns from the respondents from each of the industrial sectors covered in the study.

**Tables 1: Numbers of Selected Organization/Respondents**

| **S/No.** | **Years spent in the organization** | **Small Firms** | | **Medium Firms** | | **Large Firms** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| | | Kwara | Niger | Kwara | Niger | Kwara | Niger | |
| 1 | <5 | 3 | 2 | 3 | 4 | 3 | 3 | **18** |
| 2 | 6-10 | 5 | 3 | 6 | 8 | 7 | 11 | **40** |
| 3 | 11-15 | 6 | 5 | 10 | 8 | 9 | 7 | **45** |
| 4 | 16-20 | 6 | 7 | 9 | 11 | 10 | 7 | **50** |
| 5 | >20 | 8 | 5 | 11 | 9 | 11 | 6 | **50** |
| **Total** | | **28** | **22** | **39** | **40** | **40** | **34** | **203** |

**Source:** Field Survey 2011

As demonstrated in table 1 above, 50, 79, and 74 respondents are from small, medium, and large firms respectively. The number of years spent in the organizations by the respondents, ranges from less than five years to above twenty years. The point here, is that the respondents spread across in terms of experience.

**Table 2: Availability of Succession Plan in the Organization**

| S/No. | Years spent in the organization | Small Firms | | | | Medium Firms | | | | Large Firms | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **4** | **3** | **2** | **1** | **4** | **3** | **2** | **1** | **4** | **3** | **2** | **1** | **0** |
| | | **0** | | | | **0** | | | | | | | | |
| 1 | <5 | 3 | 2 | 0 | 0 | 3 | 4 | 0 | 0 | 4 | 2 | 0 | 0 | 0 |
| | | 0 | | | | 0 | | | | | | | | |
| 2 | 6-10 | 3 | 5 | 0 | 0 | 11 | 3 | 0 | 0 | 15 | 3 | 0 | 0 | 0 |
| | | 0 | | | | 0 | | | | | | | | |
| 3 | 11-15 | 8 | 3 | 0 | 0 | 12 | 6 | 0 | 0 | 14 | 2 | 0 | 0 | 0 |
| | | 0 | | | | 0 | | | | | | | | |
| 4 | 16-20 | 11 | 2 | 0 | 0 | 17 | 3 | 0 | 0 | 16 | 1 | 0 | 0 | 0 |
| | | 0 | | | | 0 | | | | | | | | |
| 5 | >20 | 12 | 1 | 0 | 0 | 19 | 1 | 0 | 0 | 17 | 0 | 0 | 0 | 0 |
| | | 0 | | | | 0 | | | | | | | | |
| **Total** | | | | | | | | | | | | | | |

**Source:** Field Survey, 2011

Extent of Premium :

4 = Very strongly agreed 3 = strongly agreed 2 = averagely agreed 1 = rarely agreed 0 = Disagreed

**Table 3: Relative Index of Premium placed on Succession Plan by Organization**

| S/No. | Years spent in the organization | Small Firms | Medium Firms | Large Firms | All Firms |
|---|---|---|---|---|---|
| 1 | <5 | 0.36 | 0.48 | 0.44 | **0.43** |
| 2 | 6-10 | 0.54 | 1.06 | 1.38 | **0.99** |
| 3 | 11-15 | 0.82 | 1.32 | 1.24 | **1.13** |
| 4 | 16-20 | 1.00 | 1.54 | 1.34 | **1.29** |
| 5 | >20 | 1.02 | 1.58 | 1.36 | **1.32** |

**Source:** Field Survey, 2011

Table 3 gives the Relative Index of Premium placed on Succession Plan by Organization. Respondents with more than 20 years experience in the three categories of the organization rank first (relative index of 1.32), in confirming that their organizations have succession plan. The next in the ranking (relative index of 1.29) is the respondents with between 16-20 years experience in their organizations. The category, that follow in the ranking are respondents with between 11- 15 years (relative index of 1.13). An important issue here is that all categories confirm that there exist in their organizations succession plan. In that, we neither record negative nor zero score.

**Table 4: Management Development assists in the implementation of Succession Planning**

| S/No. | Years spent in the organization | Small Firms | Medium Firms | Large Firms |
|---|---|---|---|---|
| | | **4 3 2 1** | **4 3 2 1** | **4 3 2 1 0** |
| | | **0** | **0** | |
| 1 | <5 | 3 2 0 0 | 3 4 0 0 | 4 2 0 0 0 |
| | | 0 | 0 | |
| 2 | 6-10 | 5 3 0 0 | 12 2 0 0 | 17 1 0 0 0 |
| | | 0 | 0 | |
| 3 | 11-15 | 10 1 0 0 | 14 4 0 0 | 14 2 0 0 0 |
| | | 0 | 0 | |
| 4 | 16-20 | 12 1 0 0 | 19 1 0 0 | 16 1 0 0 0 |
| | | 0 | 0 | |
| 5 | >20 | 13 0 0 0 | 20 0 0 0 | 17 0 0 0 0 |
| | | 0 | 0 | |

**Source:** Field Survey, 2011

**Table 5: Relative Index of Premium placed on Management Development as assisting in the implementation of Succession Planning.**

| S/No. | Years spent in the organization | Small Firms | Medium Firms | Large Firms | All Firms |
|---|---|---|---|---|---|
| 1 | <5 | 0.36 | 0.48 | 0.44 | **0.43** |
| 2 | 6-10 | 0.58 | 1.08 | 1.02 | **0.89** |
| 3 | 11-15 | 0.86 | 1.36 | 1.24 | **1.15** |
| 4 | 16-20 | 1.02 | 1.58 | 1.34 | **1.31** |
| 5 | >20 | 1.04 | 1.60 | 1.36 | **1.33** |

**Source:** Field Survey 2011

Table 5 gives the summary of Relative Index of Premium placed on Management Development as assisting in the implementation of Succession Planning. The ranking is similar to that in table 3. The only difference is score. Respondents with more than 20 years experience in the three categories of the organization rank first (relative index of 1.33), in confirming that their organizations have succession plan. The next in the ranking is the respondents with between 16 and 20 years experience in their organization (relative index of 1.31). The category, that follows in the ranking are respondents ranging from 11- 15 years (relative index of 1.15). An important issue here is that all categories confirm that Management Development assists in the implementation of Succession Planning. In that, we neither record negative nor zero score.

## 5.0 DISCUSSION OF FINDINGS

The study reveal that many organizations have succession plans. It is confirmed that the organizations have documents that could be regarded as succession plan. Although most of them did not use the name, 'succession plans'. Other names used for succession planning are workforce planning, progression planning, succession management, and succession inventory.

The interaction with majority of the respondents shows that many organizations are prepared for tomorrow. They do not want to be overtaken by surprise. This is reflected in the way the acquisition of new knowledge, ideas, and skills are being encouraged.

Majority of the respondents believe that management development assists in the implementation of succession planning.

It was seen that forward looking companies are positioning themselves to emerge victorious from the slow economy by correctly identifying young talents and developing future leaders. From the research it was gathered that most human resource managers of leading companies build succession planning systems that routinely evaluate top performing employees to cultivate tomorrow's most effective leaders.

The research shows that succession planning systems build leadership pipelines through formal structure and integration with all functional areas. Interaction with the respondents during the study shows how employees of a leading financial institution follow a four-stage development planning, ongoing dialogue with superiors and performance.

Some of the firms spot future leaders in the organization by examining each employee's personal values, achievement record and interest in advancement. This approach, which highlights personal values over competencies, allows the firm to develop talents, and experienced employees eager to take on increased responsibilities in their organizations.

Follow-up interviews/interaction with some the selected respondents in Adamawa and Kwara States, outlines multiple strategies for identifying potential leaders, matching executives with the right positions, and aligning succession plans with an organization's culture and growth goals.

It was gathered that in order to emerge victorious in today's volatile market, forward-looking organization should educate and train employees on a continuous basis. This emphasizes relevance of management development to succession planning.

## 6.0 CONCLUSION

This paper examine management development vis-a-vis succession planning. The key feature of management development is development of employees and management staff pool for effective and efficient use in the future. This goes a long way in assisting the implementation of successful planning. Succession planning builds leadership pipelines through formal structure and integration with all functional areas. Succession planning is a process of developing talents to meet the needs of the organization now and in the future.

The research reveals that many organizations have succession plans because they all believe in preparing for tomorrow. They do not want to be overtaken by surprise.

It was also gathered that in order to emerge victorious in today's volatile market, forward-looking organizations should educate and train employees on a continuous basis. This emphasizes relevance of management development to succession planning.

## 7.0 RECOMMENDATIONS

It should be noted that the business environment is dynamic so also the continuous improvement on ways of tackling issues. The research reveals certain important issues that need to be taken into consideration for succession planning to achieve the desired result. Based on the findings, the following are the recommendations:

Different circumstances demand different leadership skills and management qualities to prosper and to grow. That is where succession planning takes real vision. Effective succession planning is closely aligned to strategic planning-applying approach to understanding what lies ahead and what major characteristics and qualities fit your needs. Successful companies as the research reveals do not subscribe to traditional thinking or current trends. They do what is right in the situation or circumstance they expect to confront in the future. There are no hard or fast rules for effective succession planning, one cannot project where tomorrow will come from.

Make sure certain succession candidates are intelligent. Style is nice but substance is essential, there is nothing more dangerous than an articulate fool. Education is not a substitute for intelligence, but as intelligent and well educated candidate certainly make's one desirable.

Make sure succession candidates are free. If they are going to add value to the company, they are going to have to disrupt the status quo. If you keep doing what you are doing, you will keep getting what you are getting no added value.

Make sure succession candidates genuinely like people. Great leaders understand and appreciate their people. They strive to continually earn their respect and loyalty because they care.

Make sure succession candidates understand the fundamentals and all aspects of the entire process of the business, from the producer to the consumer. They do not have to be an expert in all areas, but have to know enough to know what they do not know. Make sure they are honest and trusted by their peers.

Balance is important. Unless extreme measures are called for do not consider an extremist, at least not for a long period of time.

One last thought about succession is that those who fail to prepare generally, prepare for an inevitable future failure.

Management development should be seen as inseparable twin brother of succession planning and should be accorded the necessary attention in terms of quality and modernization.

Succession planning should be regarded as an issue that involves everybody in an organization. Succession planning should be seen as life planning. It should be seen as asking oneself what you and I want to do for the rest one's life. That is, if one does not have a succession plan you will be either forced to sell or close your doors.

Key leadership criteria should be identified. It is essential that an organization knows what skills and competencies it needs to succeed. No one group can identify all these traits. As a result, successful organizations usually rely on focus groups and task forces to better understand core competencies and personnel requirements.

Future leaders should be identified and motivated. An organization must have a system in place for finding star employees and ensuring that they get ready for key positions.

Most employers have traditionally focused succession planning on the top levels of management; there is the need to expand their plans to a broader employee base. As this will lead to help identify high-potential employees, which can further strengthen organizational succession plans.

Results should be measured and desired behaviour reinforced. The only way to know whether a succession plan is effective is to put systems in place to track results, and have human resources managers review the overall effectiveness of the programme. Then the organization must develop systems, such as reward-based compensation, training and appropriate assignments, to motivate workers and push them along desired development paths.

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# Managing the Family Business Succession Crises Through the *Limited, Institutionalised, Quoted, and Social-Causes* [*LIQS*] *FRAMEWORK.*

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## Abstract

*This paper extensively reviews the literature on the global economic importance and perennial succession crises of Family Owned Businesses [FOBs]. It then examines the succession crises of Nigerian FOBs where a litany of failed entrepreneurial empires dots the economic landscape. It recommends the* ***LIQS Framework*** *as a panacea to the crises, provided the entrepreneurs are sincerely interested in the trans-generational survival of their FOBs. The* ***Limited, Institutionalised, Quoted & Social-Causes [LIQS] Framework*** *proposes that FOBs have higher prospects of trans-generational succession and transition when they are limited, institutionalized, quoted and are engaged in social causes. By being limited, they become legal persons and enjoy basic protection; they can sue and be sued and they can sign and execute contracts. By being institutionalized, they establish standard procedures, policies and processes, enthrone professional management, corporate governance principles, succession plans and mitigate the dangers associated with strong-man tendencies. When they are quoted, the shares become tradable and liquid; there is market valuation for their business as well as market discipline, financial disclosures and reinforced corporate governance. Social courses enhance brand image and keep the names of the founders in the public domain long after they are no more. The* ***LIQS Framework*** *has retrospective and predictive properties and it is discovered that FOBs that align with this framework are able to manage the succession crises more than those that do not and have higher survival prospects that those than do not.*

**Key Terms:** *FOBs, Succession, Transition, Entrepreneurship, institutionalisation*

## Introduction

Family owned businesses [FOBs] are very critical players in the global economy. Starting off as the ubiquitous one-man businesses, which are very easy to form, formed for several reasons and usually established without any serious thought as to what the future portends, most of them eventually grow into economic octopuses that dot the economic landscape like Toyota, Lever Brothers, or even Microsoft. An FOB can be simply defined as a business formed or owned by a family or generations of families. Frey [2011] sees an FOB as a business in which a family is in control of shares, daily operations, mission and strategy. Chua, Sharma & Chrisman (1996:5) broaden the concept by defining it as a business with an intergenerational vision but could take a characteristic of being run by a number of families or ownership being held by the members of the same family. While many continue to define the FOB on the bases of ownership, management and more so the intergenerational succession, the precision of these definitions need to be more refined as sometimes ownership can further be defined as holding controlling shareholding, total ownership or effective control. In addition due to the inadequacy of the definition of FOBs on the basis of ownership and involvement in the business, some researchers have proposed other parameters. For instance, Litz (1995:102) argues that the essence of the FOB should be on the intention of holding the control of the business for some generations.

It is generally agreed that FOBs are very important to the global economy, accounting for up to 90% 0f US businesses [Bowman-Upton, 1991] and 30% of Fortune 500 firms. But this importance notwithstanding, the survival rate [especially at the trans-generational level] is very poor. It is estimated that less than 33% of FOBs survive from 1$^{st}$ to 2$^{nd}$ generation and less than half of this 33% make it to the third generation. Indeed, according to Ahlstrom [1998:119], the first generation creates, the second generation inherits, and the third generation destroys: from rags to riches to rags in three generations. In Nigeria, most of these businesses do not survive the first generation as what we have is 'die with the founder syndrome' [Iyatse, 2011:13]; the immediate successor just winds up and asset-strips. The reasons for this embarrassing failure rate are varied and also have some environmental biases. But Landsberg, [1988] blames it squarely on 'succession conspiracy' as four major variables 'conspire' against adequate succession planning. These conspiratorial factors are: the founder [fear of death, reluctance to let go, fear of personal loss of identity & loss of working activity & jealousy towards successor]; family [spouse's reluctance to let go, norm against discussing family future beyond lifetime of parents and against favouring siblings, fear of parental death]; employees [reluctance to lose personal relationship with founder, fear of differentiating among key employees, reluctance to establish formal controls and fear of change] and the environment [founders colleagues/friends who continue to work, dependence of clients on founder and cultural values discouraging succession planning].

But while this failure rate has been of great concern in the intellectual/entrepreneurial circles, it has suddenly become of immense concern in Nigeria, and in the popular Press of all publications! Such concerns have been expressed by Nworah [2011:62] Eke [2011:8] and Arogundade [2011:29]. They all discuss the unfortunate litany of failed FOBs in Nigeria-The Abiola Group, Odutola Brothers, J. O. Nwankwu Group and several others- and agonise as to why they failed and how to stop such failures. With this as the background, the objective of this paper is to examine the succession crises in FOBs in Nigeria and propose a framework for managing such succession crises-assuming that the FOBs want their businesses to succeed for generations. Part two of the paper discusses the nature, structure, importance and morbidity rates of FOBs; part three discusses the situation in Nigeria; Part four proposes the LIQS FRAMEWORK as an antidote to these crises while the paper is concluded in part five.

**The Nature, Structure, Importance & Morbidity Rate of FOBs**

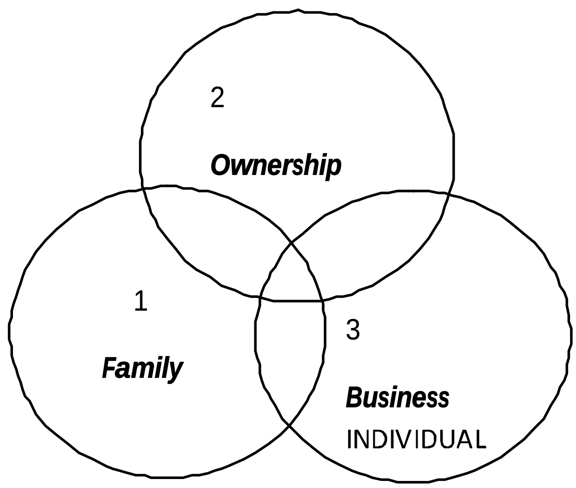
An FOB is a business in which majority of ownership and control lies within the family or a few numbers of families. The extent of this ownership varies and various authorities use different criteria to define FOBs. Poutziouris [2004:272] defines FOBs as those where at least 10% of the shares are owned by the founding family and with one board member. Some estimates even put the number of family dominated firms at close to 98 percent of all U.S. firms. The Small Business Report [1984:52] sees an FOB as a business ‘owned and managed by a single founder, siblings, other relatives, or a combination of family and non-family managers.

Bowman-Upton [1991] emphasizes the dual nature of a FOB, seeing it as ‘a complex, dual system consisting of the family and the business; family members involved in the business are part of a task system (the business) and part of a family system. These two systems overlap. This is where conflict may occur because each system has its own rules, roles and requirements. The family system is an emotional one, stressing relationships and rewarding loyalty with love and with care. Entry into this system is by birth, and membership is permanent. Families also have their own style of communicating and resolving conflicts, which they have perfected over the years and these styles which may be good for family situations may not be suitable for business settings. Conversely, the business system is unemotional and contractually based. Entry is based on experience, expertise and potential. Membership is contingent upon performance, and performance is rewarded materially. Businesses have their own communication, conflict resolution and decision making styles. Conflicts arise when roles assumed in one system intrude on roles in the other, when communication patterns used in one system are used in the other or when there are conflicts of interest between the two systems. For example, a conflict may arise between parent and child, between siblings or between a husband and wife when roles assumed in the business system carry over to the family system. The boss and employee roles assumed by husband and wife at work most likely will not be appropriate as at-home roles. Alternatively, a role assumed in the family may not work well in the business. For instance, offspring who are the peace makers at home may find themselves mediating management conflicts between family members whether or not they have the desire or qualifications to do so'.

This is similar to what Rosenblatt et al [1985] refer to as the 'debilitating tension' within the family business due to conflict between the family and business system. This is because the two simultaneously operating systems (business and family) have both harmonious and discordant values and goals. The multiplicities of actors in the FOBs who cut across family and non-family members and who play several roles simultaneously further complicate the situation. These actors have been identified by Bowman-Upton as family members who may be neither employees nor owners; employees but not owners, employees and owners, and owners but not employees; and non-family members who may be employees but not owners or employees and owners [Bowman-Upton. 1991:6]

The three circle model of FOBs developed by Gersick et al [1997] provides a framework for managing the inbuilt and self-reinforcing crises/conflicts caused by the nature and structure of FOBs. The model identifies that there are three ways through which an individual can be involved in an FOB: as a family member, an owner and an employee and that there is an overlap between the various roles. This is the key source of tensions that characterize FOBs. A shareholder family member, who is not an employee, might seek more dividends while the sister who is a shareholder and also an Executive Director prefers reinvestment for expansion and better long term prospects. This model helps FOBs resolve these differences by first of all separating personal from professional concerns and managing them accordingly.

**Figure One: The Three Circle Model of FOBs**




**Source:** Gersick, K,E; Davies, J.A.; Hampton,M.M & Lansberg,I[1997] Generation to Generation Life cycles of Family Businesses; Harvard Business School Press.

In terms of importance, FOBs are key players in economies across the globe and contribute immensely in the wealth creation activities of most economies[Guzlar & Wang, 2010:124] with conservative estimates of between 65-80% of worldwide business enterprises belonging to FOBs [Gersick et al, 1997:1]. An overwhelming 95 percent of Turkish companies are family-owned, and further empirical analysis of the Istanbul Stock Exchange reveals that between 1992 and 1998, about 44 percent of listed companies belonged to a family or group of families, and that 30 percent were controlled by holding companies – constituting a total of 74 percent of listed companies under family control [Izem, 2003:1]. In Brazil, 55% of the 200 largest listed firms are family controlled [Silveira et al, 2007]. The FOBs even outperform other businesses under certain circumstances. In the USA, FOBs account for 80 to 90 percent of the 18-million business enterprises, and 50 percent of the employment and GNP. In Canada, 80% of firms listed on the Toronto Stock Exchange closely are held in family trusts or the founders hands [Phan et al, 2005]. Some estimates even put the number of family dominated firms at close to 98 percent of all U.S. firms. That is, they are owned and managed by a single founder, siblings, other relatives, or a combination of family and non-family managers

(The Small Business Report, 1984:52] as well as accounting for 64% of GDP and 62% of US workforce [Frey, 2011].

In Singapore and Hong Kong, the numbers are similar and in Taiwan the FOBs account for more than 98.5% of companies, 80% of employment and 47% of the total economy [Phan et al, 2005]. It is estimated that 40% of the Fortune 500 are family owned or controlled [Gersick et al, 1997:1]. Large FOBs also account for more than 85% of all firms in OECD countries [OECD, 2006]. Moreover, FOBs dominate many developing economies as well as figure prominently in certain developed economies. In India, and during the 1970s, 93% of privately owned companies were FOBs [Battacharayya, 2004]. Sir Cadbury (2000) has also concluded that FOBs are one of the foundations of the world's business-125-community. FOBs represent 95% of the companies in Gulf area, 70% economy of the Arab region, at least 55% of the GNP of any Arab country, 95% of all listed companies in the region and employ 70% of the jobs outside of the government and public sector in the region. The local investments of 20 thousand FOBs in the Gulf area alone exceed $500bn while their total international investments worth over $2trn. In the Kingdom of Saudi Arabia, 95% of all companies are FOBs, investing around $70bn or 24% of the country's GDP in 2006. [Guzlar & Wang, 2010:124]

Apart from their ubiquity and macroeconomic importance, there are also evidences that under the right circumstances, the FOBs perform better than other firms. In a study of 42 companies on the London Stock Exchange, they outperform their listed non-family rivals by 40 percent from 1999 to 2005. But the study also shows that this only applies when the interests of shareholders and management are aligned. [Poutziouris, 2004:272]. Credit Suisse research [2007] also shows that FOBs perform better: over the long term, such firms tend to achieve superior returns and higher profitability than companies with a fragmented shareholder structure. Credit Suisse analysts compare the stock performance of European companies with a significant family influence to firms with a broad shareholder base. Factors that contribute to the success of FOBs according to that study include longer-term strategic focus of the controlling shareholders and management, better alignment of management and shareholder interests and focus on core activities. Anderson and Reeb [2003] also find a similar result in the US using the S&P 500: family firms outperformed non-family firms and had higher valuations as well.

But while FOBs are critical macroeconomic forces and at times outperform other enterprises, the morbidity rate is very high especially during inter-generational transition. It is estimated that half of attempts to transfer FOBs to family fail in the transition from first to second generation and only about 14% makes it to the 3rd generation [Hisrich et al, 2007:p549]. For Bowman-Upton, N [1991], less than 33% of FOBs survive from 1st to 2nd generation and less than half of this 33% make it to the third generation [16.5%]. A recent survey suggests that 85% of the FOBs completely vanish before the fourth generation [PICG, 2008:121]. In Mexico, the death rate of FOBs has generated a popular saying: “Father, founder of the company, son rich, and grandson poor”. The founder works and builds a business, the son takes it over and is poorly prepared to manage and make it grow but enjoys the wealth, and the grandson inherits a dead business and a dead bank account. [Gulzar & Wang, 2010]. Frey [2011] who extends the inquiry further estimates that only 3% of FOBs succeed to the 4th generation

Reasons for this embarrassing failure rate are not farfetched. They include the four conspiratorial factors already discussed [Landsberg, 1988], planlessness and complacency of succeeding generations. Successors, haven been pampered and sent to the best schools, take it for granted that the company will always be there to support them. In most industries where the business logic changes overtime, FOB often fail to adapt successfully [Ahlstrom, K; 1998:112]. At times, the business itself may not be viable, the elders do not desire to transfer ownership or the offspring are reluctant to join. There is also poor succession planning and nepotism which was emphasized by Khai, et al [2003:657] in which family members are appointed to run businesses even when they lack the qualifications, temperaments and competence. In addition to succession issues, Rutigliano (1986:22) identifies another critical factor that arises from the structure of FOB: the tendency to put the needs of the family before those of the business while Beckhard & Dyer (1983:59) suggest that the succession crises is often complicated by the leader’s change-resistance. Guzlar & Wang[2010] identify some of the other problems as including: centralized control and management influenced by tradition, lack of clear policies for/on family members, lack of outsider-perspectives and diversity, roles and responsibilities not clearly defined, intra-family squabbles, extending family problems [divorce, separations, health challenges] into the business, poor business/economics knowledge. Indeed, poor management practices and non separation of the family from the business.

But while there is concern with succession crises and morbidity rates in other climes, the challenge is entirely different in Russia where they suffer from a succession paradox. The Russian Succession Paradox is a process whereby a company goes through all the motions of seeking and appointing a successor only to anoint a person as a nominal CEO, while the old regime continues, de facto, to run the company [Shekshina, 2008:39]. The founder does not, in fact, go away; he rather retains, or regains, power without assuming executive responsibility, while the new CEO shoulders all the accountability for the organisation's results. This strange scenario may be due to the peculiarities of Russia: these are the first generation of entrepreneurs trying to hand over; the founders are still relatively young and have much life and energy to spare; most of these businesses are based on partnerships; there are no venture capitalists and the capital market is still young and finally, Russia has no history of a market economy, no tradition of management education.

This paradox creates some unhealthy consequences for the FOB and its management: the company may become confused about its leadership, which could lead to factionalisation and procrastination in decision-making and execution. It will also be difficult for the new CEO to lead. The new CEO is given too little room to use his professional competencies, spends a disproportionately high percentage of his time dealing with the founder and usually becomes demotivated. Furthermore, a very involved chairman does not help a new CEO to improve his awareness and performance. And, last but not least, the new model of governance will increase employee skepticism about the possibility of positive change. The founders, however, usually enjoy the new arrangement, which allows them to do what they like, when they like and always have someone to blame if things go wrong.

**The Nigerian Situation: A Litany of Failed Entrepreneurial Empires**

Statistical evidence may not abound to enable us specify the contributions of FOBs to Nigerian GDP, employment and other measures of importance. But a cursory observation shows that these enterprises are everywhere in the country and that they suffer succession crises like others across the globe. In the Nigerian Stock Exchange, a good number of pure and diluted FOBs have been quoted in the last decade and because the owner-founders are still building them up, one cannot be definitive about the issue of succession. This is with the exception of some in the banking industry affected by the regulatory succession regime of the recent past. Quoted FOBs in Nigeria include the Dangote Group, Omatek Computers Multiverse, FCMB, Zenith, UBA, Diamond Bank, Chams, Fidson Pharmaceuticals, Honeywell Flourmills, Japaul Oil, Associated Bus Company, MRS Oil, Eterna Oil, Forte Oil and Oando.

As indicated in the introduction, the fate of Nigerian FOBs has recently become an issue of great concern even in the popular press because of the die with the founder syndrome [Iyatse, 2011:13] or gone with the founders disease [Arogundade, 2011:29] afflicting them. Many of them actually start dwindling 'in the very before' of the founders and are almost moribund before their death. What we have is indeed a litany of failed entrepreneurial empires. Arogundade [2011, pp29-31] listes the Gani Fawehinmi Chambers which had to be officially closed because the founder willed it so; the Odutola Brothers established in 1932 by Jimoh & Adeola; the businesses started collapsing in their very before and only the Odutola College is still operational[ Jimoh Odutola died in 2010]; MKO Abiola who died in 1998 and had businesses in telecom [ITT], banking [Habib], Media [Concord], Aviation [Concord], agriculture and shipping, Abiola farms, Berec, Radio Communications Nigeria etc; Adebayo Amao who died in 1993 and the collapse of his Alata Group; Bolarinwa Abioro-TYC/African Songs Recording Labels; Israel Adebajo, [died 1969] Stationary Stores; factionalisation of the family and the club which collapsed in 1990s; GAD Tabansi- Tabansi Records, transport, publishing [he died in 2010 and the businesses had collapsed before then]; Sir Joe Nwankwu, who established the Olympic Soft Drinks Company [ Gina Drinks], Olympic Maize factory; Godwin Chikeluba-GMO group, Alhaji Mai Deribe, M.N Ugochukwu of Ugo Foam and Sir Louis Odumegwu Ojukwu, one of the foremost pre-independence entrepreneurs in Nigeria and indeed, Africa.

Eke [2011:8-10] focuses on MKO Abiola's business empire. He notes that Abiola's businesses entered trouble waters immediately he went into politics, and that was before his subsequent incarceration and death; that of the 10 firms in his group, only two were still operational as at then and that they were not doing very well. A similar picture was painted by Nworah [2011:11] who focuses on the South East. He recounts many Igbo business men who, despite the post-war trauma and losses, were able to build large enterprises, relying on self-help. These included Chief Augustine Ilodibe who was easily Nigeria's biggest transporter with his Ekene Dili Chukwu transport business. There were others that built large scale contracting and construction enterprises such as Chief R.O Nkwocha, Chief D.O Nkwonta and Chief FGN Okoye, all from Enugwu-Ukwu. Others thrived in industry and real estate such as Chief John Anyaehie, Chief Nnana Kalu, Chief Ferdinand Anaghara and Chief Onwuka Kalu. Those that thrived on commerce [import/

export] such as Chief G.E Chikeluba and his partners at the GMO Group. Unfortunately most of these worthy pioneering Igbo sons have passed on and the estates and business empires they left behind have also crumbled.

Chief Gabriel Igbinedion, who was 80 in September 2014, owned the first indigenous airline [Okada air] and the first indigenous soft drinks factory [Canada dry]. While he is still alive and kicking, the two key factories have folded up more than 10 years previously. He alleged that his businesses were sabotaged. 'The consignment [concentrates] had complete documents but it was not cleared just for me not to compete with them, and after six months, the thing expired!.... the first person who had being 747.There were 46 aircrafts in the fleet. Okada Airlines did not stop flying because of mismanagement; it stopped flying because of sabotage' [ Oguntuase, Aliu & Onomo, 2011:14]

Even beyond these documented cases, personal experiences also evidence the rate at which once popular and apparently successful FOBs suddenly disappear without any trace at the death of the founder. One of the authors lived in Enugu in the 70s and early 80s and there were several businesses that made the city and indeed the Eastern axis tick since Enugu was a regional capital. In addition to these FOBs already mentioned were. JAS Builders, D.A Nwandu & Sons, O.C Gravels, C-To-C, Ude Ubaka & Sons and Jimbaz WA Limited. These are no longer there even though in some cases, their offspring are running other successful businesses. It is the same all over the country.

What are the reasons for this high morbidity rate, especially at the intergenerational level? Beyond the factors discussed earlier on, the key reason for the litany of failed entrepreneurial empires in Nigeria is the absence of succession plans and faulty transition programmes. Most of the entrepreneurs do not have clearly laid down procedures for succession; some feel it is satanic to think of wills and handing over when they are still 'full of life'; they will not allow their children to have the kind of experiences that transformed them into entrepreneurs but will rather send them as far away as possible from the businesses and even from the local environment and when the inevitable happens, somebody who has no idea and may not even be interested in the business takes over because he is the first son, the most powerful or it has been willed to him or her! According to Nworah [2011:62], most Igbo-owned businesses perpetually battle with succession planning. The practice is to transfer control to the eldest male child who may be the least competent. The other siblings are sidelined and this results in mismanagement and eventual demise of these businesses. The polygamous lifestyles lived by the patriarchs also compounded the problems. In cases of sudden deaths, the tendency is always for each surviving wife and her children to go after any part of the business they could access.

Some may well claim that there is a succession plan in place but this is invariably in the mind of the founder-CEO and apart from not being clearly articulated, may not consider the critical factors like the role of the owner during the transition [full or part time work or retirement?]; family dynamics [are some family members unable to work together]; business environment during transition, treatment of loyal employees and tax consequences. Some also have the mistaken belief that succession starts after the death of the founder-CEO while it is a process that starts long before then, as strident efforts are made to get the children interested and acquainted in the business. And this is critical whether they will manage it or not, since they will at least inherit the business. Succession is a process that involves initiation [getting the kids interested], selection [choosing the next-generation leader- by age, competence or competition], education [training & development], announcement and transition [actual transfer of power] (Bowman-Upton, 1991:14) It is important to announce the successor early so as to reassure stakeholders, allow siblings to readjust and make career choices if necessary, enable the entrepreneur to readjust.

Two cases showcase the succession experience of Nigerian FOBs. The first is the case of successful succession and transition at Shobowale Animashaun Farms in Ogun State. In this instance, there was mutual interest [as the founder confirmed that his son was interested in the farming business long before his death]; preparation: the son supported his interest with relevant training. He graduated with a degree in fisheries management [agriculture] from University of Ibadan and went on to study poultry management abroad. There was practical interest and experience that started at an early age: during vacations, the founder usually took his son to the farm and this ignited/cemented his interest. The son actually took over the farm effectively while the father was still alive and active and there was thus an effective succession and transition. The son Segun Animashaun expressed the opinion that it was not enough to think of getting the children to take up the business later in life when they were not involved earlier. According to him, 'when you are practically involved, you learn. That in no small way meant much for the family business. Whether you have a male or female child, take the child along'. He also expressed discomfort with the idea of waiting till much later before getting the children involved: 'the business promoters always think that when the children grow up, that is when to introduce them. But from what I learnt in Holland [where he went to learn practical poultry farming] children have to be introduced early. On the contrary, here, you have the parents in the farm and the children in the school. And you think that when they are through, they will come to the farm. But by that time, they have formed the career path they want to follow' [Oyeleye, 2011:60].

The second is a pitiable case where the founder's offspring are not interested in taking over from the founder. He begged, lobbied and bribed but there was-and is-no luck. Now, he is wondering what would happen to his farm when he goes to the great beyond. Chief Affun Adegbulu, who turned 89 on June 9, 2011, has operated his farm for 70 years [he inherited it in 1942]. Just like the successor in the previous case rightly mentioned, his children are all professionals, they have chosen their career paths: an architect, an engineer, a nurse and a teacher. He offered to will the farm to any of them interested in Agriculture but no one seems interested. To his architect-son, he offered 'an office, a flat and one of my big shops as a studio; yet he was not interested' [Oyeleye, 2011:70].

Other problems include planlessness [neither the strategic plan, nor the family plan, nor the succession plan nor the estate plan]. Of course this is in tandem with what obtains in other climes as a survey of 800 FOBs found that the leading causes of failure were insufficient estate planning, failure to plan for the transition and lack of funds to pay for estate taxes [Alexander, 2002:154]. Some successors suffer from what Noemie Emery describes as dynastic curse as they tend to be intimidated by the standards set by their fathers so they just don't want to try. They feel they cannot match or even come close [Omatseye 2011]. We also have personalization of operations and decisions, overbearing board that will interfere in daily operations and will not allow management to do its work[if and when they have a management], successors who are not interested, committed or competent or who are just not entrepreneurial but are brought in because it is 'our business'; maltreatment/disregard for loyal and knowledgeable employees, refusal/failure to bring in others either for their knowledge or capital, poor managerial and financial practices and environmental factors like policy instability and other macroeconomic shocks . There are instances where the founder refuses to give up power [and thus commence a transition process earlier enough], where the founder is no longer current and where there is a preponderance of tacit knowledge as against explicit, codified knowledge; this is very difficult to transfer and in an FOB with no or rudimentary knowledge management practices, this knowledge dies with the founder or leaves with the loyal employees who usually depart at the death of the founder.

## The *LIQS FRAMEWORK*

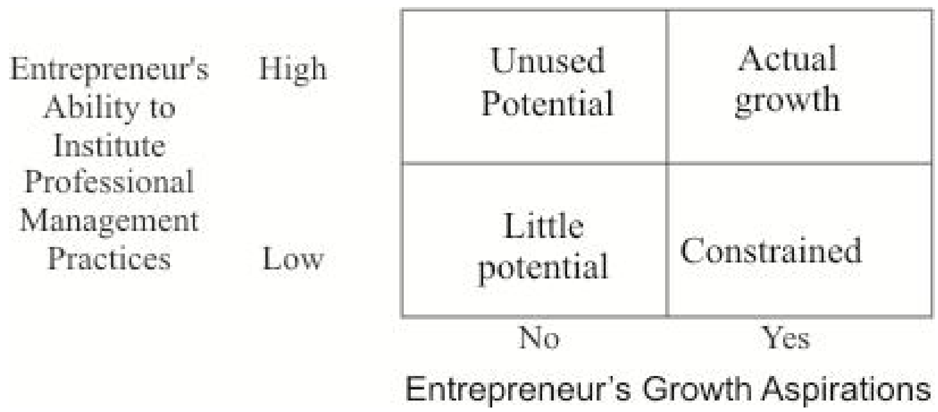
### 4.1: First Things First

The LIQS framework proposes four basic and integrated steps that FOBs can and should take in order to ameliorate these myriad of aforementioned problems confronting them, ensure fruitful trans-generational succession and transition and that their names are not lost in the wilderness of history. But before delving into the framework, we have to attend to first things first: does the entrepreneur want a succession, an extended succession or a successful succession? This may look strange but a recent Nigeria case has shown that the question is necessary. Late Chief Gani Fawehinmi had a successful and flourishing legal practice in Lagos. It was well managed with a horde of fanatically loyal employees, a good brand image and a son who is a lawyer and who learnt under the great Gani. Yet, when Gani died in 2009 [4/9/09], he willed that his chambers must be wound up within two years of his death. The chamber was eventually closed on 15/1/11. [Onomo, 2011:16]

Secondly, some entrepreneurs are motivated by freedom and are not interested in growth. Some lack the ability to make the transition to a more professional management while some may be able but are unwilling to migrate to modern management, professionalise and grow [Hisrich et al, 2007:474]. Categorizing entrepreneurs on the basis of their ability to successfully transit to professional management practices and their growth aspirations, they identify four groups of entrepreneurs [Hisrich et al, 2007: 475 & Wiklund & Shepherd, 2003:1919]:

- Actual growth: entrepreneurs in upper right quadrant possess the ability to transit to professional management and the aspiration to grow their business
- Unused potential: those on the upper left quadrant possess the abilities to transit but do not aspire to do so
- Constrained growth: those on the lower right quadrant desire to transit to professional, modern management but do not possess the ability
- Little potential for growth: no aspiration to migrate to modern business practices and processes, and no aspiration to grow

**Figure Two: Entrepreneurs Aspiration Matrix**




**Source:** Hisrich et al [2007] Entrepreneurship; New Delhi, Tata McGraw-Hill Publishing, p476

Those on the upper left quadrant[unused potential] and the very few with the mindset of late Chief Gani Fawehinmi, are not interested in succession and sustainability and our propositions here are of little value to them.

### 4.2: The Elements of the *LIQS* Framework

The elements of the ***LIQS FRAMEWORK*** are ***L***imited, ***I***nstitutionalised, ***Q***uoted & ***S***ocially Involved. In effect, we are arguing that an FOB that is a limited liability firm, quoted in the Nigerian Stock Exchange, have institutionalised management processes, procedures and systems and is involved in social courses will have higher succession prospects. Social causes are relevant because one of the most ardent desires of every human being is to live after death [Muo, 2006:7]. We take these elements and expatiate why and how they play such crucial roles in the sustainability of FOBS

### A: Limited

This is the easiest element and readily attained by every meaningful FOB. It imbues the business with a legal personality that is distinct from the owners and provides basic protection for the FOB, enabling it to sue and be sued, to enter into legally binding agreements and to generally conduct business as a 'person' through the entrepreneurs who acts for and on behalf of the firm.

**B: Institutionalised**

Institutionalisation is at the core of the framework and is the single most important factor that facilitates trans-generational succession, transition and sustainability of FOBs. Generally, it involves specifying and streamlining world-class standards with regards to policies, processes, systems, structures, transparency, governance, accountability and responsibility. Meyer & Rowan[1977:344] specifically define it as 'a process that translates an organization's code of conduct, missions, policies, visions, strategic plans, into action guidelines applicable to the daily activities of its officers and other employers. It aims at integrating fundamental values and objectives into organizations culture and structure'. They also see it as the process by which social processes, obligations, or actualities come to take on rule-like status in social thought and action[2011:504]. These institutionalized policies, programmes and procedures 'are enforced by public opinions, views of important constituents, knowledge legitimated through the educational system, social prestige, laws and definitions of negligence and prudence used by the courts.. and they are beyond the discretion of any individual participant or organisation and are therefore taken for granted as legitimate'[2011:506]. They also argue that it leads to legitimacy, resources, stability, enhanced survival prospects and specifically, that 'long-run survival prospects increase as organizations respond to institutional rules and that organizations fail when they deviate from the prescriptions of institutionalizing myths[2011:512]

Atasie [2011] on the other hand sees institutionalization as building a lasting organization driven largely by standards, processes and people. He argues that many Nigerian enterprises do not survive past the first few years due to lack of proper governance and management structure, processes, systems and appropriate human resource capacity. For the few successful ones, these factors have stagnated their potentials to move to the next growth level and operate free of the singular driven passion of the main entrepreneur who often operates the business in an unstructured or semi-structured manner with significant key-man risks, thereby lacking the key ingredients required by modern business to attract critical resources for growth including finance, human capital talent and solid business alliances. It involves putting in place the structures, processes and succession planning systems required to enable the company to operate in perpetuity. Institutions and instutionalisation [the process of institution-building] are not just limited to FOBs; it is required in all aspects of the society and the ultimate aim is to ensure that individuals, as rational and economic agents have the incentives to do the right things and act in the right way. Akanmu [2011:18] is of the view that there are four preconditions for strengthening institutions:

- Developing the right value systems,
- Strengthening internal processes and systems to ensure delivery of institutional mandate,
- Developing an abiding rule of engagement for internal and external stakeholders and
- Strengthening the public accountability and transparency of such institutions

Peju Adebajo, who was the transformation CEO of Mouka Foam Limited, Ikeja, an FOB that sold 67% of its equity to a venture capital firm, insists that institutionalization is the only way forward for **FOBs.** 'There are ways people run family business that may not be appropriate when they want to engage professionals to run the business.. if you want a family business to attract the right recognition, support and patronage, you should ensure that the professionals in the environment are given room to succeed and grow.. that is why we keep talking about institutionalizing business organizations..'What makes the difference in successful family run businesses is that they are institutionalized. The family members must not be CEOs and/or decision makers; they must not determine promotion or take decision on procurement matters. This idea applies to a business that is not run as an institution' 'When you have an institutionalized organization, you are able to attract the right professionals and funding. Many fund providers are wary of future of companies that are not run as institutions. If they notice that the company will die with the founder, they will be careful in committing their funds. When you institutionalize, you will be sure that it will outgrow your capacity'. You need to institutionalize the organisation so that rules of engagement are clear, simple and observed. The question one should ask is how well could this company grow? How well is it growing now? Then you can chart a path of growth. But you need to have certain guidelines with which the company wants to be run. It is when these guidelines are flaunted that crises arise. If these guidelines change regularly or they are inconsistently applied, conflict is inevitable' [2011:60

Beyond instituting the appropriate processes, structures, policies, frameworks and professional [competent management-even when they are family members], institutionalization facilitates succession and sustainable transition by taking care of the following issues:

1. **Corporate Governance**: this simply outlines how corporations are governed and the interests of all stakeholders protected Jaffer & Sohail[2007] aver that FOBs had to come to terms with the need to establish an institutionalized governance process, develop a succession plan, and separate ownership from

control because of the challenges of competitiveness and sustainability. Coming down to specifics, the Organization of Economic Cooperation and Development (OECD, 1999) states that corporate governance relates to issues in five major areas: (1) rights and responsibilities of shareholders (2) role of stakeholders (3) equitable treatment of shareholders (4) disclosure and transparency and (5) duties and responsibilities of the board. The reason why FOBs seek to improve their governance policies and practices to institutionalize and perpetuate the business model, provide the means to implement the defined strategic plan, add value for shareholders, enhance the potential for attracting debt financing, resources and shareholders and to improve the company's image abroad, facilitating globalization and reaching a base of foreign investors [IBGC, 2006]

2. **Succession Plans**: Institutionalization ensures that there is a definite succession plan setting out who, when, how and even answering the contentious question: insider or outsider. An effective succession plan should contain the following elements: a statement of the distribution of ownership, the identity of the new leader[s] and how they will be trained for their roles, definition of the roles of other members during the transition period, mechanisms for the sale of shares, tax, legal and financial considerations; retirement considerations, a monitoring procedure, how to deal with any conflicts that may arise and a time-table [European Federation of Accountants, 2002]. And while a succession plan is a good starting point, the actual transition itself is also a function of many variables including the preparation level of heirs [education/training and work experience outside the firm, experience in the firm, entry level position, self perception and motivation for joining] relationship among family and business members[communication, trust, commitment loyalty, family dynamics, values and traditions] and planning/control activities[ succession and tax planning, use of external board and consultants and the availability of family council [Morris et al,1996].

And while it is usually preferable to appoint a family member to the FOB hot seat, there are certain circumstances where an outsider becomes the best bet: when no insider is ready or has the support of the board, the grace period granted to an outsider will provide additional time to put a new strategy in place or add new talent to the team, a major change is needed, the company is underperforming versus the competition or is in the midst of a scandal or when anticipating the sale of the company[Spencer Stuart Consulting, 2010:7]. Royer et al [2008], identify the ability to acquire the predecessor's key knowledge and skills as well as the commitment to the family firm as the key as key factors affecting whether family business succession occurs and the extent to which family members are preferred to outsiders. This aligns with the views and studies of (Bjuggren & Sund, 2002; Brockmann et al, 2006; Cabrera-Suárez, 2005;Cabrera-Suárez et al., 2001; Lee et al.; 2003; Sharma & Irving, 2005). But whatever the case, the entire plan must be professional and merit-based and should thus consider the following[Ross, 2001:1]

**Established eligibility rules:** These clearly define when and under what circumstances family members (including children, grandchildren, cousins, siblings, and other relatives) are welcome to work in the business.

**Education and experience:** Educating young family members is essential for succession and is enhanced when coupled with outside work experience in similar businesses.

**Roles and responsibilities:** These rules outline what happens when family members join the business, specifically determining if a family member will fill a vacant position or if one would be created for them.

**Performance evaluation:** There must be a single set of job criteria for both family and non-family employees. A merit-based system should be used for the monitoring and evaluation of *all* employees. A board committee on human resources should comprise both family and non-family members in order to ensure continued evaluation on merit-based criteria.

**Compensation:** Salary and benefits should not be discriminatory and must consider that family members are also compensated by other means such as dividends.

**Ownership:** Inequitable distribution of shares may lead to conflict amongst family members. There should be an agreed-upon system for share distribution.

**3** Strong-Man [Megalomaniac/Narcissist] Tendencies. One of the problems with several FOBs, and which affects the succession/transition, is overbearing influence of the founding owner which makes it difficult to standardize processes, procedures and policies and which creates problems when he is no more. Institutionalisation ameliorates this problem by stopping strong-man tendencies or ensuring that any positive aspect from it is standardized. And this problem is

> not limited to small SME-FOBs. This is the key challenge that faced Apple, a company with 5000 employees, ranked number 35 in 2010 Fortune 500 companies[56 in the previous year], with a revenue of almost 100bn and a growth rate on 60% for the last financial year [Lashinsky, 2011:44]. As at August 2010, it is the second most valuable firm in the US and indeed all over the world [Economist, 2011]. Jobs, the founder/CEO was overbearing and had instituted a ruthless culture that has turned the company into a brutal and unforgiving place. He was 'a corporate dictator who makes every critical decision-and oodles of seemingly noncritical calls too, from design of shuttle buses that ferry employees to what food will be served in the cafeteria.. Sees everything going on at the company' [p45]. He eventually became focused on institutionalizing his ways of doing business. His mission-to turn the traits that people mostly associate with Jobs-attention to details, the secrecy, and the constant feed back-into processes that can ensure Apples excellence far into the future. His methods produced an organization that mirrors his thoughts when-and this is important-Jobs is not specifically involved. You can ask anyone in the company what Steve wants and you will get an answer, even if 90% of them have never met Steve" There were fears that his influence might disappear with him and that was why he created a culture around his ways and attempted to institutionalize it. What happens when someone with a different personality comes on board? While Apple is one of America's biggest and best, the big-man-issue is a problem and the debate is in the public domain whether the company can survive without Jobs. Jobs resigned on 24/8/11 and handed the mantle to Tim Cook and the concern about post-Jobs Apple rose to higher levels, though mitigated by the fact that he was staying back as the Chairman. Eventually, he died and even though Apple has continued to survive, the impact of the Jobs' years and Jobs' ways are still being felt

In an organization that is not properly organized and suffers from narcissist leadership, then the danger is more. Take the case of Global Fleet and Jimoh Ibrahim. He runs an emerging conglomerate which he created through unrelated acquisition [hotels, airlines, media, Insurance, block industry, property] and sees himself as a turn-around expert. The success story is mixed but he is overbearing and suffers from the big-man syndrome. He sacked a staff and seized the official car from him on the road-side; tongue-lashed another for using the official car to convey 'useless girls'; sacked another staff and threatened to sack him from the government job if/when he becomes the governor and rarely considers the opinions and views of staff [Odulami, 2011:15]. These tendencies pose dangers to succession and institutionalization can minimize such dangers-if and when the big-man allows the institutionalization to take place.

**C: Quoted**

FOBs move up the notch of succession, transition and sustainability ladder when they become quoted on the exchange. Basically this allows them to sell their shares on the exchange, provides liquidity to the holders of the shares, and facilitates market valuation of those shares. But most fundamentally, the listing preconditions and other conditions to remain in the exchange imposes a given level of discipline on the FOBs- timing, quality and periodicity of accounts, nature and extent of disclosures, corporate governance benchmarks and other mandatory requirements which these FOBs must keep up with. Peterside [2011] emphasizes this fact when she states that rigorous corporate governance structures and processes as well as a transparent financial reporting are key professional management factors for a company aspiring to list in NSE.

It does not mean that quoted firms do not collapse; even those quoted in the famous New York Stock Exchange and which adopted the IFRS [which Nigeria now sees as an end to all financial manipulation woes] have collapsed. But a FOB that goes to the Stock exchange in good faith, and keeps the requirements, not to escape sanctions, but to protect his operations, stands a better chance than one that is not quoted, all things being equal. This also assumes that the exchange and the regulatory authority are up to the task, and not like the US SEC just before 2008 crises and Nigeria SEC for years running. We had/have companies that are quoted in name; where individuals brazenly cornered shares through ghost holders so that the quoted company becomes a one-man or in the case of Oceanic Bank, a one-woman firm. We are not referring to what Ihonde [2011:8] describes as 'portfolio type of business, whereby the owner has everything in his briefcase; he pulls out his cheque, issues it to anyone he so chooses and if anything happens to him that will be the end of the business…. This is unlike some businesses whose owners fraudulently claim to have them publicly quoted but in reality everything revolves around them alone'

**D: Social Causes:**

This is a minor aspect of the framework but it plays a significant role nonetheless especially, when the founder does not want his name to go into oblivion. By getting involved in social causes [strategic CSR], the FOB enhances its brand image and acceptability and keeps the brand or the name of the founder on the public domain for generations. Who remembers that Nobel was a gun runner who 'repented' because of a bad press and decided to commit his money to peace building? But the name is continuously in the public domain even when people no longer remember his businesses

**4.3: Applications**

In effect, our proposition is that FOBs that are **L**imited Liability companies, ***I***nstitutionalize their processes and procedures ***Q***uoted on the stock exchange, and are involved in ***S***ocial causes have higher chances of intergenerational succession and transition. This is more so when those involved are sincerely interested in the sustainability of their businesses [and will thus take these steps genuinely] and when the environmental factors are favourably disposed to such intentions. The most powerful of these elements is institutionalization which ensures that things are done according to laid down procedures without regard to who or what is involved

This framework can be used to explain the past as well as predict the future. Most of the enterprises mentioned earlier and whose carcasses litter the Nigerian economic/entrepreneurial landscape were surely lacking in the key elements of the LIQS framework. Almost all of them were limited but none of them was quoted and their level of instutionalisation was abysmally poor. They were rather managed on the whims and caprices of the founder/CEOs; there were no strategic or succession plans; there was no corporate governance structures and the level of narcissism was very high. Beyond those one-man businesses mentioned, other apparently bigger FOBs that failed also ran foul of the LIQS proposition. If we examine the new generation banks in Nigeria, some of the FOBs among them like Hallmark, Citizens, and Oceanic, also ran into troubled waters because of the same reason. They were Limited, Quoted and even supposedly institutionalized. But they ran foul the rules of the game of quotation; the institutionalization was seriously diluted by the big-man syndrome wherein the owner CEO or Chairman did not play by the rules and could not be called to order. But Access Bank, Guarantee Trust Bank and Investment Banking & Trust Bank have been moving from strength to strength precisely because they played by these rules encapsulated by the ***LIQS Framework***

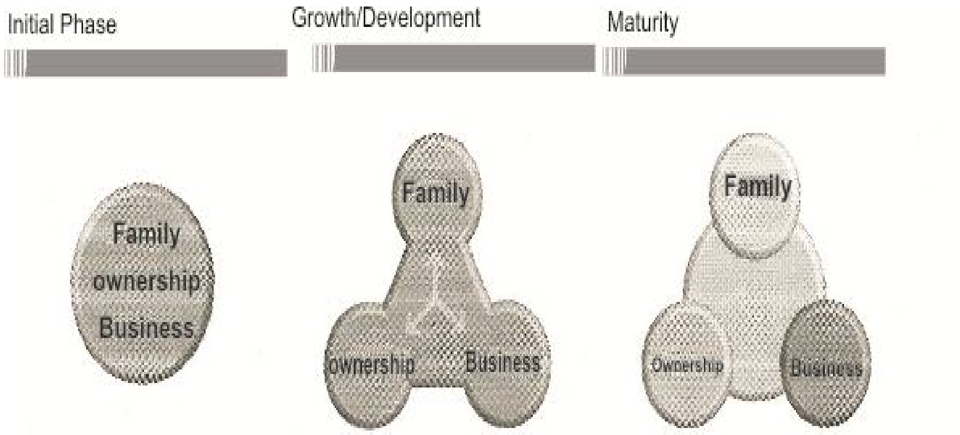
In terms of the predictive capability of LIQS framework, we can apply the framework to some current FOB players in some industries in the country. Toyota distributors in Nigeria include R.T Briscoe, Elizade Motors, Kojo Motors & Globe

Motors. The firm with the brightest chance is R.T Briscoe which is limited, institutionalized (relative to the others) and quoted. Elizade even stands a better chance because, while it is not quoted, it appears more institutionalized than the other two. In The oil industry, if we apply LIQS to OANDO, AP, MRS, OBAT Oil and Capital Oil, the difference is obvious. OANDO, AP & MRS are quoted and OANDO appears more institutionalized and less susceptible to strong-man influences than the others. OBAT oil & Capital Oil are not quoted; they are highly personalized and the level of institutionalization is doubtful. In the FOB conglomerates, we can compare Global Fleet [Jimoh Ibrahim] Dangote Group [Dangote] and Doyin Group [Prince Adedoyin]. Dangote group is quoted, has dispersed leadership and is already involved in high-value social causes. Global Fleet revolves totally around Jimoh Ibrahim, the same situation with Doyin Group. The prospect of transgenerational transition is highest in Dangote group.

**5: Conclusion**

The ***LIQS framework*** proposes that FOBs have higher prospects of trans-generational succession when they are limited, institutionalized, quoted and are engaged in social causes. By being limited, they become legal persons and enjoy basic protection; they can sue and be sued and they can sign and execute contracts. By being institutionalized, they establish standard procedures, policies and processes, enthrone professional management and corporate governance principles, as succession plans and mitigate the dangers associated with strong-man tendencies. When they are quoted, the shares become tradable and liquid; there is market valuation for their business as well as market discipline, financial disclosures and reinforced corporate governance. Social causes enhance brand image and keep the names of the founders in the public domain long after they are no more. This framework can be used to explain what has happened or predict what will happen to FOBs. It does not mean that the FOBs will not have crises once these elements are present but that once the founder/CEO is sincerely committed to trans-generational succession, the prospects are very bright. At the core of the LIQS frame work is institutionalization in which the business is run professionally as an institution and well independent of family interferences. In such a way, the business grows and survives to take care of the material and social needs of these same family members. At that level, the FOB has actually matured as indicated in figure two. Founders who want the management of their FOBs to be within the family should ensure that their offspring are fully equipped, with relevant formal education and experience gathered outside the FOB [Miller, 1998:22]. But in the absence of this and as the gap between the business and the family widens across the generations it becomes more critical for the business to be run professionally; to be instutionalised [Ahlstrom, K1998:112]

**Figure Three: Transition to Maturity of FOBs**




**Source: Gersick et al [1997] Generation to Generation** Life Cycles of the Family Business", Harvard Business Press

We conclude with the words of the Chairman of the Suzano Group who addresses the family members on the need to institutionalize the 80 year old family business after the death of their father:

> *"We have two options; there is no right or wrong decision, nor one that is better than the other. But whatever is to be done will be definitive. There is no turning back. "We could continue being a family business, like in my grandfather's and father's days, or become a professional company with a strong and clear capital market strategy. In the first case, Suzano could perfectly serve the current generation of our family, but the future would be uncertain because it would probably be difficult to access the necessary resources for modernization and growth of the businesses. We need to always keep in mind that we participate in two capital intensive companies. Therefore, we could begin to face serious difficulties to invest, reinvest and compete in the marketplace. On the other hand, professionalizing the companies and reinforcing the partnership with the capital market, would allow us to leave the 21st century better*

*than how we started it, also having access to competitive funding to successfully face future investment challenges. Both options were correct. The second one, however, presented another advantage: the perspective of solid value generation, business sustainability and the maintenance of the values and beliefs of the founders, who did not just think about the present, but also the generations to come…[Feffer, 2007]*

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# Violence and Vulnerability: Exploring the Exposure of Street-Based Sex Workers in Ibadan, Nigeria.

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**Abstract**
*Violence against commercial sex workers is not only widespread in Nigeria, but is also perpetrated, justified, and accepted by many. Meanwhile, the utmost concentration of scholars in Nigeria on the ways in which sex workers represent a threat to the health of others suggests that the health needs of the sex traders themselves are at best, unrecognised, and at worst, considered unimportant. Hence, this study is sets out to examine the dynamics of sex work in terms of power relations between sex workers, their clients, law enforcement agents and the potential for violence. Qualitative data were collected for the study through 56 street-working commercial sex workers in the red light district of Mokola, Ekotedo, Iwo Road and Ojoo and on major roads within the city of Ibadan. Sex Workers in this study perceived control over the encounter as being a critical issue, particularly in terms of limiting the potential for violence. The paper ends with a reflection on possible policy initiatives to reduce the likelihood of clients' violence against sex workers. Conscious education of the public and law enforcement officers on the need to abstain from violent conduct against sex workers in the interest of public health is suggested.*
**Keywords: Commercial Sex Work, Prostitution, Violence, Vulnerability,**

## Introduction

Existing literature on sex work have largely focused on the risks associated with sex trade in terms of the spread of sexually transmitted infections, rather than examine the risks accruing to the sex workers as consequences of the work that they engage in. Generally, violence is considered as a manifestation of the stigma and discrimination experienced by sex workers (Abel and Fitzgerald, 2012; Scorgie*et al*., 2012; Shannon and Montaner, 2012). Sex work is highly stigmatised in all societies, while sex workers are often subjected to blame, labelling, disapproval and discriminatory treatment (Hoffman*et al*., 2011; Scorgie*et al*., 2012). Laws governing prostitution and law enforcement authorities play a key role in the violence experienced by sex workers (Carrington and Betts, 2001). In most countries, sex work is either illegal or has an ambiguous legal status (e.g. prostitution is not illegal, but procurement of sex workers and soliciting in public is illegal).

In Nigeria, legislations against commercial sex work or prostitution are scattered in the Criminal Code (sections 222A, 222B) and Penal Code (sections 653 sub-section 22). Therefore, sex workers are frequently regarded as easy targets for harassment and violence for several reasons. Sex work is considered immoral and deserving of punishment.Criminalisation of sex work contributes to an environment in which, violence against sex workers is tolerated, leaving them less likely to be protected from it.Many sex workers consider violence “normal” or “part of the job” and do not have information about their rights. As a result, they are often reluctant to report incidences of rape, attempted (oractual) murder, beating, molestation or sexual assault to the authorities. Even when they do report, their claims are often dismissed (Aborisade, 2002).

The reality for a woman offering sex for sale on the streets in Nigeria is that she can disappear without trace and be killed for ritual purposes with little chance of anyone being prosecuted (Aborisade and Aderinto, 2013). She can be raped or sexually abused in any form knowing that the police will not protect her. She can be annihilated by women and men that hate sex workers and perceive them as the purveyors of diseases and destroyers of families. The spate of violence in the country’s sex industry cannot be ascertained, since most of these cases go unreported (Fawole and Dagunduro, 2014). One explanation for this may be that sex workers are often thought to be sexually available, and many individuals seeking to escape prosecution for raping a sex worker have used this notion successfully as a defence (Woodward, 2003). Also the illegality of the trade and its social unacceptability in Nigeria has made it difficult for raped sex workers to report cases to the appropriate authorities for fear of being prosecuted alongside.

However, it is noteworthy that though some women engage in sex work voluntarily, there are others that are coerced into the trade by means of trafficking- especially children. According to Carrington and Betts (2001), those coerced into sex work often experience physical and sexual violence during and after being trafficked into the sex business. At the same time, it is important to note that in several countries, certain activities such as rescue raids of sex establishments have exacerbated violence against sex workers and compromised their safety. For example, research from Indonesia (Surtees, 2003), India (Jenkins, 2000) and Nigeria (Aborisade, 2002) have indicated that sex workers who are rounded up during police raids are beaten, coerced into having sex with corrupt police officials in exchange for their release or placed in institutions where they are sexually exploited or physically abused. The raids also drive sex workers onto the streets, where they are more vulnerable to violence (Amin, 2004).

Empirical studies have pointed out that street-based sex workers are vulnerable to violent sexual assault, repeat victimisation and kidnapping or confinement (El-Bassel and Witte 2001; Vearey, 2012).In Nigeria, there have been several media reports of physical violence suffered by sex workers ranging from abduction, physical assault, murder and even ritual killing(Abawuru, 2005; Ojo, 2005). Therefore, defining the health risks of sex work solely in terms of the public health risks of sexually transmitted infections takes too narrow a view of the dangers associated with sex business. The utmost concentration of scholars in Nigeria on the ways in which sex workers represent a threat to the health of others suggests that the health needs of the sex traders themselves are at best, unrecognised, and at worst, considered unimportant. Apart from increasing ‘dark figures’ of crime, this stance will have resultant negative consequences on public health. Therefore, this study intends to examine the dynamics of the commercial sex work in terms of power relations between sex workers, their clients, law enforcement agents and other stakeholders and the potential for violence. Of particular focus in this study are the inherent dangers accruable to the practice of street-based sex work in Nigeria, and the strategies and mechanism adopted by the sex workers to guard against and/or cope with violence on the job given that they are illegally involved in a heavily stigmatised profession.

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## Materials and Methods

### Settings for the Study

This study of street-working sex workers was undertaken in response to the uncertainty surrounding the connection between prostitution, HIV/AIDS, sexual assault, ritual killing and other sundry crimes in Nigeria. Qualitative data were collected for the study through contacting commercial sex workers directly in the red light districts and on major roads during the times that they were working within the city of Ibadan. Ibadan is the capital city of Oyo State and the third largest metropolitan area, by population, in Nigeria, after Lagos and Kano, with a population of 3,565,108 according to the 2006 census. Like all metropolitan cities in Nigeria, Ibadan is equally the home of thousands of sex workers plying their trade in different locations within the city (Aborisade, 2002). Though there are several brothels providing accommodation for sex workers across the city, several prostitutes still line up the major roads of the city in the night to make themselves available for clients that may be reluctant to visit the brothel or who may prefer 'home service' or 'quickie' inside their vehicles. The sex workers are usually positioned on major roads around hotels, where prospective clients that are lodging in such hotels can easily access them.

### *Measures*

The study was carried out within a period of six months spanning through October, 2013 to March, 2014, during which 83 women were contacted and 56 of them agreed to be part of the study. A detailed interview protocol that consisted of open and closed questions was developed with the support of experts in sexual and reproductive health, criminologists, social workers and psychologists. The questions covered a broad range of issues including socio-demographic background, motivation, perceptions of the work, number of partners, condom use negotiation, risk perception of HIV and violent clients, security or self-defence mechanisms, violent experience, and perception of law enforcement agencies. Interviews were conducted with the help of three female research assistants, who worked for a local NGO and had experience of conducting research interviews.Though qualitative data were the key type of data collected for the study, it was also considered useful to collect quantitative data. Therefore, the use of short standard instruments was adopted to collect information that shed more light on the demographic characteristics of this population and their working practices.

### *Sampling Procedure*

Through the use of accidental sampling technique, data were collected from 56 street-based sex workers who agreed to be part of the study. Out of these 56 respondents, 22 of them who had working experiences that are related to the theme of this research were purposively engaged in in-depth interviews consequent upon their consent. As a result of the timing of the work schedule of street prostitutes in the city, all the interviews were held in the night between 10pm and 2am except for four interviews that were held over the phone. The 18 face-to-face interviews took place in the researchers' cars, on the streets and local bars. Anonymity and confidentiality were assured. Approvals for the study were obtained from the Ethics Committee of Tai Solarin University of Education, Ijebu-Ode, Ogun State. Data collected from the field were analysed in order to meet with the research objectives and answer the research questions raised. Information from in-depth interview collected with electronic tapes and notes were transcribed, synthesized and organised under thematic headings using MAXDQA software for qualitative analysis. Significant statements were quoted verbatim in order to corroborate or refute important findings.

### *Limitations of the Study*

There are clear limitations with a study relying on self-report on sensitive topics. First, although interviews were carried-out in private and with guarantees of anonymity and confidentiality, the women may have been suspicious of these assurances. Second, interviewees were unwilling to answer some highly relevant questions, for example about the self-defence mechanisms that they employ when confronted by violent clients, and their wishes were naturally respected.Third, the sample size is small, and sampling was of necessity opportunistic; only women who happened to be available on the street at the time of researchers' visits were asked to participate, so it is possible that the women who made themselves available were untypical of the total (more confident, less fearful, and more knowledgeable). Fourth, a good number of the women demanded for financial compensation for their time before granting request to be interviewed. This could affect their responses to some questions as they may be inclined towards providing answers that the interviewers may want rather than the true reflection of their opinions. However, the field experience of the interviewers provided the capacity to engage the sex workers and elicit useful information for the study.

## Research Findings

### *Socio-demographic Characteristics of the Respondents*

As shown in Table 1, the age range of the interviewed women was 16-58 with majority of them (29, 51.79%) within the ages of 16 and 25, while the median age was 24. The relatively young age of these women corroborates earlier studies that reported the continuous drop in the age of entry into commercial sex work in the country (Adedoyin and Adegoke, 1995; Aborisade, 2002; Abawuru, 2005). With respect to the length of time that they had been in the sex business on the street, the median length of time was four years which implies that the women had worked as sex traders for a considerable period. Meanwhile, the women worked on the average of 4.6 nights per week and reported providing sexual services for an average of 5.2 men per night. The main sexual service that they rendered to their client was virginal sex which all of them affirmed to engaging in, while 39 (69.64%) of them engaged in facilitating the masturbation of their clients making it the second most frequent service provided.

**Table 1: Socio-demographic breakdown of sample**

| Variables | Total N= 56 | Percentage (%) |
|---|---|---|
| **Age (years)** | | |
| 16-25 | 29 | 51.79 |
| 26-35 | 9 | 16.07 |
| 36-45<br>46-55 | 9<br>6 | 16.07<br>10.71 |
| >55 | 3 | 5.36 |
| **Total** | **56** | **100** |
| **Length of time as a street prostitute (years)** | | |
| <1 | 8 | 14.29 |
| 1-2 | 12 | 21.43 |
| 3-4 | 13 | 23.21 |
| 5-6 | 12 | 21.43 |
| >6 | 11 | 19.64 |
| **Total** | **56** | **100** |
| **Average number of working nights per week** | | |
| <2 | 4 | 7.14 |
| 3 | 9 | 16.07 |
| 4 | 16 | 28.57 |
| 5 | 25 | 44.64 |
| >6 | 2 | 3.57 |
| **Total** | **56** | **100** |
| **Sexual services provided by respondents** | | |
| Vaginal Sex | 56 | 100 |
| Oral Sex | 31 | 55.36 |
| Anal Sex | 7 | 12.5 |
| Masturbation | 39 | 69.64 |
| **Average Clients per night** | | |
| 1-3 | 31 | 55.36 |
| 4-6 | 18 | 32.14 |
| 7-9 | 4 | 7.14 |
| >10 | 3 | 5.36 |
| **Total** | **56** | **100** |

***Source:*** **Survey 2014**

### *Conditions of work for street-working prostitutes in Ibadan*

The red light districts in the city of Ibadan comprise of well-defined areas that are primarily business districts in the daytime. Some of these areas include Ekotedo in Dugbe, Mokola roundabout, Iwo road, and Ojoo where women are seen standing alone or in pairs plying their sex business. These women are also seen at safe distance from notable hotels within the city inviting lodgers of these hotels to engage them as ‘companies’ for a night or more. Prospective clients either drive or walk into the area, while the women will normally solicit for men by calling for their attention with words like “darling”, “hello”,”how now” “customers”, “looking for me?” and so on. Potential clients that come with their cars beacon on the women and enter into negotiation with them. Once agreement is reached, they immediately leave the area in the client’s vehicle. The provision of sexual services to clients are usually done in three settings: in cars, in any of the several dark corners along the streets or in the privacy of a flat, hotel room or house of either the client or the sex worker. The decision as to where to provide clients with sex was often a reflection of the concern of the women for safety, especially when such services are to be provided outside the comfort zone of the sex worker.

Kate (not real name) said she doesn’t usually follow clients out of the area as she prefers restricting her services to cars and dark areas within the neighbourhood that she operates. In the case of Jennifer, if she has to follow a client out of the area, it must be to a hotel room or any public facility alone. Majority of the sex workers stated that they are usually reluctant to follow their clients to private residence as they felt it poses a lot of danger. According to Helen, ‘I will not want to go to anywhere that I cannot shout for help and be heard, the work is about risk, but I like to take only minimal risk’.

Irrespective of the illegal status of prostitution in Nigeria, the red light districts, which are regularly policed, are very tolerant of the activities of the sex workers. The sex workers expect to be picked up by police while they secure their freedom with sex and/or financial ransom.The police seem to have adopted a regulatory role in their dealings with street-working sex workers as they decide on those guilty of wandering, loitering and prostituting on the streets. The sex workers generally believe that rather than reprimand them, the police at the red district areas are there to provide security for them as long as they ‘pay their dues’.

**Issues of control between prostitutes and clients**

According to Jackson (1982) and Richardson (1990), in the traditional formulations of the heterosexual relationship, there is a normative expectation of masculine dominance. Women are expected to adopt assenting, submissive roles especially in their sexual relationships. From this perspective, the power balance is weighted in favour of the male. The sex workers in this study, however, did not represent their dealings with clients in this way. On the contrary there appeared to be a strong occupational culture among the women which stressed the relevance of female power in the commercial sexual encounter. This can probably be sensed in the following field extract where the woman concerned exhibited her level of control over her sexual transaction and services to clients:

> …I have my strict principles as far as relating with customers are concerned. I do things my own way and based on what is comfortable with me. I don't care how much the customer is willing to pay. If I don't feel safe, I don't do business, or I do it only my way…
>
> **Jane, 47, Molete**

All the women interviewed however accorded great importance to being in control of commercial sexual encounters. Their reasons for wanting control did not only relate to the practicalities of ensuring payment but also reflected their awareness of their vulnerability as women selling sex. However, the women in this study indicated that their level of control over clients is dependent on the location of the sexual act. If they are within their familiar terrain or in a public facility, they are able to assume assertive stance. However, they are less assertive when they are within the private flat of the clients or far from areas where they could reach help if the client gets violent. The limited control possessed by women who find themselves out of the areas they consider safe was described by one of them:

> …when you find yourself in that situation, you will only have to resign yourself to fate…you are no longer in a position to control anything but play along and be saved. If I will have to go on such a trip, I will insist my payment is made before we leave my area.
>
> **Anita, 38, Mokola**

Therefore, in agreement with existing knowledge, prostitutes who generally assume an assertive stance with clients are deliberately concerned with establishing the compliance of the client throughout the sexual encounter (Delacoste and Alexande, 1988; Shedlin, 1990).

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***Violence and Vulnerability of the Sex Workers***

There is no gainsaying the fact that sex business in Nigeria is characterised by a lot of violence. The prostitutes engaged in the study reported four main kinds of attack on them. There are, rape, robbery, assault and ritual attempts. Sometimes there is no apparent motive or rationale for attack beyond a desire for gratuitous violence:

> …sometimes, these clients just beat us up just for the fun of it or because they can do so and get away with it. Even after doing everything the way of the client, some of them still get so ruthless with us
>
> **Joy, 32, Molete**

Aside from the client-oriented violence often suffered by the women, they are also subject of public anger as they are constantly attacked either verbally or physically by members of the public:

> …it is a common thing for people to be passing and call us names like 'ghosts', 'dead bodies' 'devil's agents' and so on…it can get very dangerous when they attack us with stones and other objects being thrown at us. There was a day a car stopped for me, when I approached the driver; he just poured some liquid on my face and drove away. I was very scared; I thought it was acid or some dangerous liquid. Sometime, they stop just to humiliate us and drive away
>
> **Anita, 38, Mokola**

Notably, most of these violence goes unreported as a result of the illegal status of sex work in the country. It is ironical that the law enforcement agents feature prominently in the list of those that unleash violence on the prostitutes:

> …the police harass us for sex and money a lot. In some cases, they seize us and rape us in their patrol vans. I have experienced it before when three of them slept with me at the back of their patrol van two months ago. They even took my money and jewelleries before dropping me at the middle of nowhere to find my way home.
>
> **Simbi, 23, Ring-Road**

Nineteen (86.4%) of the twenty-two women interviewed told different stories of the violent encounter they have had with police officers in recent past which ranges from extortion, physical assault and sexual assault.

From the women's accounts, it is apparent that rape by clients is not unusual. Silbert (2008) in a study on attacks on prostitutes found that 70% reported having been raped in the preceding year. In this present study, 42 (75%) respondents stated that they had been raped in the course of their business including those that were barely six months in the trade. Apart from rape, seven of the respondents told tales of their ordeal with ritualists and how they survived the attack:

> …the client took me away in his car under the pretext that we were going to his hotel, but on the way, he stopped and brought out a gun. He raped me at gun-point without using condom. As he was having sex with me, he was reciting some incantations until he was through. He then used a whitish handkerchief to wipe my private part and asked me to leave the car, he now uttered in Yoruba language "if you come again into this world, you won't come as a prostitute"…I noticed rashes on my body the following day and was almost dying from a terrible sickness. It was a powerful spiritualist in Benin that eventually helped me to come back to good health
>
> **Mabel, 26, Iwo-Road**

Rather than abandon the trade, what Mabel did as an adaptive measure after the experience was to change the location of her trade from Mokola area to Iwo-Road both in Ibadan City. Of the 22 prostitutes that were interviewed, 20 of them affirmed that they had been a victim of client-related violence in the course of their trade. These violent experiences come in form of physical and verbal assault, gang rape, forceful anal sex, and violent sexual orgy. The high degree of client violence which the prostitutes are exposed to is recognised by many and two prostitutes bare their experiences:

> …after removing my dress expecting to have normal sex with the customer, he suddenly got violent and tied my hands and legs…he started inserting his toes into my virginal. I was just crying and praying that he is not using me for ritual purpose. He later told me that it has nothing to do with ritual but that is how he enjoys sex in his own case…he said this, not minding the fact that I was bleeding profusely
>
> **Anita, 38, Mokola**

> I negotiated with only a client, unknown to me, they were recruiting me for a group sex. When I got to their flat, they pounced on me and had me in turns.When I objected, they threatened to kill me and throw my body into their latrine. I was helpless; I had to cooperate with them until they were through with me. In the morning, they refused giving me any additional money and only dropped me off the road…I was only carried away by the amount the guy that picked me offered to pay, I usually determine the venue for my sexual service but on this occasion, I allowed the man to have his way and I regretted it…
>
> **Stella, 22, Ekotedo**

In situations like that, the woman has little or no influence on the turn of events. In particular, a woman may be unlikely to secure client compliance to use a condom. In the above account, the men had, for example, raped the woman without using condom. Given the violence of the attack, it seems highly likely that the woman's first concern was self-preservation rather than concern over the non-use of a condom. Nonetheless, the rape involved not only emotional trauma and physical damage but the potential for HIV transmission to take place as well as possible pregnancy.

It is apparent, that in spite of street-working sex workers' attempt to secure client compliance they remain fundamentally vulnerable. Many clients have the advantage of greater physical strength than the women, added to which is the fact that prostitution often takes place in dimly-lit, deserted places or in clients' houses.

### Protective Strategies of the Street Working Sex Workers

The means available to sex workers to protect themselves against violent attack are indeed very limited. The two main protective strategies open to prostitutes are; first, to screen out prospective clients they feel uncertain of; and second, to attempt to orchestrate the sexual encounter from beginning to end. By setting the agenda, the sex worker aims to limit the potential for trouble or attack. However, whilst these measures provide important safeguards, it is evident that they are not fool-proof. In recognition of this, many sex workers reported the use of additional measures where possible. These involved the use of other women to watch out for them, the use of men as minders and recourse to weapons. They also relied heavily on spiritual fortification with the use of charms which they believe will warn them if potential clients are dangerous. Each of these measures has its problems both from a practical point of view and from the perspective of the police whose concerns lie with potential criminality.

Often, two or more prostitutes hang out together on the street and work cooperatively to protect themselves against possible client attack. This may take the form of noting down car numbers (often deliberatively in view of the client) or passing on descriptive information about clients known or, thought, to pose some kind of threat:

> … Susan (a colleague in sex business) once walked over to a car, however, she left the car hurriedly and came to meet us. She told us the man was a ritualist because he looked so much like the man that came to take Helen (a deceased colleague who was abducted and killed some months before the interview)away. She said he was even not attempting to bring down the price that she named to him. That's kind of unusual because N40,000 for a night is not an amount that any man that wanted only sex will pay
>
> **Queen, 21, Ring-Road**

There were also women who made attempts to get a more active form of protection as was the case in the field extract below:

> …a woman (who is a colleague) asked us to escort her to the far end of the street where she is supposed to meet a man at an uncompleted building. This is in order to keep watch over her while she does her business and ensure that nothing bad happened to her. Sometimes we do this for each other. When someone goes away with a client in a vehicle, the others will take note of the plate number of the vehicle and make sure the client knows that the car identity has been taken
>
> **Anne, 19, Ojoo**

However, measures like this can only be partially successful. The knowledge that a car number plate has been noted down may be reassuring in the sense that the woman could identify her attacker to the police, but not sufficient to prevent the attack from happening. Similarly, even where two sex workers try to keep a watch for the safety of the other, it is inevitable that there will be situations where both women are with clients in different places.The reality for most street-working prostitutes is that they work alone, and if it comes to it, will probably also have to defend themselves against attack on their own.

The ranges of measures that street-working prostitutes in Ibadan adopt or can employ to protect themselves against possible client attack are limited by practical and legal constraints. In effect, this means that sex workers have to respond individually and with limited means to client threats or attacks.

**Discussions of Findings**

From the contacts that these researchers had with the women, it is apparent that most commercial sex encounters are without problems. However, there are structural features of prostitution which creates a position of advantage for the client. Sex workers are vulnerable not simply because of the work they do but also because they have no necessary recourse to the law for protection. Sex workers who encounter violent clients are most often obliged to respond individually to the threat posed to them. In many senses, prostitutes are easy targets for men who have violent inclinations. This is not only because it is the nature of their work to go with strangers to oftentimes dark, lonely places, it is also the case that sex workers are treated as second class citizens because the work they do is considered by many to be immoral as well as illegal. A very likely consequence of this is that some men feel able to physically intimidate such women without fear of reprisal.

In the first place, many women do not report violent attacks by men to the police because they doubt that they will be taken seriously (Delacoste and Alexander, 1988). Frohman (1991) in a study of prosecutors' decisions to reject trying rape cases in court found that victims' credibility was a major factor influencing their decisions. The fact of being a sex worker is likely to have an important bearing on the credibility accorded the women's allegations. There exists a perception that prostitutes who are attacked do in some way deserve it because of the work that they do. In this sense there are undoubtedly those who would argue that sex workers cannot get raped since they are in the business of providing sex anyway.

In agreement with empirical studies (Jenkins, 2000; and Surtees, 2003), it was found that street-based sex workers are often forced to exchange unpaid and unprotected sex with some law enforcement authorities in order to escape arrest, harassment, obtain release from prison, or subjected to other demeaning treatments. Though virtually all the women that were interviewed in this study had been confronted with violent clients on at least one occasion, none of them reported the incidence to the police or other law enforcement agency. This underscores the low-level of confidence that these women have in the police as arbiters of justice. Based on the vulnerability of the sex workers to hostility of the public, they may decline to seek for orthodox healthcare delivery systems and may not use HIV/ AIDS services as a result of hostility and abuse by health care providers.

Research into the process leading up to the non-commercial heterosexual encounter suggests a deliberate lack of explicitness as to sexual intention, almost up to the point at which (penetrative) sex takes place (Amin, 2004; and Scorgie et al., 2012; Shannon and Montaner, 2012). Sex workers attempt to establish their contact with clients on a firmly commercial basis from the outset which entails that there will be no such ambiguity as to the purposes of the meeting. Sex workers appear to feel that if the client acquiesces to her terms of business there is less of likelihood for trouble. In the context of prostitution, trouble can take the form of robbery or rape or physical attack or ritual killing. It is hardly surprising that sex workers do all in their power to avoid such situations. In recognition of the potential dangers posed by clients, sex workers seek to avoid men and situations which they judge to be personally dangerous. However, this study has shown that financial gain is a major factor that makes the sex workers to compromise their resolve to play safe in their sex business.

## Conclusions

Violence against sex workers is not only widespread, but is also perpetrated, justified, and accepted by many. This is especially so in Nigeria where it is illegal to engage in prostitution, leaving the prostitutes with limited legal protection. As this study indicates, even the law enforcement agents particularly the police often participate in subjecting the sex workers to series of violent attacks in form of arrest, extortion and sexual assaults. Therefore, the presence of the law enforcement officers on the streets has increased the risk of violence against sex workers rather than protect them from it.

As evident from the study, rape, particularly by high-risk individuals can directly increase sex workers' risk of infection due to vaginal trauma and lacerations resulting from use of force and transmission of other STIs.

The prostitute/client encounter appears to contain within itself the potential for conflict which may be resolved through violent means. However, these tendencies are probably further compounded by the illegalities associated with prostitution. Both the sex worker and client are vulnerable to police arrest at the point at which they engage in negotiating the commercial sex encounter. To avoid this eventuality, negotiations are usually brief and hurried. Clearly the compressed time available does not assist the process of deciding whether or not the client is safe to go away with. This is further hampered by the seeming competitions amongst the prostitutes as they jostle for clients that drive into their area.

Perhaps men who see sex workers as easy targets would be discouraged from this perception if there were more successful convictions of other men who attack sex workers. This could be achieved if the police made concerted attempts, first to encourage women (irrespective of their status) to report all such instances by taking them seriously and, second, adopting a policy of vigorous pursuit of such men. Beyond this, however, there remains the need for a general change in the public perception of sex workers as second class citizens who do not qualify for the same civil liberties as the rest of the population.

Finally, HIV prevention interventions that address violence against sex workers must be based on a human rights and public health approaches– one in which the responsibility for sexual health lies not only with sex workers but also with clients, third parties, government and the larger society. The health and human rights of sex workers must be seen as legitimate ends in themselves. Addressing HIV/AIDS among sex workers requires a commitment to addressing their social marginalization as well as a focus on their health which could have direct implications on public health.

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# PRICING OF EXTERNAL AUDIT SERVICES IN NIGERIA: A DYNAMIC ANALYSIS

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## Abstract
*This study investigated the pricing of external audit services provided by audit firms to deposit money banks in Nigeria. The Simunic's (1980) audit fees model developed for non-financial industrial companies was modified to accommodate specific measures of banks' size, risk, complexity and auditor type. The study used secondary data, gathered through content analysis of 14 sampled banks' annual reports and accounts over the period of 2006-2013. Thereafter, the panel data obtained were analysed by applying the dynamic difference and system Generalised Method of Moment (GMM) estimation techniques. The results revealed the uniqueness of methodology with the immediate past amount paid as audit fees (one-year lag of audit fees) displaying a positive and significant influence accounting for 50% (approx.) of the variance in the current fees paid/ payable. Aside this, findings from this study appeared to be largely consistent with previous works with gross earnings and non-performing loan ratio, proxies for bank size and risk respectively, also displaying significant driving impact on external audit fees in the banking industry. Based on these findings, it is recommended that past audit fees should be considered in addition to conventional factors such as client size, risk and complexities.*

**Keywords: Audit fees, Pricing, Banks, Difference GMM, System GMM, Nigeria**

## 1. Introduction

The external audit services provided by professional accounting firms is no doubt a key corporate governance mechanism providing an oversight role, especially on the financial management angle of the entity. In addition to providing a generalized definition of auditing, the America Accounting Association (AAA)'s (1973) committee on Basic Auditing Concepts also identifies four (4) conditions which drive the need for independent audit of accounting data. These are the needs to:

(1) bridge the potential conflict of interest between the user and the preparer of the financial statements; (2) enhance the credibility of the financial information for decision making; (3) simplify the complexity of the preparation of financial information, thereby necessitating a third person (auditor) to examine its quality; and (4) enhance accessibility of financial information.

In Nigeria, the Companies and Allied Matters Act, C20 LFN 2004 (CAMA) as amended requires all companies, including banks, to prepare annual reports and accounts and that such (financial statements) must be audited by an auditor so appointed for that purpose. Such service is not gratuitous as the remuneration is also provided for under the Act to be determined by the director (in the case of the auditor appointed by the directors) or by members at the annual general meeting or in such a manner as may be prescribed by the company. The Institute of Chartered Accountants of Nigeria (ICAN) in 2011 recommends a scale of professional fees for professional firms in determining fees charged for services rendered. However, in practice the actual amount paid or payable is ultimately a 'negotiated sum'. According to Gist (1992) auditors expect reasonable and sufficient fees to be paid to enable a satisfactory service to be provided. Although not clearly defined in any of the International Standards on Auditing (ISAs), the Nigerian Auditing Standards (NSAs), the IFAC Code of Ethics for Professional Accountants (2010) and the ICAN Scale of Professional Fees (2011), the aspects regarding audit fees are extensively analyzed from the point of view of their effects on auditor's independence and audit quality. The audit fees can thus be simply described as the sums payable/paid to the auditor, for the audit services offered to the auditee (client). According to Simunic (1980), it is a reflection of economic cost of efficient auditors. In line with this, IFAC (2010) suggests that 'when entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee that is deemed appropriate'. Similarly, the ICAN's Scale of Professional Fees (2010) while indicating that practitioners charge ridiculously inappropriate audit fees also affirms that a reasonably remunerated firm should deliver first class service for the needs of private sector clients, public sector clients, regulatory authorities and the general public.

Despite the copious scholarly works, there appears to still be growing concern on what is an appropriate audit fees and how do auditors determine such which is charged and is required to be paid or payable by the auditee. The clients (who demand the audit and other services) and the audit firms (who supply the audit and other services) are major players in the audit market. The overall structure of the audit market and the methodology for arriving at an appropriate audit fee is still on-going, especially in the developing economies where researches in this area are still scanty. Taffler and Ramalinggam (1982) cited in Baldacchino, Attard and Cassar (2014) argue that the manner in which audit fees are calculated differs from that of other professions where fees are directly or indirectly calculated on the monetary aspects of the business involved. Specifically, Niemi (2005) confirms that the basis on which audit fees is calculated is the number of hours to be worked on the engagement, multiplied by the rate per hour, and not any financial aspect of the subject matter. All of the above delineate the fact that audit fees and their determination might be seen as a black box by the stakeholders involved. No doubt, this makes the process a fairly complex task.

The seminal work by Simunic (1980) sets the pace and provides the pathway for the extensive body of research, especially in developed countries of USA, UK, Australia, Canada and Germany, involving the examination of determinants of audit fees. He (Simunic) identifies client's size, risk and complexities to be main determinants. Since then, there have been studies in this area with additional factors added. In spite of the mixed and inconsistencies in the reported results and findings of these empirical studies, effective factors capable of influencing audit fees have been agreed upon to be classified into client-specific attributes, auditor-specific attributes and audit environment (Hay, 2010). Furthermore, these studies have used some variants of the basic model by Simunic (1980) and have been skewed towards the adoption of static panel model. Aside from similar methodology being put into use, another common trend and pattern noticeable is the continuous exclusion of the financial sector. To this end, this study contributes to existing works in this area, specifically by extending empirical work through the adoption of a dynamic panel methodology in order to equally account for the dynamic nature of variables, need to consider endogeneity coupled with high persistence of the data, using deposit money banks in Nigeria.

Beside the introduction, this paper proceeds as follows. Section 2 reviews relevant literatures and section 3 is on methodology. While the empirical results and discussions are conducted and presented in section 4, section 5 concludes the study.

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## 2. Conceptual Review and Hypotheses Development

Prior researches on the factors influencing the magnitude of audit fees for entities abound in the literature. According to Hay (2010), the determinants of audit fees can be generally classified into three (3) major categories: client's/ auditee's attributes (size, complexity, risk, profitability, leverage, liquidity, internal control, ownership, governance and industry); auditor's attributes (quality, tenure and location); and engagement (or audit) attributes (report lag, busy season, audit problems and non-audit reporting). While the client's attributes have been given great attention in most previous researches, the other two categories were less prominent. Further discussion is provided below on specific variables studied under a broad category.

### 2.1 Clients' Attributes

There are several organizational factors that have been identified in the literature capable of influencing audit fees. Each of these variables is discussed separately in the following sub-sections.

#### (a) Auditee's Size

The most consistent result in all previous researches has been that of auditee's size which has been found to have been a significant explanatory variable in determining audit fees (Simon & Taylor, 2002; Chung and Narasimhan, 2002; Ezzamel, Gwilliam and Holland, 2002; Matthews and Peel, 2003; Fields, Fraser and Wilkins, 2004; Yousef & Kamal, 2013; Akinpelu, Omolaja, Ogunseye and Bada, 2013; Soyemi & Olowookere, 2013; Ajide, 2014; Soyemi, 2014; and Kikhia, 2015). Chung and Narasimhan (2002) in their international study on audit fees find that client size accounts for a major determinant in audit fees charged to organizations. A time-series analysis by Matthews and Peel (2003) using UK companies on the antecedents of audit fees finds that corporate size was the major determinant of audit fees 100 years ago. In Nigeria, Soyemi & Olowookere (2013), Akinpelu, Omojola, Ogunseye and Bada (2013) and Ajide (2014) study determinants of audit fees among Nigerian banks and conclude on the significance of bank size as significant factor which influences audit fees.

There are various proxies that have been used in the literature as a measure of the auditee's size. The two most prominent are total assets (Simunic, 1980 cited in Francis, 1984; Taylor and Baker, 1981 cited in Francis, 1984; Francis, 1984; Simon, 1985 cited in Simon and Francis, 1988; Simon and Francis, 1988; Butterworth and Houghton, 1995; Davis, et al., 1993; and Firth, 1997) and sales (Ezzamel, et. al, 2002; Taffler and Ramalinggam, 1982 in Matthews and Peel, 2003). With respect to the banking industry, gross earnings were used by Soyemi & Olowookere (2013), while total assets were used by Akinpelu, et al (2013) and Ajide (2014) and Swanson (2008). This variable is studied in this study with regards to audit fees for quoted banks in Nigeria; hence the hypothesis is formulated thus:

***Hypothesis One:*** *Audit fees paid by Banks in Nigeria are positive and significantly associated with bank size.*

**(b) Auditee's Complexity**

Another major variable used in explaining the variance between audit fee charges was the client's complexity (Yi, & Dong, 2012). This was variously measured using the number of subsidiaries (Butterworth and Houghton, 1995; Pong and Whittington, 1994; Davis et al., 1993; Wilson, 2003; Ezzamel et. al., 2002; Fields, Fraser and Wilkins, 2004; Soyemi & Olowookere (2013), Akinpelu, et al (2013) and Ajide (2014), the ratio of auditee's receivables and/or inventories to the auditee's total assets (Simunic, 1980 in Francis, 1984; Simon, 1995 in Simon and Francis, 1988; Firth, 1985 in Butterworth and Houghton, 1995; Francis and Stokes, 1986 in Francis and Simon, 1987; Simon and Francis, 1988; and Simon and Taylor, 2002) and audit fee diversification (Simunic, 1980 in Francis, 1984; Chen, et al, 1993 in Chung and Narasimhan, 2002). This variable is as well studied in this study with regards to audit fees for quoted banks in Nigeria, it is operationalised using the total number of consolidated subsidiaries and branch networks; hence the hypothesis is formulated thus:

***Hypothesis Two:*** *Audit fees paid by Banks in Nigeria are positive and significantly associated with auditee's complexities.*

**(c) Auditee's Risk**

In most studies, there was also the variable of auditee's risk that plays a major role in the determination of audit fees (Che-Ahmad & Houghton, 1996; O'Sullivan, 2000; Karim and Moizer, 1996; Curry and Peel, 1998; Simon and Taylor, 2002 Fields, Fraser and Wilkins, 2004; Yousef & Kamal, 2013; Akinpelu, Omolaja, Ogunseye and Bada, 2013; Soyemi & Olowookere, 2013; and Ajide, 2014). The profitability/ losses as reported by the client in their financial statements have since been used as proxies for representing the risk associated with the client. Consequently, enterprises that are making accounting losses could be expected to represent a higher risk thereby increasing the probable inability to pay the auditing

firm their fees (Karim and Moizer, 1996). Walker and Casterella (2000) using data from over 3,000 companies in the United States, find that auditors are managing their exposure to audit risk based on the auditee's risk or auditee profitability by adjusting audit fees. However, Davis et al. (1993) use opinion type as a proxy for risk as it measures this variable in terms of the loss that will be incurred if an unqualified audit opinion is issued inappropriately. They further argue that this measure more closely reflects auditor's actual perception of risk but are aware that the assessment of risk in this manner is more subjective in nature compared to more quantitative measures. Soyemi & Olowookere (2013) adopt operational risk and credit risk proxied with efficiency and non performing loan ratios. Similar variables are also adopted in this study. Therefore, the third hypothesis evolves as follows:
*Hypothesis Three: Audit fees paid by Banks in Nigeria are positive and significantly associated with auditee's risk.*

**2.2** Auditor's Attributes: Auditor's Size and International Link
Karim and Moizer (1996) provide an explanation for this relationship as the Big Six have access to higher quality staff and use higher quality procedures and so are more likely to detect errors and omissions. They argue that because of the Big Six's size, they are also better able to withstand pressure from client company management and so are more likely to act in an independent fashion, which consequently, increases the confidence of their auditing quality. An alternative view was postulated by Klein and Leffler (1981) in Deis and Giroux (1996) that brand name development or reputation is very important for assessing audit quality and consequently, audit fees. This point was further emphasized by Simunic and Stein (1987) also in Deis and Giroux (1996) who argue that credibility of audit services with external financial statement users which is closely related to an auditor's reputation is among the antecedents of audit quality. A study on UK companies also finds further support for auditor's size having a positive impact on audit fees (Ezzamel, et. al., 2002). This result is replicated using a set of New Zealand companies which shows that Big 5 are receiving fee premiums compared to non-Big 5 or obscure audit firms (Johnson, Walker, & Westergaard, 1995). Nevertheless, Willekens and Achmadi (2003) using Belgian data for small private cliental shows that there are no price premium charged by large auditing firms compared to smaller auditing firms. This result was also repeated using Korean listed companies whereby Big 6 auditors were found to be not different in audit quality compared to non-Big 6 auditing firms (Jeong, Jung and Lee, 2005).

In Nigeria, existence of pricing premium was found by Soyemi (2014) during a study of 20 quoted non-financial companies from 2009-2012 to the tune of 98%. This is opined to have been higher when compared to other developing and developed countries. This variable is also captured in this study. The fourth hypothesis is thus stated as follows:

*Hypothesis Four: Audit fees paid by Banks in Nigeria are positive and significantly associated with auditor's size.*

# 3 Methodology

## 3.1 Data and Sample Selection

The study employs a balanced panel data which was obtained from fourteen (14) quoted commercial banks whose shares were as well listed and traded on the NSE. This sample size represents over 87% of the total number of public quoted banks (population) as at December, 2013, and was purposively selected.

## 3.2 Model Specification

Many economic relationships are dynamic in nature and one of the advantages of panel data is the allowance for better understanding of these dynamics of adjustment. This is also indicative of the limitations inherent in the static estimation techniques. These relationships are characterized by the presence of a lagged dependent variable among the regressors. The dynamic panel model for this study is as stated below in equation 1.

$$\ln\_af_{i,t} = \ln\_af_{i,t-1} + \ln\_ge_{i,t} + effr_{i,t} + nplr_{i,t} + tsubs_{i,t} + tbrhs_{i,t} + \text{Big4}_{i,t-1} + u_{i,t} \qquad \text{———1}$$

Where:
- $In\_af_{i,t}$ = Natural log of total audit fees
- $In\_af_{i,t-1}$ = lag of natural log of total audit fees
- $In\_ge_{i,t}$ = Natural log of gross earnings
- $effr_{i,t}$ = efficiency ratio
- $nplr_{i,t}$ = non performing loan ratio
- $tsubs_{i,t}$ = total number of consolidated subsidiaries
- $tbrhs_{i,t}$ = total number of branches
- $Big4_{i,t}$ = top four professional accounting firms
- $u_{i,t}$ = error term

Furthermore, by decomposing the big4 variable into their constituent firms, being KPMG, PricewaterCoopers, Ernst and Young and Deloitte Touche, equation 2 evolves as follows:

$$\ln\_af_{i,t} = \ln\_af_{i,t-1} + \ln\_ge_{i,t} + effr_{i,t} + nplr_{i,t} + tsubs_{i,t} + tbrhs_{i,t} + \mathrm{dell}_{i,t-1} + \mathrm{ey}_{i,t-1} + \mathrm{kpmg}_{i,t-1} + \varepsilon_{i,t}$$

The difference GMM as proposed by Arellano & Bond (1991) and the system GMM estimator as propounded by Arellano & Bover (1995) and Blundell & Bond (1998) cited in Gurajarati, (2003) are adopted to estimate separately equations 1 and 2 as stated above. However, despite the dynamic perspective of this study and by extension the basis upon which the methodology is based, the static panel model comprising pooled, fixed and random estimates are as well conducted and presented alongside with that of the difference and system GMMs.

## 4. Results and Discussions

### 4.1 Descriptive Statistics

Table 1a shows the summary of the descriptive statistics for the variables under study from 2006 – 2013 in this study for all the sampled banks, while Table 1b shows the summaries for the audit engagements categorized in accordance with the audit firms.

**Table 1a: Summary of the Descriptive Statistics**

| | af | ge | effr | nplr | tsubs | tbrhs |
|---|---|---|---|---|---|---|
| N | 112 | 112 | 112 | 112 | 112 | 112 |
| Minimum | 17000 | 10965 | 14.50 | 1.10 | 0 | 41 |
| Maximum | 284000 | 360345 | 111.90 | 88.00 | 24 | 777 |
| Mean | 95912.43 | 87268.27 | 48.0582 | 15.4439 | 6.84 | 262.92 |
| Std. | 56334.420 | 66998.810 | 14.57780 | 18.82817 | 4.867 | 178.026 |
| Deviation | | | | | | |

Source: Field Work Analysis, (2015)

During this period, Table 1 shows a mean value of total audit fees for the 14 sampled banks as N95,912.43 which ranges from N17million to N284million with a standard deviation of N56334.42. It is also evidenced from the table that there are considerable differences in the explanatory variables allowing for enough variations to run the estimates for the regression analysis. Bank size proxied by gross earnings range from N10965million to N360345million with a mean value of N87268.27million and a standard deviation of N66998.81. Bank risk proxied with efficiency risk ranges from 14.50% to 111.90% with a mean value of 48.06% and a standard deviation of 14.58 while credit risk (nplr) varies from 1.10% to 88% with a mean value of 15.44% (higher than the CBN regulatory ratio of 10%- prior to 2010 and 5%- from 2011) and a standard deviation of 18.83. Lastly, bank complexities measured by the total number of consolidated subsidiaries range from 0 to 24 with a mean value of 7 and a standard deviation of 4.87. The total number of branch networks on average is 263 with a standard deviation of 178.03. It ranges from 41 to 777.

The breakdown according to the audit firms is further provided in table 1b. All the sampled banks were audited by the top four audit firms (otherwise known as the 'big4') except for unity bank which hired Panell Kester Foster and A. Zakari & Co as their auditors for years 2009-2010 and 2011-2013 respectively. From the table, this translates to 96% of the total sampled banks, accounting for N11, 869, 179 of the total audit fees of N12, 366, 948 accruable during the period. The remaining balance of N497,769 representing 4% is shared by the duo of Panell Kester Foster and A. Zakari & Co, being the two indigenous audit firms engaged by unity bank. Besides, among the top four audit firms appointed during the period, PwC came top in terms of the number of audit engagements, being 35.81% amounting to N4,428,392 following closely by KPMG with N3,976,287 representing 32%. AWD has 18% amounting to N2,238,500 while E&Y has 10% (approx.) amounting to N1,226,000.

Table 1b: Total Audit Engagements by Audit Firms

| Audit firms | Number of audit Engagements | Audit Fees (N'000) | % |
|---|---|---|---|
| AkintolaWilliams Delloite (AWD) | 27 | 2,238,500 | 18.10 |
| Ernst & Young (EY) | 12 | 1,226,000 | 9.91 |
| KPMG | 34 | 3,976,287 | 32.15 |
| PricewaterCoopers (PwC) | 34 | 4,428,392 | 35.81 |
| Others | 5 | 497,769 | 4.03 |
| Total | 112 | 12,366,948 | 100.00 |

Source: Field Work Analysis (2015)

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### 4.2 Correlation Analysis

Table 1c summarizes the results of preliminary correlation analyses among the variables. The need for the computation of the correlation coefficients among the variables was borne out of two important purposes. First is to determine whether there are bivariate relationship between each pair of the dependent and independent variables. The second is to ensure that the correlations among the explanatory variables are not so high to the extent of posing multicollinearity problems, which might cause estimation problems.

Table 1c: Pearson Correlation Matrix among Studied Variables

| Variables | ln_af | ln_ge | Effr | nplr | tsubs | Tbrhs | big4 |
|---|---|---|---|---|---|---|---|
| ln_af | 1 | | | | | | |
| ln_ge | .789** | 1 | | | | | |
| Effr | -.130 | -.326** | 1 | | | | |
| Nplr | -.292** | -.454** | .459** | 1 | | | |
| Tsubs | .477** | .587** | .009 | -.201* | 1 | | |
| Tbrhs | .452** | .677** | .014 | -.207* | .590** | 1 | |
| big4 | -.034 | .062 | -.189 | -.014 | .025 | .044 | 1 |

Source: Field Work Analysis, (2015)

As shown, bank size proxied with gross earnings (0.789), total number of branches (0.452) and total consolidated subsidiaries (0.477) are positive and significantly related to audit fees. On the other hand, efficiency ratio (-0.130), auditor's size (-0.034) and credit risk, that is, non performing loan ratio (-0.292) are negatively related to audit fees with only the latter showing a significant association. In all, the table provides no evidence of multicollinearity problems, hence, regression estimation is then attempted.

### 4.3 Regression Results

Table 2a depicts the results of the estimated model, both static and dynamic estimation techniques. The former has always been the estimation methodology for most researches in this area while the latter is the modus operandi for this study. Furthermore, table 2b provides the diagonistics for each of the estimation techniques.

Table 2a: Estimates for Regression Analysis

| Variables | Pooled | Fixed | Random | Diff. GMM | Sys. GMM |
|---|---|---|---|---|---|
| ln_af_L1 | - | - | - | 0.385** | 0.481*** |
| ln_ge | 0.747*** | 0.823*** | 0.820*** | 0.149** | 0.449*** |
| effr. | 0.007** | 0.011*** | 0.009*** | 0.006 | 0.004 |
| Nplr | 0.001 | 0.001 | 0.002 | 0.005* | 0.005** |
| Tsubs | 0.005*** | 0.004 | 0.003 | -0.019 | -0.029** |
| Tbrhs | -0.001 | 0.001 | -0.000 | 0.001 | 0.000 |
| big4 | -0.161 | 0.398* | 0.110 | 0.158 | 0.028 |
| constant | 3.003 | 1.076 | 1.731 | 1.046 | 0.798 |

*** @1%; ** @5%; *@10%
Source: Field Work Analysis, (2015).

The results for the static model shows that there exists a positive relationship between bank size, risk, complexity (except total number of branches that display a negative for pooled and random), auditor's size (except for pooled) and audit fees. As regard the F-statistics test, the explanatory variables are jointly and statistically significant in the three estimated models of pooled (31.22), fixed (56.51) and random (251.71). The adjusted R-square shows that the explanatory variables jointly accounted for 65%, 81% and 79% variations in audit fees respectively.

Based on the L-M test statistics, $chi^2$ (1) of 13.16 (0.0003), adopted to compare between the pooled and the random regression estimates, we do not accept the null hypothesis rather the alternative hypothesis is accepted implying that the individual specific effect is not equal to zero, therefore we do not reject the random effect. However, using the Hausman specification test to select between fixed and random effects, the test value of 44.25 ($P<0.01$) do not accept the null hypothesis that differences in coefficients are not systematic, therefore we accept the alternative hypothesis and conclude that the differences in coefficients are systematic. Based on this, we accept and interpret the fixed effect model estimate.

Table 2b: Estimates for Regression Analysis (big4 decomposed)

| Variables | Pooled | Fixed | Random | Diff. GMM | Sys. GMM |
|---|---|---|---|---|---|
| ln_af_L1 | - | - | - | 0.402*** | 0.490*** |
| ln_ge | 0.723*** | 0.800*** | 0.786*** | 0.464*** | 0.435*** |
| effr. | 0.006 | 0.127*** | 0.007** | 0.005 | 0.004 |
| Nplr | 0.003 | 0.003 | 0.003 | 0.005** | 0.005** |
| Tsubs | 0.004 | 0.008 | 0.003 | -0.020 | -0.030 |
| Tbrhs | -0.001 | 0.001 | 0.000 | 0.001 | 0.000 |
| Dell | -0.202** | 0.088 | -0.104 | 0.523 | 0.558 |
| Ey | 0.158 | 0.075 | 0.154 | 0.049 | 0.065 |
| Kpmg | -0.021 | -0.140 | -0.024 | 0.013 | 0.045 |
| constant | 3.117 | 1.577 | 2.311 | 1.293 | 0.851 |

Source: Field Work Analysis (2015)
*** @1%; ** @5%; *@10%

Table 3: Results of Diagnostics

| | Pooled | Fixed | Random | Diff. GMM | Sys. GMM |
|---|---|---|---|---|---|
| No. of Obs. | 112 | 112 | 112 | 70 | 84 |
| F-statistics/ Wald chi$^2$ | 31.22*** | 56.51*** | 251.71*** | 230.48** | 250.52** |
| Adj. $R^2$ | 0.65 | 0.81 | 0.79 | - | - |
| L-M Statistics | 13.16*** | | | - | - |
| Hausman test | | 44.25*** | | - | - |
| No. of Instruments | - | - | - | 22 | 27 |
| Sargan test | - | - | - | 16.90 | 18.17 |

Source: Author Computation (using stata), 2015.
*** @1%; ** @5%; *@10%

This translates to mean that while the studied variables display positive relationships, only bank size (gross earnings, 0.823), risk (efficiency ratio, 0.011) and auditors' size (0.398) are significantly related to audit fees. Therefore, audit fee will increase by 0.823% and 0.011% given a percentage increase in gross earnings and efficiency ratio respectively. Also, there is an indication of the existence of a pricing premium of approximately 40% owing to the engagement of the top four audit firms in the banking industry. This pricing premium is seen to be a generalized one, rather than accruing to any of the firms, as none of the coefficients for any of the big4 are significant; hence, there are no pricing differentials among these top four audit firm.

Table 2a also presents estimates for the difference and system GMM, both being dynamic panel model. The results for the difference GMM shows a positive and significant association between the immediate (lag) audit fees paid by banks, gross earnings and the non performing loan ratio. This is similar to that of the system GMM, except that the total number of consolidated subsidiaries (tsubs) is added as it also displays a significant and positive relationship. However, there is no indication of a pricing premium. In addition, the Sargan test of 16.90 (p-value of 0.2614) and 18.17 (p-value of 0.5113) coupled with the number of instruments of 22 and 27 for the difference and system GMM respectively. Being insignificant, as evidenced by the p-values for the null hypothesis of the overidentifying restrictions, we therefore, in all specifications, do not reject the null hypothesis.

Overall, findings from this study tallies with previous studies both in the developed economies [Chen, et al (1993), Pong & Whittington (1994), Che Ahmad & Houghton (1996); Baldacchinno, Attard, Cassar (2014); and Wong (2009)] and emerging economies [Simon and Taylor, (2002); DeFond and Francis (2005); Firer and Swartz (2006);, Yousef & Kamal, (2013); Soyemi & Olowookere (2013); Soyemi (2014); and Kikhia (2015)]. A major addition is the influence of past amounts paid as external audit remunerations to bank auditors. This is also seen to be significant for both the difference and system GMM, thereby justifying the need to factor in past audit fees in the consideration of effective factors capable of influencing external audit fees.

## 5. Conclusion

In the examination of significant factors capable of influencing fees paid by banks to their auditors, there is the need to account for the dynamic nature of the studied variables; hence, the reconsideration of the estimation technique. The past audit fees charged by professional firms is no doubt a significant influence on the current amount paid by deposit money banks in Nigeria. Many previous empirical studies have excluded this important element, thereby limiting the econometric methodology to the static panel model. Though, it is short run oriented but definitely an improvement to the trio of pooled, fixed and random OLS estimation techniques.

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# DYNAMIC RELATIONSHIP BETWEEN OIL REVENUES AND SOCIOECONOMIC DEVELOPMENT OUTCOMES IN AN OIL-DEPENDENT ECONOMY

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## Abstract

*This study examined oil revenue management and development outcomes in Nigeria for the time-series period spanning 1970-2012. We employed the autoregressive distributed lag (ARDL) model to obtain a long-run equilibrium condition among the variables included in our model. More so, we estimated for the long-run impacts of the model and through a re-parameterization process, we accounted for the short-run situation (ARDL-ECM) of the model. To establish the validity and reliability of the estimates obtained, we performed a set of diagnostic tests and robustness checks. The unit-root and stationarity tests performed lend credence to the use of the autoregressive distributed lag (ARDL) as the technique of analyses. Our empirical results showed that there is a long-run equilibrium condition among the variables and that the lagged developmental outcomes impact positively on its current level. Importantly, we find that oil revenue has not been properly managed in Nigeria; either in the short-run or long-run situations. The amount of revenue generated from oil exportation, explorations and importations have not resulted to better development outcomes in Nigeria for the period under review. This suggests that various governments of Nigeria have not adequately managed the proceeds as well as revenues generated from oil and oil related transactions over the years. The results obtained also suggested that there is poor absorptive capacity as national income only impacts positively on development outcomes of Nigeria in the short-run situation but negatively impacts on long-run developmental outcomes. Expectedly, this makes the socio-economic developmental outcomes of her citizens to worse off while gaps continue to widen between the rich and poor. As such, we, therefore, conclude that the oil revenue management in Nigeria lends credence to the Dutch disease syndrome and the resource curse hypothesis.*

***Keywords: Oil revenue, Development, Outcomes, Dutch disease syndrome, Stationarity.***

***JEL Classification: C***

## I Introduction

Is natural resource a blessing or curse for a country? Empirical answers to this question have been mixed and inconclusive. The extensive studies in the literature have resulted into two strands of empirical findings. The first strand reported negative relationship between resource abundance and economic performance thereby supporting the resource curse theory (See Auty, 1986, 1990, 1993, 1998, 2001; Bulmer-Thomas, 1994; Gelb, 1988; Laland Myint, 1996; Ranis, 1991; Sachs and Warner, 1995, 1997, 1999; Ayadi, 2005 and Olomola and Adejumo, 2006). On the other hand were studies that documented positive relationship between resource abundance and economic performance (See Farzanegan and Markwardt, 2009; Akpan, 2009; Berument and Ceylan, 2010; Felix and Fatukasis, 2012; Ogbonna, 2012; and Hamdi and Sbia, 2013). Several arguments have been raised against the empirical studies that supported the resource curse theory and the Dutch Disease hypothesis. One of the arguments against these past empirical studies is that the models employed suffered from omitted variable problem. Other important variables that can cause poor economic performance were not captured in their models. Other arguments were that past studies focused largely on correlation rather than causation and the dynamic relationship between economic performances.

However, a recent attempt to capture the dynamic relationship between natural resource (oil revenue) and economic growth was carried out by Hamdi and Sbia (2013) in a small oil rich economy of Bahrain. Similarly, limited studies were conducted in an oil rich country like Nigeria. Majority of the studies focused on oil revenue, industrial output, macroeconomic performance and economic growth (Ayadi, 2005; Olomola and Adejumo, 2006). These empirical studies overlooked the dynamic relationship between oil revenues and socioeconomic development outcomes in an oil rich and oil dependent economy like Nigeria. This study is a nascent and novel attempt to investigate the extent revenues derived from oil has trickled down to the household to cause improved living standard in Nigeria. To the best of our knowledge, this kind of study has not been conducted in modern literature with specific focus on a country that depends on oil revenues as the main source of financing government expenditure. Government revenues and spending in Nigeria is vulnerable to oil shocks and shocks that affect oil revenue often results in huge budget deficits. Given the critical importance of oil revenues in Africa's largest economy, this study investigated the dynamic relationship between oil revenues and socioeconomic development outcomes in Nigeria. This is the first attempt to capture the dynamic short run and long run relationship between oil revenues and socioeconomic development outcomes in an oil dependent country in modern literature. To reach this goal, this study employed the autoregressive distributed lag model (ARDL) techniques. The results indicated that there is negative relationship between oil revenues and socioeconomic development outcomes both in the short run and the long run. The results lend credence to the plausibility of the Dutch disease syndrome and resource curse hypothesis in the Nigerian case.

The remainder of the paper is organised as follows: Section two provides the theoretical background and review of empirical studies. Section three presents the econometric methodology. Section four provides the results while section five concludes.

## II Literature Review

The theoretical linkages for oil revenue management have been discussed largely under two basic propositions namely; 'Dutch Disease' phenomenon or the resource curse or volatility effect of depending too much on the export proceeds of its natural resources and rent-seeking or the rentier state theory. Beginning with the paradox of plenty theory, developing nations who are naturally endowed with resources, fail to achieve inter-generational growth. The welfare of the future generation are often compromised by the present generation on the altar of mismanagement and poor diversification and/or mono-cultural nature with which the economy is held. Although, the gift of nature resources endowment is not really the problem, it is the prevalent poor institutional framework that seeks to promote rent-seeking. In contrast to simple logic, the revenue from oil – as a natural endowment seeks to impede growth and results in serious economic lopsidedness which further creates a gulf between the rich and the poor. It promotes corruption which leads to structural failure of the economy while policy makers become autocratic and highly regimented. Planning has short-terminism orientations and non-far-reaching for the good of the oligarchic selected few.

Generally, the volatile pattern with which oil revenue is generated often distorts basic macroeconomic fundamentals and also disrupts trade relations. When this is coupled with poor diversification of the economy, it breeds vested interest and promotes economic misalignments. Usually, the absence of absorptive capacity and the prevalence of poor economic management are the albatross of revenue windfalls as the dwindling oil deposits and reservoir are not compensated for. The concept of resource curse coupled with its solutions; is multidimensional. It entails transparent governance, testable economic management, and adequate public administration (Hammond, 2011). Within this fulcrum of macroeconomic distortions, the Dutch-disease syndrome becomes well situated. Specifically, reckless spending of excess oil revenues makes interest rate in the domestic economy to reduce drastically; thus making competition for domestic resources to become stiffer where initiatives becomes less attractive and negatively affecting the non-oil sectors of the economy. This further propels corruption; wastages and ineffectiveness (see Auty 1990; Gelb and Turner, 2007).

On the other hand, the concept of the rentier state – which was predicated on the empirical findings in the Middle Eastern countries but with special reference to the pre-revolutionary era in Iran – was classified as a state with economic rents constituting, at least, 40 percent of government revenue. This excess is likened to supernormal profits of a monopolist in a typical imperfect market structure. According to Black (2007), although this theory, originates from the Middle Eastern countries, its hypothesis seems universally applicable. With extension from Beblawi and Luciani (1987), Mahdavy (1971) posited that the two main vocal consequence of dependences on economic rents are economic inefficiency which consequently obstruct development outcomes (Beck 2007). Concerning the political effects, the theory of rentier state presupposes that (oil) rents have a stabilizing effect on authoritarian rule (Mahdavy, 1971; Beblawi/Luciani, 1987; Ross, 2001). The oil-windfall-rent nexus was couched in the following causal mechanisms: Foremost, oil rent creates cartel and builds nepotism and favouritism which later hinders the institutionalization of democratic principles and initiatives, thus denying the society of equitable and egalitarian concepts. Besides, imposition of taxation on the citizens is over-ruled and this may lead to political apathy and/or poor participation on the part of the citizens.

Generally, the empirical investigations into the relationship between oil revenue management and development outcomes appear either latent or/and recent. However, Ayadi (2005) employed annual data in the investigation of the relationship between oil price changes and economic development in Nigeria with specific focus on industrial production. The study found insignificant indirect relationship between oil price changes and industrial production in Nigeria. Similar study was conducted by Olomola and Adejumo (2006) in their investigation of the effects of oil price shocks on output, inflation, real exchange rate and money supply in Nigeria. The results indicated that oil price shocks have significant impact on money in the long run. Both the study of Ayadi (2005) and that of Olomola and Adejumo (2006) found support for the Dutch disease syndrome in Nigeria. In the same vein, Akpan

(2009) established the plausibility of the Dutch disease syndrome in Nigeria. The author examined the asymmetric effects of oil price shocks on the Nigerian economy and found strong positive relationship between oil price changes and real government expenditures. Oil price shocks were found to have marginal effects on industrial output. But they employed quarterly data from 1970 to 2003.

Breisinger, Diao, Schweikert and Wiebelt (2009) empirically investigated the management of future oil revenues in Ghana. Predicated on the resource curse theory which anchored the short-run 'Dutch disease' effects of public expenditure, the authors employed a dynamic computable general equilibrium (DCGE) model, within the neoclassical general equilibrium theory, to examine the possible lasting effects of alternative revenue-allocation options and the supply-side consequence of royalty-financed public investment. The model captured the positive effect of an oil fund for macro stability in the long run, but the authors cautioned that this effect might be underestimated as establishing an oil fund implied the accumulation of assets, which could be used in the post oil era after 2027. These findings aligned with the study of Andre (2009) who employed analytical procedures through scanty descriptive and trend analyses to discuss the root cause of "resource curse" paradox in the management of Angola oil revenue.

Four years after, Ackah, Mociah, Morrissey and Osei (2013) investigated the case of Ghana on managing the macro-economy in an oil rich country. The paper provided an empirical analysis to test the Dutch disease theory over the period 1970-2011 where they employed the Cointegrated Vector Auto regression (CVAR) estimation within a fiscal response framework proposed by Juselius *et al.* (2011). The study essentially found that oil revenues could impact on the macro economy through three main ways. First, it has the potential to increase overall economic growth within the economy, as the revenue supports public investment. Second, oil revenues can help government to become fiscally more responsible. According to the authors, this was because in the past both foreign aid and tax revenue have encouraged a relative switch to capital spending compared to recurrent spending in Ghana. Finally, the paper found that oil revenues would impact positively on macroeconomic variables such as interest rates and inflation by reducing domestic borrowing. The paper concluded by noting that even though there were potential macroeconomic benefits to be obtained from oil revenues, there was no guarantee that these will be realised for Ghana. It, in general, depends on how similar the incentive structure with respect to foreign aid was for oil revenues.

Besides, Essia (2010) investigated on the resource curse theory and conducted a study into oil revenue and development performance in Nigeria. The author employed descriptive statistics to make comparative analyses between Nigeria and Norway. Many indicators of human development such as life expectancy , expected years of school leaving, average years at school, GNI per capita (2005 PPP$) and Human Development Index value with a comparative analysis between Nigeria and Norway. Also, corruption perception index and index of economic freedom were used and it was found that the struggle to "capture' oil revenue has promoted and sustained conflicts, sundry corrupt practices, and sectionalism that are unhealthy for national development. Access to easy money hurts innovative activities because the society has not put itself under any kind of pressure to produce, and the genuine innovators rarely have established lobbies and connections to impress their desires and expectations on the Government. Rent seeking activities become much easier to engage in and people's talents and efforts are laundered on them instead of productive investments. Moreover, corruption creates inequalities in opportunities and, along with the shrinking of opportunities due to retardation of production, heightens the struggle for more opportunities within the rich class and frustration among the poor.

Also, Edame and Efefiom (2013) conducted trend analyses of oil earnings and oil exports in Nigeria. They enthused that the oil sector has generated huge revenue to the Nigerian economy but the prevalence economic situation rather than showcase the benefits from this economic driver to Nigeria, depicted a divergence view about the economy. The study attempted to descriptively analyse the trends of oil revenue and oil export as it related to other potential economic variables required for the transformation of the Nigeria economy. The authors made comparative analyses of how such chosen variables behave before and after democracy to determine the period where oil revenue management impacted positively on the economy as a means of enhancing the standard of living of the ordinary Nigerians, their health status, infrastructural facilities like power, etc. The authors adopted a descriptive approach to explore the trend correlation between oil revenue, and some key potential economic growth drivers for the period covering 1970-2010. The trend analysis was segmented into two periods of pre- and post-democratic era in Nigeria in relation to the existing level of poverty in the country.

The graphical trend revealed that as oil export increased, oil revenue also increased living real GDP while agricultural output, non-oil export, manufacturing output and poverty level remained unaffected. The results showed that the huge revenue from oil has no meaningful effect on the living standard of an average Nigeria. The authors attributed the absence of interaction between oil export as well as revenue and the growth outcomes to problem of rent-seeking as well as high level of corruption, while it was also found that the trends of poverty remained prevalent in the country despite the huge revenue from oil export in the country. In submission, poverty was found horizontal and dominant in the country; attaining comfortable position, the level of oil export was found to maintain continuous increase with its associated negative environmental impacts to the economy. Finally, oil revenue was found to steadily increase while real GDP increased slowly when compared with the level of increase witnessed within the years of democracy and the pre-democratic era; especially in the 1970s with Agriculture as the mainstay of the economy and main source of revenue, socio-economic indicators seemed found better.

Nonetheless, Ushie, Adeniyi and Akongwale (2012) examined oil revenues, institutions and macroeconomic performance in Nigeria within an elaborate econometric analysis which tested the sensitivity of a number of key macroeconomic indicators to oil revenue shocks using the Impulse Response Functions (IRF) and Variance Decomposition techniques within a Vector Autoregression framework. The sensitivity analysis supported the general view that fluctuations in oil revenues have resulted in distortion of macroeconomic fundamentals in Nigeria. This finding lends credence to the popularly held view that government spending was highly pro-cyclical during windfall episodes.

Furthermore, Bayramov, McNaught and Rashidov (2011) examined the case of Azerbaijan on managing resource revenues in oil-rich CAREC countries. The study aimed to describe the recent and current management of oil revenues in Azerbaijan and provide a summary of international practices of natural resource management, and to make policy recommendations for the sustainability of oil revenues. The authors employed scenario analyses to test some set of hypotheses coupled with the use of descriptive cum trend analyses. The theoretical framework is the Permanent Income Hypothesis (PIH) postulated by Friedman (1957) with both the qualitative and quantitative approach employed. The results obtained suggested that the greatest engine of growth remained the oil and gas sectors and that the non-oil economy was mainly driven by State expenditures. Conclusively, it was confirmed that there existed enormous efficiency gap in the management of oil revenue in Azerbaijan and that improvements were needed in the accumulation, savings and spending process of oil revenue so that short-term natural resources can better serve the long-term development needs of the nation; i.e. sustainable.

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Also, Felix and Fatukasi (2012) investigated the influence of oil export revenue on the growth of the economy. The authors employed an Error Correction Model (ECM) and examined the influence of oil export revenue on economic growth in Nigeria between the period 1975 and 2009, given concentration to both short-term and long-term effects with the use of annualized time series data. The empirical analysis indicated that oil export revenue has a significant positive outcome on economic growth both in the short and long-run. The study extensively concentrated on the trend analysis of prices, export (barrels) and revenue from oil industry. The findings established that foreign exchange fluctuations are the primary determinant of earnings in the world crude oil prices. More so, Charles, Eric, Oliver and Robert (2013) conducted a research on management of macro economy in countries with abundant oil; for example Ghana. The scope of study ranged between 1970 and 2011 with the prime objective of assessing the relationship between fiscal variables; including foreign aid. The investigation was undertaken with CSAR estimations within a fiscal response framework. The result showed that oil revenue has potential to impact positively on macroeconomic performance.

Ogbonna (2012) examined the impact of petroleum income on the Nigerian economy. The study used time series data over the period of 2000- 2009. The technique used is simple regression model and statistical package for social sciences (Descriptive techniques). The finding showed that petroleum income has a positive and significant impact on the Nigerian economy. Recently, Abdul-Rahamoh, Fasina and Adegbite (2013) conducted an analysis on the effect of petroleum profit tax on the Nigerian Economy. Secondary data were obtained from the Central Bank of Nigeria statistical bulletin for the period of 40years, the technique employed was regression analysis and correlation. The result showed that petroleum and its income have a positive relationship with economic growth. More so, Vennesa, Oluwatosin and Sabastine (2012) conducted a research on oil revenue, institutions and macroeconomic performance in Nigeria. The technique used is Vector Autoregressive framework (VAR). The data used were Time series on key macroeconomic indicators for the Nigerian economy over the period of 1970 – 2008. The result showed that the fiscal performance in Nigeria during oil windfalls has been driven by domestic institution dynamics.

Hamdi and Sbia (2013) represented one of the most current researches that investigated the dynamic relationship between oil revenues, government spending and economic growth in an oil dependent economy(Bahrain) between 1960-2010.They employed the multivariate cointegration analysis and error correction model. They documented positive long run relationship between oil revenues, public expenditures and economic growth in Bahrain. The study noted that oil revenues are channels to finance public expenditure which are in turn employed to generate economic growth. They observed that the Bahrain economy depend largely on oil revenue to finance her expenditure therefore they suggested the need for more diversification of the economy despite current diversification efforts in the country.

The empirical review above indicated that studies have focused largely on the economic impact of oil revenues in different oil dependent countries using different econometric methodology. But none of these past studies has employed the autoregressive distributed lag model to examine the dynamic relationship between oil revenue and socioeconomic development outcomes in Nigeria. This remains the important gap filled by this study.

## III Data and methodology

### 3.1 Data

The data frequency is annually, and the observations span from 1970 to 2012 for the following eight variables: GDP = Gross domestic product; ORVN= Oil revenue; WP = World price; NI= National Income; IM= Import; INF= Inflation; EXCHR= Exchange Rate; GCF = Gross capital formation. For the indicators of development outcomes, we modified the index developed by Mehrotra (2006) to suit the peculiarity of the Nigerian economy and its developmental pace. Mehrotra (2006) index consisted of different indicators of development bordering on health, infrastructure, environment and education. He used air passenger carried per capita, railways passenger of 1000km per annum and telephone main lines in use of 100 per inhabitants as the variables for infrastructure; GDP per unit of energy use of PPP US$ per kg of oil equivalent and carbondioxide emission of kg per 1995 US$ GDP as environmental variables; primary and tertiary school enrolment as educational variables while infant mortality rate (per 1,000 live births) and immunization DPT (percentage of children under 12 months) as variables for the levels of public health. Mehrotra (2006) applied weight to these variables with respect to their importance in the cross-country set employed to obtain an index given as;

$$index_{i,j} = \frac{(\text{var}\, i, j - \min j)}{(\max_j - \min_j)} \quad \text{.........................................................} \quad (1)$$

And a socio-economic development index (SEDI) given as;

$$SEDI_i = \frac{\sum_{j=1}^{J} index_{i,j}}{j} \quad \text{.........................................................} \quad (2)$$

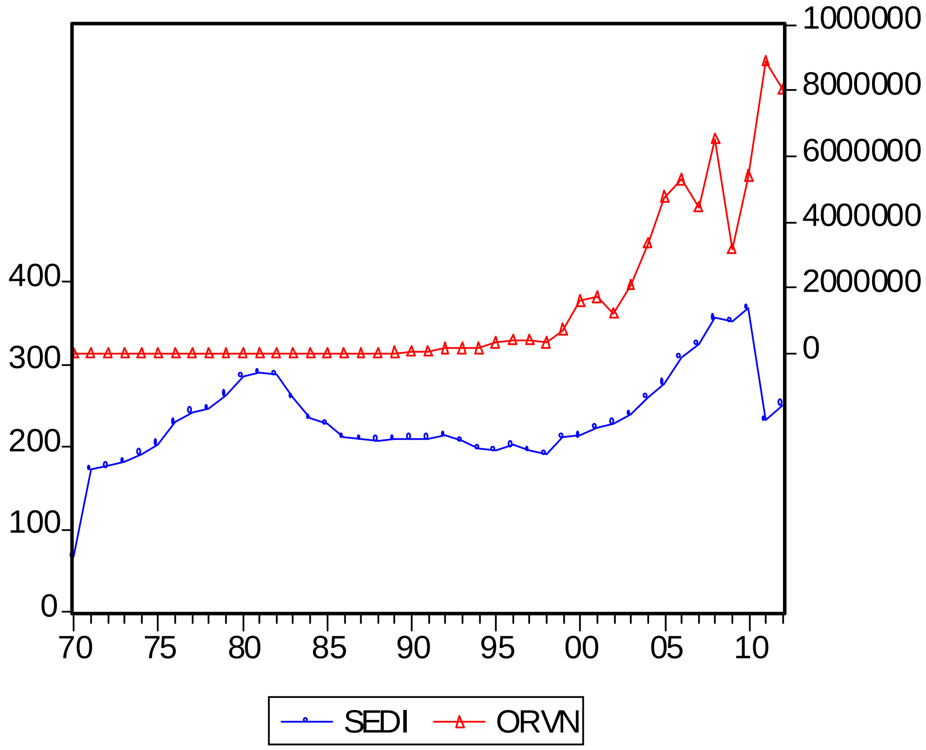
We modified this composite index into an indicator of development outcomes after considering the fact that our study is a time-series study; unlike the cross-country study of Mehrotra (2006). Also, our choice of variables for the indicators of socio-economic development of health, infrastructure, environment and education is strictly based on the pace of development in Nigeria. Primary and secondary school enrolment are the variables of education indicator; infant mortality rate and life expectancy are variables of public health. Since Nigeria is said to still be more than 70 percent rural (NBS, 2012), we foreclose on the infrastructural indicator as a component of development outcomes in Nigeria. Rather than use environment as an indicator, we used energy consumption variable as a variable that is more far-reaching than the former. Also, we considered economic indicator as a strong factor in measuring economic wellbeing of Nigerians and we used the Gross National Income per capita. Instead of using weight within a cross-sectional framework, we obtained the average values of the variables.

The socio-economic development indicator (SEDI) is therefore represented as;

$$SEDI_i = \frac{\sum_{n=1}^{N} \text{var}}{N} \quad \text{.........................................................} \quad (3)$$

The equation above suggests that all the variables (from the first; n, to the last, N) are summed together and divided by the total number of variables included as representative of the indicators.Data for this study were sourced from the abstracts of statistics of the Nigerian Bureau of Statistics, Central Bank Statistical Bulletin and the World Bank Development Indicators.

**Figure 1: Trend of Oil Revenue and Development Outcomes in Nigeria (1970-2012)**




**Source: Author's computation**

Figure 1 illustrates the trajectory of oil revenues and socioeconomic development during the period of our study. The trend of oil revenue and development outcomes in Nigeria indicates that oil revenue in Nigeria was relatively stable for the periods 1970-1986 but since the structural adjustment programme of 1986, there has been a leap in the amount of revenue generated from oil and petroleum related products. More striking is the period from 1998 where the amount of revenue generated has been increasing more substantially (see figure 1 above). For these periods, the socio-economic development in Nigeria has remained cyclical throughout; especially since 1983. The years 1984-1997 remained the period in which developmental outcomes was at its lowest ebb but continue increasing since 1999; with a little decline for the periods 2011-2012. The implication of this trend is that oil revenue generation and developmental outcomes have been tied to regime and structural changes in Nigeria.

### 3.2 Methodology

Our empirical investigation has two objectives. The first is to examine the empirical long run relationship between oil revenues and socio-economic development outcomes. The second is to capture the short run dynamic relationship between oil revenues and socio-economic development outcomes in Nigeria. We sought to undertake our empirical analysis of oil revenue management and development outcomes in Nigeria by formulating an Auto-Regressive Distributed Lag (ARDL) model. The ARDL model – as a dynamic model – has a rich theoretical documentation in the studies of Enders (1995); Johnston and Dinardo (2009) and Charemza and Deadman (1997). This technique has many merits over the Engle-Granger Cointegration and it is even more efficient with more valid estimates. This technique is path-dependent and it traces the horizon of impacts which could be immediate, short-run or of long run responses.

The attractions of the ARDL technique over the conventional multivariate cointegration are well documented in the study of Mah (2002) and following Johnston and Dinardo (2009), we can represent the general form, thus;

$$A(L)y_t = \alpha + \beta(L)X \qquad \text{(4)}$$

In the context of our study, we obtained a compact form of the ARDL form, given as;

$$Y_t = \beta_0 + \beta_1 Y_{t-1} + \beta_2 \sum_{i=1}^{N} X_{t-i} + \beta_3 \sum_{i=1}^{N} Z_{t-1} + \varepsilon_t \qquad \text{(5)}$$

The ARDL technique involves estimating the unrestricted error correction model. Through this model, the short-run effects and long-run equilibrium relationship can be obtained simultaneously. The re-paramatized ARDL model yields the short-run framework for Vector Error Correction Model (VECM) detailed in the equation below:

$$\Delta Y_t = \alpha_0 + \gamma(Y_{t-1} - X_{t-1}) + \lambda_1 \Delta X_t + \lambda_2 \Delta X_{t-1} + \mu_t \qquad \text{(6)}$$

In summary, the Error Correction Model (ECM) concludes that the movement in the dependent is accounted for by the current and previous changes in the vectors of the explanatory variables and the lag of the dependent variables too. Essentially, the major limitation of the Autoregressive Distributed Lag Models is that the path-dependent nature of the technique might yield confusing and/or contradictory signs of negative and positive impacts of the explanatory variables on the dependent variable across the various lag periods.

Expanding the $Z_{t-1}$ for equation (4) above so as to include the specific as well as explanatory control variables; we have:

$$\Delta SEDI_t = \alpha_0 + \sum_{n=1}^{N}\alpha j\Delta SEDI_{t-j} + \sum_{n=1}^{N}\sum_{n=1}^{N}\rho j\Delta ORVN_{t-j} + \sum_{n=1}^{N}\rho j\Delta WP_{t-j} + \sum_{n=1}^{N}\rho j\Delta \mathrm{NI}_{t-j} + \sum_{n=1}^{N}\rho j\Delta GCF_{t-j} + \sum_{n=1}^{N}\rho j\Delta \mathrm{E}XCH_{t-j} + \sum_{n=1}^{N}\rho j\Delta \mathrm{IM}P_{t-j} + \varepsilon_t \quad \text{..........................................................(7)}$$

In order to remove the scale effects, all variables in volume form are deflated with GDP. The Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) are used to test for unit root so as to avoid the generation of spurious regression that arises from time series data analysis. Consequently, we adopted the Autoregressive Distributed Lag (ARDL); otherwise known as the Bound test (as our technique of analysis) to investigate both the long-run equilibrium condition and the long-run impact analyses. Thereafter, we obtained re-parameterization estimates of the model for the short-run situation. Prior to this, however, we used the Vector Autoregressive (VAR) to ascertain the optimum lag length for the model.

## IV Empirical Results

### 4.1 Unit root tests

The unit root test is conducted to ascertain the stationarity of the variables in a model. The time series behavior of the variable is largely determined by own mean value in the preceding period. The unit root is to assess the possibility of co integration in the data to ensure consistency in the subsequent stationary modeling. This study used the unit root test which is a necessary condition for cointegration analysis. After the stationarity of the series as well as the variables are guaranteed, it is essential to check for the long run relationship in order to determine the order of integration of the variables. In order to prevent spurious results, the study used two unit root tests namely Augmented Dickey –Fuller (ADF) developed by Dickey and Fuller in (1981) test and Phillip Peron (PP) test developed by Phillip and Perron (1988). Testing for the stationarity or non-stationarity of the variables, both results of Augmented Dickey-Fuller (ADF) test and Phillip-Peron (PP) test are shown below:

**Table 1:** Augmented Dickey Fuller (ADF) Test Result

| Variables | At levels: I(0) | At 1st difference: I(1) | Order of integration |
|---|---|---|---|
| SEDI | -2.2612 | -2.992** | I (1) |
| ORVN | -1.826397 | -6.449551* | I (1) |
| EXCHR | 0.476957* | -5.927608 | I (0) |
| GCF | 2.960704* | 0.888798 | I(0) |
| IM | 11.03578* | 4.584268 | I (0) |
| INF | -3.248039** | -6.614381 | I(0) |
| NI | -3.142690** | -2.313665 | I(0) |
| WP | -2.963972** | -0.656032 | I (0) |

**Source:** Authors' computation (2015).
**Note:** **, ** and *** denotes rejection of the null hypothesis at 1%, 5%, and 10% respectively based on Mackinnon critical values.*

The above ADF unit-root results showed that both the socio-economic development indicator (proxied as SEDI), the oil revenue (proxied as ORVN) only became stationary when differenced at order 1 while the rate of exchange (proxied as EXCHR), the gross fixed capital formation (proxied as GCF), the rate of inflation (proxied as INF), the world price (proxied as WP) and the national income (proxied as NI) were all respectively stationary at levels. In effect, this suggested that the variables included in our model attain stationarity at different order of integration. While some of these variables (those that attain stationarity at levels) can be employed for empirical estimations, analyses and conclusions without making nonsensical or spurious conclusion; others (those differenced at order 1) required differencing before they could be used for empirical analyses. Given that the Augmented Dickey Fuller (ADF) test employed a parametric approach to deal with the serial correlation evident in errors of the original specification by Dickey and Fuller (1981); we employed a more robust and reliable test of Phillip and Perron (1979). The PP test, which is detailed in Table 3 below, is a non-parametric test that also seeks to correct the serial correlation of residuals.

**Table 2:** Phillip Perron test result

| Variables | At levels: I(0) | At 1st difference: I(1) | Order of integration |
|---|---|---|---|
| SEDI | -3.4163** | - | I (0) |
| ORVN | 0.188971 | -8.139939* | I (1) |
| EXCHR | 0.447781 | -5.926399* | I (1) |
| GCF | 10.58300* | 10.58300 | I (0) |
| IM | 2.781872*** | -4.930360 | I (0) |
| INF | -3.080659** | -3.600987 | I (0) |
| NI | -3.026743** | -8.407298 | I (0) |
| WP | 6.151750* | -5.3839977 | 1 (0) |

**Source:** Authors' computation (2015).
**Note:** **, ** and *** denotes rejection of the null hypothesis at 1%, 5%, and 10% respectively based on Mackinnon critical values.*

Although a little difference exists for the PP test; thus, confirming the reliability of non-parametric test over the parametric test; majority of the series including the GCF, IM, INF, NI WP and now the SEDI were still stationary at levels while the oil revenue (proxied as ORVN) and now the exchange rate (proxied as EXCHR) have to be differenced at order 1 before becoming stationary. On the whole, it still suggests that the variables are of mix stationarity levels. But, the mix of both level and differenced stationarity trends lend credence to the use of autoregressive distributed lag (ARDL) technique for our empirical estimations. It is this approach of obtaining the long-run equilibrium conditions that can accommodate the different order of stationarity of economic series within a model.

Furthermore, we sought for a more reliable level of stationarity for these variables through the use of stationarity test of KPSS as against the unit root tests of both the ADF and PP. While both the unit-root tests and the stationarity test aimed at ensuring the stationarity of the series; the two class of tests approached this objective in different dimension. The unit-root tests have null hypotheses that the series is unit-root while the stationarity test has a null hypothesis that the series is stationary. As such, we employed this stationarity test of KPSS (see Table 3 below) in order to concretize the stationarity and otherwise of our series and at what levels.

**Table 3:** KPSS Stationarity Test

| Variables | At levels | At 1st Difference | Order of Integration |
|---|---|---|---|
| SEDI | 0.3185*** | - | I(0) |
| ORVN | 0.6192** | - | I(0) |
| EXCHR | 0.6541** | - | I(0) |
| GCF | 0.5993** | - | I(0) |
| IM | 0.5920** | - | I(0) |
| INF | 0.1433** | - | I(0) |
| NI | 0.5326** | - | I(0) |
| WP | 0.5992** | - | I(0) |

**Source:** Authors' computation (2015).

**Note:** **, ** and *** denotes rejection of the null hypothesis at 1%, 5%, and 10% respectively based on Mackinnon critical values.*

As detailed in Table 4 above; the stationarity test showed that the variables were stationary at levels but at different significance level. The variable of SEDI is stationary only at 10 percent while all other variables were stationary at the 5 percent level of significance.

### *4.2 Model Estimations*

For the Autoregressive Distributed Lag (ARDL) Bound Test, the first step is to ascertain the extent of lagged dependent and independent variables to be included into the model specified. We used the Vector Autoregression (VAR) framework to assume all the variables as potentially endogenous and conduct lag selection test in order to determine the appropriate lag length for the model under consideration (see Table 4 below).

**Table 4:** Lag Selection Criteria

| Lag | LR | FPE | AIC | SC | HQ |
|---|---|---|---|---|---|
| 2 | 150.342* | 7.39e+59* | 158.17* | 164.801* | 160.009* |
| 1 | 354.53 | 7.72e+64 | 171.843 | 175.353 | 172.816 |
| 0 | NA | 1.48e+72 | 188.88 | 189.271 | 188.99 |

**Source:** Authors' computation (2015).

**Note:** *indicates lag order selection by the criterion. LR: Sequential Modified LR test statistic; FPE: Final Predictor Error; AIC: Akaike Information Criterion; SC: Schwarz Information Criterion; HQ: Hannan-Quinn Information Criterion.

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As detailed in Table 4, it is obvious that the appropriate lag length that will not make the estimates from the model to be affected by the degree of freedom is 2. The lag length of 2 is the unanimous choice indicated by the various selection criteria of the Aikaike Information Criteria (AIC), the Schwarz Information Criterion (SC) and Hannan-Quinn (HQ) information criterion. More importantly, the modified likelihood (modified LR) ratio also indicated 2 as the appropriate lag length. The implication is that the data points and, by extension, the structural form of the model can only allow for maximally lagged length of 2 for both dependent and independent variables in the model.

### 4.2.1 ARDL Long-Run Equilibrium Condition Estimates

Sequel to the choice lag length of 2, we conducted the long-run equilibrium condition for our series. Uniquely, OLS regression is performed on the ARDL framework with lag 2 for both the lagged dependent and independent variables to serve as our explanatory variables altogether. The expectation is that the F-statistics obtained should be greater than the upper bound critical values of Pesaran et. al., (2001) for the long-run cointegration of the Bound test to be confirmed but if lesser than the lower bound, no cointegration test exists but if it lies between the lower and upper bound, the issue of cointegration is still inconclusive.

**Table 5:** F-statistics for Testing the Existence of Long-Run Equilibrium Condition

| | |
|---|---|
| Computed F-statistics<br>Prob. (F-statistics) | 863.79*<br>(0.000) |
| Bound Testing Critical Values at 5% | Upper Bound: 4.01<br>Lower Bound: 2.86 |

**Source: Pesaran et. al., (2001)** * denotes rejecting the null hypothesis of no cointegration at 5 percent level. The range of the critical values at 1 percent and 10 percent levels are 5.06; 3.76 and 3.52; 2.45 respectively.

The computed F-statistics of 863.79 greater than the upper bound of 5.06 suggests that long-run equilibrium condition exists among the variables such that as the socio-economic development indicator (proxied as SEDI), the oil revenue (proxied as ORVN), world price (proxied as WP), the national income (proxied as NI), the gross fixed capital formation (proxied as GCF), exchange rate (proxied as EXCHR), the import (proxied as IM) and the inflation rate (proxied as INF) have equilibrium condition that keeps them together into the long-run situations.

**Table 6:** ARDL Bound Test (Long Run) and ARDL-ECM (Short-Run) Estimates

| **ARDL Bounds Test: Long-Run Impact Analyses ARDL Optimal Ordering: (1, 1, 0, 1, 0, 1, 0, 1)** | | | | **ARDL-ECM (Short-Run) Estimates ARDL Optimal Ordering: (1, 1, 1, 1, 0, 1, 1, 1)** | | | |
|---|---|---|---|---|---|---|---|
| **Variable** | **Coefficient** | **T-Stat** | **Prob.** | **Variable** | **Coefficient** | **T-Stat.** | **Prob.** |
| C | -111.61 | -2.866 | 0.0095 | C | -151.665 | -3.492 | 0.003 |
| SEDI(-1) | 0.937 | 5.419 | 0.000 | SEDI(-1) | 1.841 | 5.032 | 0.0001 |
| ORVN | -2.54e-06 | -0.22 | 0.828 | ORVN | 1.61e-05 | 1.398 | 0.179 |
| ORVN(-1) | -9.74e-06 | -1.395 | 0.178 | ORVN(-1) | -7.38e-06 | -0.790 | 0.440 |
| WP | -0.0052 | -0.377 | 0.710 | WP | -0.0205 | -1.872 | 0.0776 |
| NI(-1) | 4.28e-10 | 3.090 | 0.0058 | WP(-1) | 0.0123 | 1.0776 | 0.295 |
| GCF | 8.03e-06 | 1.737 | 0.098 | NI(-1) | -2.32e-10 | -1.165 | 0.259 |
| EXCHR(-1) | 0.233 | 1.250 | 0.226 | GCF | 1.89e-05 | 5.650 | 0.000 |
| IM | -2.92e-05 | -2.406 | 0.0259 | EXCHR(-1) | 0.7994 | 3.073 | 0.007 |
| INF(-1) | -0.0613 | -0.272 | 0.788 | IM(-1) | -1.33e-05 | -1.042 | 0.311 |
| | | | | INF(-1) | 0.639 | 2.37 | 0.029 |
| | | | | ECM(-1) | -0.979 | -2.893 | 0.01 |
| $R^2$ | 0.90 | | | $R^2$ | 0.972 | | |
| Adj. $R^2$ | 0.86 | | | Adj. $R^2$ | 0.96 | | |
| DW Stat. | 1.73 | | | DW Stat. | 2.26 | | |
| F-statistic ratio | 21.11 | | | F-statistic ratio | 57.03 | | |
| Prob.(F-statistics) | 0.000 | | | Prob.(F-statistics) | 0.000 | | |

**Source:** E-Views Output; Note: SEDI is the Dependent Variable for both Models

### 4.3 Discussion of Findings

The estimates detailed in Table 6 above are for the long-run impacts and the short-run conditions of the model. In the long-run, the one-year lagged socio-economic development in Nigeria impacted significantly and positively on its present level with 0.937 coefficients and absolute 5.42 T-statistics value. Although insignificant, the oil revenue in Nigeria has negatively impacted on the socio-economic development in Nigeria in the long-run situation with -2.54e-06 coefficient and -9.74e-06 coefficients for lags 1 and 2 respectively. Also, the import (proxied as IM), world price (proxied as WP) and the rate of inflation (proxied as INF) impacted negatively on socio-economic development in Nigeria with -2.92e-05, -0.0052 and -0.0613 coefficients and absolute probability values of 0.0259, 0.71 and 0.788 respectively. The implication is that only the level of import negatively and significantly affected the level of socio-economic development in the long-run in Nigeria while the price level and world prices are insignificant but negative to socio-economic development. However, the national income (proxied as IN), the gross fixed capital formation (proxied as GCF) and the exchange rate (proxied as EXCHR) positively impacted on the socio-economic development in Nigeria for the long-run situation with 4.28e-10, 8.03e-06 and 0.233 coefficients with probability values 0.006, 0.098 and 0.226. This implied that the level of capital formation as well as investment and the external stability of the Nigerian economy have been positively related to its development outcomes. Also, the level of national income has been development-enhancing. On the whole, the adjusted coefficient of determination is 0.86 for the long-run situation. This suggests that the explanatory variables included in the model substantially explain for the movement in the explained or dependent variable. As such, the model is confirmed to be free of specification bias. Durbin Watson statistics of 1.73 denotes that there is no first order serial correlation in the specified model while the F-statistics ratio of 21.11 indicates that the overall model is fit.

In the short-run, the gross fixed capital formation and the external stability (that is, exchange rate) are also significantly positively related to development outcomes in Nigeria with 0.799 and 1.89e-05 coefficients of 0.007 and 0.000 probability values respectively. More so, the internal stability as well as the general price level (indicated as the rate of inflation) is also positively related to development outcomes with 0.639 coefficients and 0.029 probability value. However, the current oil revenue is positively but insignificantly related to development outcomes in the short-run with 1.61e-05 coefficient and 0.179 probability value while the previous year amount of oil revenue impacted negatively on development outcomes with -

0.738 coefficient and 0.44 probability value. This implied that oil revenue is poorly managed and unsustainable in Nigeria. While the world price is negatively related to development outcomes, the one-year lagged world price level positively impacted on socio-economic development in Nigeria. The error correction estimates is properly signed and significant with -0.979 coefficients with absolute T-statistics value of 2.893. This indicated that development outcomes in Nigeria will be corrected and return back to equilibrium if affected by any shock to a spate of 97.9 percent annually. By implication, it will take barely a year for the development outcomes in Nigeria to return to equilibrium if affected by economic shocks. The adjusted coefficient of determination is 0.96 for the short-run situation. The explanatory variables largely accounted for the movement in the dependent variable to a spate of 96 percent while the remaining 4 percent is left to extraneous factors outside the focus of this study. The Durbin Watson statistics is 2.26; which indicates absence of serial correlation in the first order of the model while the F-statistics value of 57.03 suggested that the overall model is fit.

Theoretically, this study lents credence to the resource curse propositions where the proceeds as well as revenue from oil are found to impede development outcomes of Nigeria; as predicted. Essentially, this trend becomes disturbing as the effect of world prices; which should positively impact on development outcomes, has negative effects on socio-economic development. Ordinarily, an increase in world prices should result in more proceeds from oil exploration and sales. However, the poor management of these additional proceeds and absence of absorptive capacity, would lead to worsen the level of socio-economic conditions and further penalize the living standards of future generations of Nigerians. From the empirical standpoint, the findings from this study aligned with the results obtained from some existing literature that found that oil revenue impacts negatively on growth and socio-economic development outcomes of a nation. These studies include Edame and Efefion (2011); Essia (2010); Ushie, Adeniyi and Akongwale (2012) and Bayramov, McNaught & Rashidov (2011). On the other hand, our results of negative relationship between oil and socio-economic outcomes contradicted the findings obtained from the studies of Schweikert and Wiebelt (2009); Andre (2009); Berument and Ceylan (2010); Ackah, Mochiah, Morrisey & Osei (2013); Felix and Fatukas (2012); Eric, Oliver and Robert (2013); Ogbonna (2012) and Abdul-Rahamoh, Fasina & Adegbite (2013); and Hamdi and Sbia (2013). For these studies; oil revenue has impacted positively on growth and by extension may have impact on socioeconomic development outcomes.

## 4.4 Diagnostic Checks and Robustness Tests

Having obtained the estimates for both the long-run analyses and short-run situation, there is a need to ascertain the validity and reliability of these estimates by conducting series of diagnostic checks and robustness tests through the residual and stability tests (see Tables 7-9 and figure 2 below).

### 4.4.1 Residual Tests

**Table 7: RESET Test**

Ramsey RESET Test
Equation: UNTITLED
Specification: SEDI C SEDI(-1) ORVN(0 TO -1) WP(0 TO -1) NI(-1) GCF
EXCHR(-1) IM(-1) INF(-1) ECM(-1)
Omitted Variables: Squares of fitted values

| | Value | Df | Probability |
|---|---|---|---|
| t-statistic | 2.018092 | 17 | 0.0596 |
| F-statistic | 4.072697 | (1, 17) | 0.0596 |
| Likelihood ratio | 6.442946 | 1 | 0.0111 |

**Source:** E-views Output

The RESET test has the null hypothesis that there is omitted variable in the model (see Table 8) while the serial correlation test has the null hypothesis that there is no serial correlation in the estimates obtained (see Table 9). For the RESET test, the null hypothesis of omitted variables in the model is rejected at barely the 5 percent level while the null hypothesis of no serial correlation for the Serial Correlation test is accepted since the probability values obtained for both the F-statistics and observed R-squared are greater than 0.05.

**Table 8:** Serial Correlation Test

| Breusch-Godfrey Serial Correlation LM Test: | | | |
|---|---|---|---|
| F-statistic | 0.311276 | Prob. F(2,16) | 0.7368 |
| Obs*R-squared | 1.123568 | Prob. Chi-Square(2) | 0.5702 |

**Source:** E-views Output

Also, the heteroscedasticity test has the null hypothesis that there is no heteroscedasticity in residual of the variables. This null hypothesis is also accepted at the 5 percent level as the F-statistics, observed R-squared and the scaled explained SS statistics all have probability values greater than 0.05 (see Table 10 below).

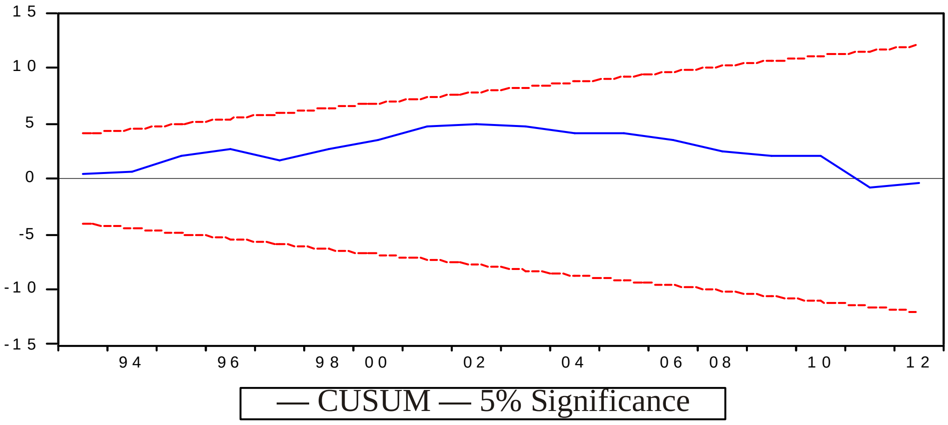
**Table 9:** Heteroscedasticity Test

| **Heteroskedasticity Test: Breusch-Pagan-Godfrey** | | | |
|---|---|---|---|
| F-statistic | 2.129213 | Prob. F(11,18) | 0.0746 |
| Obs*R-squared | 16.96324 | Prob. Chi-Square(11) | 0.1090 |
| Scaled explained SS | 3.606409 | Prob. Chi-Square(11) | 0.9801 |

**Source:** E-views Output

The stability test is stable as it lies between the two confidence intervals at the 5 percent levels (see Figure 2 below). As such the model is valid for empirical analyses and conclusion.

### 4.4.2 Figure 2: Stability Test




**Source:** E-views Output

## V Conclusion

This study examined oil revenue management and development outcomes in Nigeria for the time-series period spanning 1970-2012. We employed the autoregressive distributed lag (ARDL) model to obtain a long-run equilibrium condition among the variables included in our model. More so, we estimated for the long-run impacts on the model and through a re-parameterization process, we accounted for the short-run situation (ARDL-ECM) of the model. To establish the validity and reliability of the estimates obtained, we performed a set of diagnostics tests and robustness checks. The unit-root and stationarity tests performed lend credence to the use of the autoregressive distributed lag (ARDL) as the technique of analyses. The trend analyses of oil revenue and development outcomes did not just indicate that oil revenue has not been properly managed in Nigeria but also that revenue from oil in Nigeria has been strongly affected by regime changes and structural adjustments in the Nigerian economy.

Our empirical results showed that there is a long-run equilibrium condition among the variables and that the lagged developmental outcomes impacted positively on its current level. Importantly, we found that oil revenue has not been properly managed in Nigeria; either in the short-run or long-run situations. The amount of revenue generated from oil exportation, explorations and importations have not translated to better development outcomes in Nigeria for the period under review. Also, the level of capital formation and the external stability positively affect the socio-economic development in the country. However, the level of importation, global stability (as indicated by the world price) and the internal stability of the Nigeria economy have not been development-enhancing. All the diagnostic tests on these estimates were found robust and, thus, support the validity and reliability of the estimates for analyses and conclusion.

This study established that oil revenues in Nigeria have not been adequately managed. The results obtained also suggested that there is poor absorptive capacity as national income only impacted positively on development outcomes of Nigeria in the short-run situation but negatively impacted on long-run developmental outcomes. Expectedly, this made the socio-economic developmental outcomes of her citizens to worse off while gaps continue to widen between the rich and poor. As such, we, therefore, conclude that the oil revenue management in Nigeria lends credence to the Dutch disease syndrome and the resource curse hypothesis.

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# FIGHTING CORRUPTION AND HUMAN RIGHTS VIOLATIONS: THE NIGERIAN EXPERIENCE

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## Abstract

*Corruption is one of the greatest problems facing developing countries all over the world, especially in the sub-Saharan Africa. From the human rights' standpoint, it is evident that corruption seems to be one of the greatest impediments in fulfilling Nigerian state's obligation to protect and promote human rights. Recently, the phenomenon of corruption and fighting it has therefore become fashionable and turned to political campaign issue in Nigeria. Using descriptive analysis, it is contended that corruption is not only a stumbling block to the provision of human basic needs and the attainment of human rights, but also criminalising corruption and mainstreaming its fights are deservedly and worthwhile exercise because of its overwhelming salutary and long term effects which overshadow its unintended consequences of human rights violations. Regrettably, orchestrated campaign on waging war against corruption between 2003 and 2007 in Nigeria not only resulted in corrupting the corruption war, but also metamorphosed into a tool for human rights violations and abuses. However, anti-corruption campaign, though a worthwhile exercise, should be discouraged from using it to settle political scores in order not to make its criminalisation a ploy to abuse people's rights. Therefore, corruption fight by government should be handled within the context of rule of law, universal principles of human rights and not on whims of those at the helms of government affairs.*
***Keywords: Corruption, Anti-corruption strategies, Human rights, Violations of Human Rights***

## Introduction

The fight against corruption is at the heart of the fight for human rights. Corruption has always stimulated exploitation and injustice which characterise every society (Kariuki, 2013). Transparency International, Freedom House and Amnesty International frequently check the magnitude of corruption and respect for human rights respectively. The Seoul Findings (2003) also reiterated that large-scale corruption should be taken to be a crime against humanity. This is because, as for many around the world, it falls within same category of torture, genocide and other crimes against humanity which it is at variance with human dignity. The findings in their entirety denounced corruption as immoral, unjust and adverse to the ideals of human values as enshrined in the Universal Declaration of Human Rights, and corroborated the conviction that all human beings irrespective of race, status, religion and creed possess a basic human right to live in a corruption-free society (United Nations Information Service (UNIS), 2004).

As a corollary from the foregoing, there is general consensus in the literature that corruption propagates discrimination, deters the full attainment of socio-economic and cultural rights, and which leads to the violation of numerous civil and political rights (Gathii, 2009; Ngugi, 2010; Rose, 2011; Gbeye, 2012; Murray & Spalding, 2015). Hence, there is hardly any disagreement among scholars that a corrupt state creates a dangerous scenario in which the state quickly loses its authority and ability to govern for the common good (Kumar, 2002; and Kariuki, 2013). In fact, it has been argued elsewhere that when corruption reigns, basic human rights and liberties come under threat and social and economic contracts become unpredictable (Eigen, 2002; and Doreen, 2008).

However, what is not certain is whether the fight against corruption has been used by various regimes in sub-Sahara Africa as a stratagem to trample upon individuals' and collective rights in terms of denial of rights to privacy and property, illegal detention and other human rights violations. Hence, it is argued that in spite of the common trend in the anti-corruption literature and the related empirical studies viewing anti-corruption fight as a logical and legitimate undertaking, suffice to state here that the mode of engagement which largely affects the rights of persons accused of corruption has been neglected. Likewise, it is good to fight corruption because of its negative consequences, but at the same time going against the established procedures, rule of law and violating the rights of the accused person in the name of fighting corruption by the sub-Saharan African regimes to witch-hunt and oppress their political opponents is unacceptable and against all international human rights established standards.

To what extent then has the anti-corruption fight made it possible to deny people accused of corruption their rights? What are the available remedies for the persons accused of corruption and whose rights have been violated in the process of trials? This paper, using descriptive analysis, seeks to examine the extent of how anti-corruption fight affects rights of the accused and the available remedies if any, using Nigeria as a case study.

**Strategies and Models of Anti-Corruption Fight and Influence on Sub-Sahara Africa**

The term 'corruption' has universal appeal and it connotes same meaning almost everywhere and in all polity and cultures. Interestingly, in spite of the universal familiarity, the term "corruption" has remained elusive of generally acceptable and comprehensive definition. Incidentally, the United Nations Convention Against Corruption (UNCAC) which is acclaimed to be a rendezvous for the global agreement against corruption does not define corruption. It rather describes specific acts of corruption that should be taken into account in every jurisdiction covered by UNCAC. These include "bribery and embezzlement, but also money laundering, concealment and obstruction of justice" (CMI U4 Anti-Corruption Resource Centre, 2010). It was stated that the "authors of the Convention preferred to offer this broad spectrum of offences, rather than a definition of corruption, so as to allow greater flexibility for future implementations and interpretations" (Argandona, 2006).

In the same vein, the African Union Convention on Preventing and Combating Corruption (AUCPCC) does not give definition of corruption but clearly recognises particular acts of corruption and related offences which include passive bribery of foreign and international public officials; active and passive bribery in the private sector; trading in influence; embezzlement, misappropriation or other diversion of property in the private sector; and, illicit enrichment and the mandatory offences are active and passive bribery of national public officials; active bribery of foreign and international public officials (Rao, 2011).

The term "corruption" emanates from the Latin word corruption which means "moral decay, wicked behaviour, putridity or rottenness" (Milovanovic, 2001 quoted in International Council on Human Rights Policy (ICHRPC), 2009a). A more specific and narrow definition as used by international organisations such as Transparency International (TI) presents corruption as the abuse of office for private gain (TI, 2007). It has also been broadly defined as a synonym for all violations of moral norms, values, and integrity (Kolthoff, 2010).

Thus, the concept may connote tangible reference, as in "(t)he destruction or spoiling of anything, especially by disintegration or by decomposition with its attendant unwholesomeness and loathsomeness; putrefaction"; or moral significance, as in "moral deterioration or decay… (the) (p)erversion or destruction of integrity in the discharge of public duties by bribery or favour…"(Oxford English Dictionary, 1978, pp. 1024-1025 quoted in ICHRPC, 2009a). In most cases therefore, corruption is both conceptualised specifically or broadly depending on the purpose. That is why Johnston observes that: "In rapidly changing societies the limit between what is corrupt and what is not is not always clear and the term corruption may be applied broadly" (p.11).

Anti-corruption strategies and models are also diverse and vary as that of definitions of corruption. McCusker (2006) gives us an insight into what anti-corruption strategies should entail and they are basically three. First, there is *interventionism* strategy, where the authorities in-charge "wait for the corrupt action to occur and then intervene to capture and punish the offender" (McCusker, 2006:9). This approach stimulates retribution, rehabilitation and deterrence as remedies. However, there remain some lacunae as regards this strategy. These include the fact that the harm has already been done and cannot be reversed; also, as a matter of fact the greater part of the corrupt acts may remain unreported; while "the demand on finite resources will inevitably be infinite given the degree of supervision necessary to ensure that the deterrence effect operates" (McCusker, 2006, p.9).

Second, there is also *managerialism*. This deals with the discouragement of those individuals or agencies trying to involve in corrupt behaviour via establishment of suitable systems, procedures and protocols. Basically, managerialism promotes the decrease or eradication of opportunities such that those who normally gain from them are prevented from doing so. This approach is limited by the fact that individuals may not act in tandem with the fixed principles of managerialism (McCusker, 2006).

Lastly, there is *organisational integrity* which entails the incorporation of an "organisation's operational systems, corruption control strategies and ethical standards so that a norm of ethical behaviour is created" (McCusker, 2006, p.10). This approach assumes that non-conformity emanates from the organisation rather than the individuals of which it is comprised, "as if the breach of ethics involved in corrupt practices occurs almost by osmosis from the malfeasant organisation to the innocent individual within it" (McCusker, 2006, p.10).

Again, McCusker (2006) submits that focus on individuals in anti-corruption fights is likely to be unsuccessful than pursuing the organisational setting in which individuals operate.It has been established in many studies that corruption is responsible for the non-realisation of basic human needs as health care, education, infrastructure and clean water by converting to private pockets, resources meant for the purchase of public goods in sub-Saharan Africa (International Council on Human Rights Policy, 2009; Gebeye, 2012; Barr, & Finke, 2012; Adeleke & Olayanju, 2014). Corruption further hurts the poor excessively by diverting funds meant for development, weakening a government's ability to provide basic services, encouraging inequality and injustice, and discouraging domestic and foreign investment and aid (Kenya National Commission on Human Rights, 2005; Matei, 2011).

African society still suffers degradation because of the unrepentant nature and the willful misappropriation of its resources by the ruling class and this indirectly has continued to erode the rights of its people. Therefore, fighting corruption remains an important policy focus given its negative impacts generally on development. That is why it has remained an issue till date and continues to be in the front burner in academic discourse. It is therefore by no accident that the issue of fighting corruption has since moved from a pre-communal, national to regional preoccupation and more recently of global significance. In the moves that acknowledged this fact, the African Union (AU) and the United Nation (UN) adopted the African Union Convention on Preventing and Combating Corruption (AU Convention) in July, 2003 and the United Nations Convention Against Corruption (UNCAC) on 31October, 2003 respectively. Hence, the current worldwide unprecedented fight against corruption, especially in sub-Saharan Africa, is now intense.

In addition, information about corruption practices has now become available, as government have become increasingly unable to conceal evidence of corruption; the level of tolerance for corruption has declined; and the spread of economic reforms, seems to afford less fertile ground in which corruption can flourish as a result of globalisation, which is growing worldwide interdependence in terms of space compression and integration of people, due to high technological advances, which have produced a series of economic, political, cultural and environmental consequences (McCarthy, 2014).

## Human Rights: Meaning and Components

The concept of 'human rights' or 'fundamental human right' has existed from the time immemorial (Nwazuoke, 2006). He averres that it came into being via indisputable and innate qualities discovered in man that gave him these unique qualities as against its bestowment from any government or political authority. Human rights are generally recognised as inalienable fundamental rights to which a person is fundamentally entitled to absolutely because he or she is a human being (Kariuku, 2013).

Human rights are universal legal guarantees shielding individuals and groups against actions by governments that meddle with fundamental freedoms and human dignity. Human rights law compels governments to take some actions and prohibits them from embarking on others. The most frequently cited components of human rights include: internationally guaranteed, legally protected, focus on the dignity of the human being, protect individuals and group oblige States and States actors, cannot be waived or taken away, equal and interdependent, and universal (OHCHR, 2006).

Human rights are described in the Universal Declaration of Human Rights and in the various treaties (also called "covenants" and conventions"), declarations, guidelines and bodies of principles elaborated by the United Nations and by regional organisations. They include a broad range of guarantees, addressing virtually every aspect of human life and human interaction. The rights guaranteed to all human beings include: freedom of association, expression, assembly and movement; right to life; freedom from torture and cruel, inhuman or degrading treatment or punishment; freedom from arbitrary arrest or detention, right to a fair trial; freedom from discrimination; right to equal protection of the law; freedom from arbitrary interference with privacy, family, home or correspondence; right to asylum; right to nationality; freedom of thought, conscience and religion; right to vote and to take part in government; right to just and favourable working conditions; right to adequate food, shelter; clothing and social security; right to health; right to education; and right to participate in cultural life (OHCHR, 2002).

## Corruption and Human Rights: A Nexus

Many human rights scholars and activists, and almost everyone that craves for justice consider that the fight for human rights and the fight against corruption share a great deal of common ground. Corruption cannot be isolated from violation of human rights. That is why it has also been argued that a corrupt government which rejects both transparency and accountability is not likely to be a respecter of human rights (Gbeye, 2012).

There seems to be a consensus among experts that corruption undermines the principle of non-discrimination through discretion, favouritism and nepotism, and it undermines the rule of law when judges are bribed to issue judgments in favour of the highest bidders. Observations have been made, which indicate that where there is weak rule of law, low crime detection and high impunity levels for officials, corruption is rife and vice versa (ICHRP, 2009). It then follows that if there is consensus that corruption has a negative impact on human rights, one of the possibilities of fighting it is the enhancement of human rights. As corollary, the common principles such as good governance, transparency, accountability, citizen participation, rule of law, freedom of expression, right to information, separation of powers, equality and no discrimination, equity and fairness underpin the importance of human rights in the context of the fight against corruption (Matsheza, 2006).

**The Impact of Corruption Fight on Human Rights in Sub-Saharan Africa**
In recent years a number of international documents signed under the auspices of both the United Nations and regional organisations have recognised the negative effects of corruption on the protection of human rights and on development (UNIS, 2004; Lumumba, 2011). Human rights and corruption are inseparable and mutually dependent, and the costs of corrupt governance are numerous and touch on all human rights. In acknowledging the negative effects of corruption on any prey, the former United Nations Secretary General, Koffi Annan (2004) once posited that corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organised crime, terrorism and other threats to human security to flourish.

In countries like Nigeria, Ethiopia, Zambia and Kenya to mention but few, where corruption is pervasive in the rule-of-law system, both the implementation of existing legal frameworks and efforts to reform them are impeded by corrupt judges, lawyers, prosecutors, police officers, investigators and auditors (Ayodeji & Odukoya, 2014). Such practices compromise the rights to equality before the law and the rights to a fair trial and especially undermine the access of the disadvantaged groups to justice, as they cannot afford to offer bribes. Importantly, corruption in the rule of law system weakens the very accountability structures which are responsible for protecting human rights and contributes to a culture of impunity, since illegal actions are not most of time punished and laws are not consistently upheld (Bacio-Terracino, 2008) like the case of Nigeria.

However, another critical examination of the impact of corruption fight or anti-corruption policies on the rights of the accused indicates that there appears to be some inherent tension. This tension is owing to the assumption that the effectual control of corruption must compromise human rights standards to a certain extent, whereas these standards would in any event be weakened from the anti-corruption policy stance. According to ICHRPC (2009b), there is indeed a bit of evidence to support this assumption reflecting *inter alia* in the standards agreed to by the international community authorising a shift in the burden of proof against defendants, the use of suppositions as evidence in criminal cases, the offer of immunity and criminal privileges to defendants who provide information.

Therefore, the issue of the fight against corruption in the context of human rights in most of the African countries appears to create tension given unfolding scenario which signifies the flagrant violation of the rights of defendants accused of corruption in the name of fighting corruption war. Most threats to rights in the fight against corruption will probably be related to the unlawful detention without speedy trail and violation of the right to privacy as a way of breaking into secret situations and being able to find out what happens. Whereas it is trite in law that every defendant in a criminal case has the right to a speedy trial and the right arises from the time the government has arrested, indicted or formally filed a criminal complaint against a person (Oladele, 2012). The speedy trial right is “an important safeguard to prevent undue and oppressive incarceration prior to trial, to minimize anxiety and concern accompanying public accusation and to limit the possibility that long delay will impair the ability of an accused to defend himself” (Dickey v. Florida (1970) 398 U.S. 30, 37–38). As a matter of fact, this is what partly led to introduction of the Administration of Criminal Justice Act (ACJA) 2015, that guarantees more humane treatment for suspects and reduces the delay in criminal justice delivery. Other strategies such as the installation of hidden cameras, the setting of legal entrapments, and the interception of communications (email, telephone, etc.), usually related to or grounded in profiling and discrimination, are the usual suspects.

To be sure, compliance with the rule of law in the treatment of suspects in corruption cases has tended to affect the credibility of the anti-corruption institutions like the Economic and Financial Crimes Commission (EFCC) in Nigeria. Holding suspects for extended periods without bail is the most common form of violation of the rule

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of law. The success of the EFCC in its high profile anti-corruption cases, especially during the administration of the former Nigeria's President, Olusegun Obasanjo, was often negatively affected by allegations of violations of the rule of law, detention of suspects without bail, poor treatment of suspects, non-admittance of counsel to suspects during interrogation, and so on (Human Rights Watch, 2011; Coker & Obo, 2012). The discourse of ensuring the observance of the rule of law and safeguard of the rights of the persons accused of corruption in their period of trial under the current administration President of Muhammadu Buhari is also on the front burner (*This Day Live Editorial,* 2015); where the National Peace Committee headed by former military Head of State, General Abdulsalami Abubakar (rtd) cautioned the President to adhere to the rule of law in his war against graft (Soniyi, 2015).

Also, Ethiopia has no bail for grand corruption rule. This of course may mean significant detention time without bail. Bail may be granted in other corruption cases at the court's discretion after a maximum of 14 days of remand. The prosecution may be able to extend that period if they are able to establish sound reasons (Economic Commission for Africa, 2010).

In Zambia, the fight against corruption under the Patriotic Front (PF) Party has been a travesty which has turned into a repetitive chorus meant to persecute perceived political opponents of the PF in a dehumanised manner. Hence, Zambians had instead been exposed to manoeuvres and schemes by those in government to hunt leaders of the previous government (*Lusaka Times*, 2012). According to a civil rights activist in Zambia, Brebner Changala, the crusade against corruption, although noble, was hijacked by some newspapers and with its allies some of whom were holding constitutional offices turned into a tool of settling social and political scores thereby advancing their egos, market their hatred against their perceived enemies. The media went out of its way to name and shame, prosecute and convict suspects without the due regard to the established laws and procedures (*Daily Nation*, 2015).

Recently in Kenya, over thirty-five opposition party members of the United Republican Party (URP) accused President Uhuru Kenyatta of a conspiracy to witch-hunt them when their names were mentioned on the released list of the purported corrupt elected and appointed public officials by the executive. This is why the list had been challenged by one of the serving Senators, Mr. Stephen Arap Sang when he observed that:

> We would like Ethics and Anti-Corruption Commission (EACC) to come clear and tell the Kenyans the origin of the said corrupt list, it is obvious that the anti-graft commission did not prepare this list going by the fact that most of the public officials named in the list had not been summoned by the EACC for questioning on any corruption claim… (Jelimo, 2015).

This kind of corrupt list could lead to unwarranted arrests and incarceration if unchecked. From the foregoing, it is unassailable that some regimes in sub-Sahara Africa, whether military or civilian, have one time or the other used anti-corruption war for personal gains and have violated the rights of their citizens. The eventual discharge and acquittal of the corruption charges filed by EFCC against the former Managing Director of Intercontinental Bank, Erastus Akingbola for lack of diligent prosecution and as a drain in the public purse after the prolonged trial illustrates this position (Oladele, 2012).

**Corruption and Human Rights Violations in Nigeria under Former President Obasanjo's Administration**

Corruption, which is generally understood as the abuse of public power for private gain, is neither a commendable act nor is it peculiar to Nigeria. Though it is a common phenomenon globally, the Nigerian case has glaringly displayed institutional, endemic and systemic features. Many recorded cases and allegations of corruption continue to dominate the Nigerian polity where billions of Naira was involved. However, in some of these cases, issues of violation of the rights of these accused ensued, especially in the media, before they were even proven guilty of the corruption charges. For instance, the removal of former Inspector General of Police Tafa Balogun, former Governor of Bayelsa State, Diepreye Alamieyeseigha are some of the cases in point (Ukase & Audu, 2015); see the Table 1 for more details.

**Table 1: Unfavoured Prosecuted and Victimised Persons**

| Names of the Accused | Offence Committed or Accused of | Human Rights Violations | Prosecuting Agency | Regime |
|---|---|---|---|---|
| Mr. Diepreye Alamieyeseigha (former Bayelsa State Governor) | Corruption: Money Laundering and Personal Enrichment | Denial of Bail, inhuman treatment, and pleaded guilty to some watered down charges, etc. | EFCC | Obasanjo (1999-2007) |
| Mr. Tafa Balogun (former Inspector-General of Police): | Corruption: Money Laundering and Personal Enrichment | Denial of Bail, inhuman treatment, and pleaded guilty to some watered down charges, etc. | EFCC | Obasanjo (1999-2007) |
| Mr. Josua Dariye (former Plateau State Governor) | Ditto | Illegal removal from office, inhuman treatment, etc. | EFCC | Obasanjo (1999-2007) |
| Mr. Friday Omakoji Abu (Legal Practitioner) | For intervening and pleading on behalf of a CAC employee | Immediately ordered to sit on the floor, pushed to the ground, beaten up, handcuffed and taken to the EFCC office, Abuja. | EFCC | Obasanjo (1999-2007) |
| Mr. Shino Polo (Nigerian citizen) | For selling his allocated land by FCDA at Katampe District to one Nnwaka which later became controversial. | Arrested and detained for 7 days on allegation of advanced fee fraud and later released after depositing the sum of ₦ 500, 000 with the EFCC | EFCC | Obasanjo (1999-2007) |

**Sources:** *Daily Independent* (2008); Report of Human Rights Commission, UNDP and NORAD (2007). "The state of Human Right in Nigeria".
Retrieved from http://web.ng.undp.org/publications/governance/State of Human Rights Report in Nigeria.pdf

Suffice to say that political corruption and mismanagement of public funds have done much damage to development and promotion of human rights in Nigeria. Hence, the arduous path from corruption to economic hardship is instantly recognisable. The expected consequences of insidiously corrosive corruption, the loss of public trust in government engendered by the misuse of public power for private gain, civil unrest and agitation of marginalised sections, retarded economic growth, poor quality of infrastructure and public service, and weak legal, social and political institutions all in the context of human rights violations are not unexpected.

Whereas, the whole essence of governance is security, protection of rights and enforcement of duties and obligations as are stipulated by laws. And laws are made primarily to guarantee the welfare of the people; but such welfare cannot be adequately conferred where a government lacks the necessary will to compel obedience to the laws. Subjection of all authorities and persons to the dictates of the law is the root of the rule of law principles. In effect, national development is geared up when government consistently commits itself to the expansion of human rights and guarantees protection of such rights at all times by upholding the tenets of the rule of law.

Plato and Aristotle consider justice as the master virtue from which other virtues surge. In that fair society, justice gives everyone his/her due. But if one's due is denied because of corruption, it demoralises the community and frustration sets in and this was essentially the case of the war against corruption in Nigeria under Obasanjo's regime (1999-2007). The Nigeria's EFCC was set up by the Obasanjo's government in 2003 to investigate and prosecute financial crimes, including fraud and corruption. The EFCC earned applause from many Nigerians and from the international community in its first few years for aggressively pursuing corruption allegations against a range of prominent government officials including several sitting governors.

However, it was astonishing that Obasanjo's government later personalised the anti-corruption war to settle political scores, using the EFCC to witch-hunt its perceived enemies and indirectly violating some of their rights. As observed, that the war against corruption was privatised by individual egos and "it was the attempt to do this that compromised the integrity of the war against corruption when it became a tool of political persecution by Obasanjo and Ribadu" (*The Nation*, September 24, 2007: 2). Supporting this line thought, Umar (2011) and Owoeye

(2011), contend that the considerable gains made in fighting corruption under former President Olusegun Obasanjo was contaminated by political vendetta. In spite of the fact that corruption is a criminal act which demands political will to fight that the end justifies the means, it was never envisioned that under a civil democratic government, offensive extra-legal methods as witnessed under Obasanjo's administration could be engaged.

As expected, these crude methods that violated the rights of the accused and obvious cases of selectivity eliminated the steam from the anti-corruption drive and compelled right thinking people to express serious doubts about the whole exercise. For instance, in the months leading up to the 2007 elections, the Obasanjo government manipulated the EFCC into selectively pursuing opposition politicians and opponents of President Obasanjo within the PDP (Human Right Watch, 2007). This was done so openly that it destroyed much of the institution's trust and effectiveness as both a deterrent and a mechanism of accountability (International Crisis Group, (ICG) 2007).

Most controversially, the EFCC sought to bar candidates from standing in the April 2007 elections by leaving a gap in government efforts to fight corruption by issuing the so-called "indictments" on charges of corruption that made no pretence of not pursing this within the context of basic standards of due process. Almost all those on the EFCC's infamous "list" were members of the opposition or well-known opponents of Obasanjo within the PDP (Human Right Watch, 2007). At the same time, prominent and notoriously corrupt members of the PDP have been left untouched by any sort of EFCC investigation. For instance, Olabode George, Aminu Dabo, Oluwasegun Abidoye, Abdullahi Aminu Tafida, Zanna Maidaribe and Sule Aliyu were accused of involvement in fraud after an EFCC investigation uncovered massive corruption at the Nigeria Port Authority (NPA) during their stewardship. It was alleged that Bode George, as the Chairman Board of Directors, awarded the nearly 30,000 separate contracts worth ₦85billion as head of the NPA and that many of these were fraudulent. While EFCC investigations turned up evidence linking him to the fraud, charges were never pursued and no explanation was ever provided by the EFCC or the Presidency for this omission (*The News*, 2007). Though Bode George and others were later prosecuted and convicted for contract splitting, but this conviction was linked with the bickering he had with the former President Olusegun Obasanjo. However, the Supreme Court eventually quashed Bode George's conviction when he challenged his conviction after serving a two-year term (Ikhllae, 2013).

In contrast, as shown in Table 2, in spite of the fact that some of the loyalists of the Obasanjo's administration, such as the former Governors of Oyo and Balyesa States, Alao Akala and Goodluck Jonathan and Andy Uba, who were known to have allegations of corruption hanging on their necks, their names did not appear on the so-called indictment list.

**Table 2: Favoured Unprosecuted Persons**

| Names of the Accused | Offence Committed or Accused of | Human Rights Violations | Prosecuting Agency | Regime |
|---|---|---|---|---|
| Christopher Alao-Akala, [then the PDP nominee for Governor in Oyo State] | Was reportedly put on the EFCC list of candidates deemed unfit to run in the 2007 elections. | None | EFCC [Refused to investigate] | Obasanjo (1999-2007) |
| Dr. Goodluck Jonathan [then serving as Governor of Bayelsa State] | Ditto | None | EFCC [Refused to investigate] | Obasanjo (1999-2007) |
| Andy Uba [A powerful aide to President Obasanjo and ultimately the PDP candidate for Governor of Anambra State | Widespread allegations of corruption | None | EFCC [Refused to investigate] | Obasanjo (1999-2007) |

**Sources:** Human Rights Watch (2007). Interviews with journalist and Western Diplomatic sources, Lagos and Abuja. The News (2007), June 6, (http://www.saharareports.com/www/report/detail;Human Right Watch Chop Fine (2006), pp. 98-99; Gilbert Da Costa (2006), November 8. At: http://voanews.com/English-11-08-voa61.cfm

Finally, where the EFCC did exercise its power under Obasanjo, it was often for the purpose of coercing individuals into acquiescing to the will of the presidency. In Anambra State, for example, PDP officials combined bribery with the threat of EFCC investigation to coerce legislators into impeaching opposition Governor Peter Obi. One of the legislators involved, who ultimately yielded to the demands being made of him, said "The way we see it, the EFCC, it has nothing to do with whether you have committed any offence or not. They will come and arrest a person for any reason and keep him behind bars until he succumbs to what they want him to do" (Human Rights Watch, 2007). Hence, former President Obasanjo as the Chief Executive of Nigeria confoundedly haunted and hunted some perceived political enemies unashamedly stripping them of their rights while abandoning others as golden fish and jettisoned the other arms of government to attain and bequeathing purposeful legislations and referents that could curb corrupt practices in Nigeria.

**Conclusion**

The selectivity in the investigation of corruption creates the perception that the law is not the same for everybody. In this way, the fight against corruption is undermined in its moral authority, credibility, and effectiveness, at the same time that it provides to those who actually committed corrupt acts with the opportunity to present themselves before the people as victims of discrimination and selective persecution, even though they deserve to be punished given their immoral and ignoble acts.

While addressing the issue of human rights in China shortly before the commencement of the 2008 Olympics being hosted by that country, President George W. Bush, the first serving American President to attend the Olympics outside of the United States, said that "trusting its people with greater rights is the best way a nation can develop its potentials". One cannot agree less with these expressions, because protection of human rights secures the liberation of a people and thereby releases requisite societal energy and impetus for growth and national development.

Therefore, disregarding human rights in combating corruption is not only morally wrong, it is also legally destructive, since it undermines the foundations of the anti-corruption policy itself. If corruption must be drastically curbed, it must be without giving up ethics and values. If they are ignored, fighting corruption effectively would continue be an intractable task.

## Recommendations

Based on the above submissions, it is therefore recommended that: first, the fight against corruption is likely to be successful when corruption is approached as a systemic problem rather than individuals' problem. Second, a comprehensive response to corruption includes effective institutions, appropriate laws, independent judiciary, freedom of the press, freedom of expression, transparency and good governance reforms as well as the involvement of stakeholders in and outside the Government. Third, the fight against corruption should be in line with human rights principles and should not badly affect the rights of those concerned, including the perpetrators, witnesses, whistle-blowers and anti-corruption activists; certain provisions of the UNCAC deal with the area of fighting corruption while safeguarding human rights, this should also serve as guide in any fight against corruption.

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# TESTING THE VALIDITY OF WAGNER'S LAW IN NIGERIA: EVIDENCE FROM NONLINEAR CAUSALITY

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## Abstract

*The study investigates the linear and nonlinear causal linkages between government expenditure and output nexus in Nigeria for the period 1961- 2013. Employing a nonparametric causality test of Diks and Panchenko (2006) as well as the Hacker and Hatemi-J bootstrap parametric causality test using the VAR model, results show that there is evidence of unidirectional linear and nonlinear causality from national income to government expenditure. This result points to the validity of the Wagner's hypothesis in Nigeria. The policy implication of this result is that government should be careful of the danger involved in increased public sector participation arising from the uncertainty in oil prices which generates about 80 per cent of government revenue. Thus, government should intensify efforts to improve her revenue by diversifying into other sectors of the economy.*

*KeyWords: Expenditure, GDP, nonlinear causality, Nigeria*
*JEL Classification: E62, H6, C22*

## 1.0 Introduction

One of the main questions debated by policy makers and researchers is whether public sector spending alleviates poverty in developing countries Nigeria inclusive, thereby increasing economic growth. This is because while public sector spending may be considered a factor input that contributes positively to economic growth, the way public investment is financed may crowd out private investment, as argued by Mittnik and Neumann (2001). The main criticism of government intervention is that it is not as effective as market forces in allocating resources. However, the rationale for intervention is based on the conventional public goods argument that the private sector fails or is unable to provide public goods, internalize externalities and fairly and equitable redistribute income.

Over the past two decades, most African countries have witnessed low growth production capacity, output, and a sustained high level of unemployment; all this may be traced to excessive government spending to un-productive sectors of the economy as well as unstable polity, and this call for the need to assess the empirical relationship between the government expenditure and output.

In view of the recent growth in Nigeria's expenditure and GDP, this study will provide answers to the following questions concerning the government spending and output relationship; (i) Is there a long-run relationship between government expenditures and GDP? (ii) Do asymmetries causality exist between government expenditure and output? To the best of our knowledge, the existing research on the government expenditure and GDP nexus has, to date, focused mainly on a linear causal relationship (see Dada and Adewale 2013; Babatunde 2011; Clement and Oriakhi2010; Chimobi2009 and Aregbeyen) and has ignored the possibility of a nonlinear causal relationship. This remains a major gap to be filled in the government expenditure and GDP debate literature in Nigeria. In view of this, the main contributions of this paper are; first, the study examine a bootstrap causality test advocated by Hacker and Hatemi-J (2006) which overcame the over-rejection issue associated with the Engle and Granger (1987) and Toda and Yamamoto (1995) causality test. Second, the study examines nonlinear causality between government expenditure and GDP in Nigeria. In particular we used a new nonparametric methodology by Diksand Panchenko (2006), which overcame the potential over-rejection issue that flawed the famous non-linear Granger causality of Hiemstra and Jones (1994).

The justification for this approach in Nigeria is that there exist an imperfect and underdeveloped market system (Okpara 2010) and adjustment may be irregular and uncertain, therefore, previous studies have been misspecified.

The remainder of the paper is organized as follows. Section 2 provides the theoretical linkages and the empirical evidence on government spending and GDP debates in Nigeria. Section 3 provides a description of the Diks and Panchenko nonparametric test for nonlinear Granger causality. Section 4 is devoted to data and results. Section 5 concludes.

## 2.0 Wagner's hypothesis and literature for Nigeria

The Wagner's law of public expenditure was offered in the 19th century and it states that .the share of government expenditure increase as the economic activities of the economy increases.. Wagner observed a positive correlation between economic growth and the growth of government activities. He argued that during the process of economic development, the involvement of government in economic activities is greater than the private sector. Thus, higher growth requires higher government expenditure. Henrekson (1993) pointed out that Wagner saw three main reasons for the increase in the government's role.

First, industrialization and modernization would lead to a substitution of public for private activities. Expenditures on law and order as well as on contractual enforcement would have to be increased. Second, an increase in real income would lead to an expansion of the income elastic "cultural and welfare" expenditures. Wagner cited education and culture to be two areas in which the government could be a better provider than the private sector. Thus, the public sector would grow after basic needs of the people are satisfied and consumption pattern of people expands towards activities such as education and culture.

Third, natural monopolies such as the railroads had to be taken over by the government because private companies would be unable to run these undertakings efficiently because it would be impossible to raise such huge finance that are needed for the development of these natural monopolies.

Peacock and Scott (2000) suggested that the directions of causal relationship between public spending and output could be categorized into four types and they are; the neutrality hypothesis, the Wagnerian hypothesis, the Keynesian hypothesis and the feedback hypothesis. The neutrality hypothesis occurs if there is no causal relationship between GDP and public spending, this implies that the two variables are distant cousins. The Wagnerian hypothesis states that as economic activity grows there is a tendency for government activities to increase her expenditure. This implies that an increase in government expenditure is influenced by increases in output. The Keynesian hypothesis suggests that the direction of causality is from government expenditure to output. The feedback hypothesis exists when there is a bi-directional causal relationship between government expenditure and GDP.

Concerning the causal relationship between government expenditure and GDP in Nigeria, the results have been mixed, with studies finding support for the four hypotheses. These can be explained by the difference in the choice of methodology and use of different time frame. The neutrality hypothesis has been supported in studies by Essien (1997) and Chimobi (2009). The Wagnerian hypothesis has been supported by Olomola (2004), Aregbenyen (2006), Akinlo(2013) and Dada &Adewale (2013). Also, there is evidence for the Keynesian hypothesis in the study by Babatunde (2011), Clement et al. (2010), Alimi et al (2013) and Akpan (2011). The feedback hypothesis has been supported in studies by Aigboikhan (1996) and Olaiya et al (2012).

## 3.0 Data and Methodology

### 3.1 Data

In this subsection, we examine the issue of linear and non-linear Granger causality for the Wagner law hypothesis in Nigeria using the Diks and Panchenko (2006) approach. We use data on total government expenditures, gross domestic product and population, which are denoted by GE;GDP and N, respectively. The annual data on government expenditures and GDP are from the Nigerian Central Bank statistical bulletin, while the population data is from the World Bank Development Indicators and the sample period is from 1961-2013. In the case of Nigeria, the study test for the probabilities of the neutrality hypothesis, the Wagnerian hypothesis, the Keynesian hypothesis and the feedback hypothesis suggested by Peacock and Scott (2000). The study used the five specifications dominant in the literature, and they are expressed mathematically in a log-linear functional form below;

(1) Peacock and Wiseman (1967): $GE = \alpha + \beta(\mathrm{GDP})$

(2) Goffman (1968): $GE = \alpha + \beta\left(\frac{GDP}{N}\right)$

(3) Gupta (1967): $\frac{GE}{N} = \alpha + \beta\left(\frac{GDP}{N}\right)$

(4) Musgrave (1969): $\frac{GE}{GDP} = \alpha + \beta\left(\frac{GDP}{N}\right)$

(5) Mann (1980): $\frac{GE}{GDP} = \alpha + \beta(\mathrm{GDP})$

where GE is total government expenditures, GDP is the gross domestic product, N is population, GDP/N is the GDP per capita, GE/N is the total government expenditures per capita and GE/GDP is the ratio of total government expenditures to GDP. All variables are expressed in logarithm terms. For the validity of the Wagner's law, $\beta > 1$for the first three specifications, and $\beta > 0$ for the last two specifications. The direction of causality must be from gross domestic product to government expenditure. Also, the existence of a long-run relation from the specified model is an indication of the Wagner's law.

### 3.2 Methodology

In this subsection emphasis is on the methodology used in the paper. This starts with methodology of the Engle and Granger (1987) residual cointegration test, the Johansen (1988) maximum likelihood cointegration test and Diks and Panchenko (2006) non-linear causality test.

### 3.2.1 Testing for Cointegration - Residual-Based Tests

The Engle-Granger residual cointegration are simply unit root tests applied to the residuals obtained from single OLS estimation of;

$$y_t = \alpha + \beta x_t + e_t \qquad (1)$$

Where $\alpha$ and $\beta$ are coefficients, $y_t$ and $x_t$ are I(1). $e_t$ is the error term, if is I(0), then and is linearly cointegrated. Under the assumption that the series are not cointegrated, all linear combinations of ( and ) including the residuals from simple OLS, are unit root non- stationary. Therefore, a test of the null hypothesis of no cointegration against the alternative of cointegration corresponds to a unit root test of the null of non-stationarity against the alternative of stationarity.

The Engle-Granger test estimates a lag augmented regression of the form

$$\Delta\hat{u}_{it} = (\rho - 1)\hat{u}_{it-1} + \sum_{j=1}^{p} \delta_j \, \Delta\hat{u}_{it-j} + v_t \qquad (2)$$

Two standard ADF test statistics were considered, one based on the t-statistic for testing the null hypothesis of nonstationarity (*p-1*) and the other based directly on the normalized autocorrelation coefficien$\hat{\rho} - 1$ :

$$t = \frac{\hat{\rho} - 1}{se(\hat{\rho})}$$

$$\hat{z} = T(\hat{\rho} - 1) \Big/ \left( \sum_j \hat{\delta}_j \right) \qquad (3)$$

where $se(\hat{\rho})$ is the OLS estimator of the standard error of the estimated $\hat{\rho}$

$$se(\hat{\rho}) = \hat{s}_v \left( \sum_j \hat{u}_{1t-1}^2 \right)^{1/2} \qquad (4)$$

$$se(\hat{\rho})^* = \hat{\omega}_\omega^{1/2} \left( \sum_t \hat{u}_{1t-1}^2 \right)^{1/2}$$

The asymptotic distributions of the Engle-Granger statistic are non-standard and depend on the deterministic regressors specification, so that critical values for the statistics are obtained from simulation results.

However, one major deficiency of the Engle-Granger is that one can only estimate a single cointegrating relationship. However, if one deals with more than two time series, it is possible that more than one cointegrating relationship will exist, which calls for the use of vector cointegration techniques like Johansen's procedure.

### 3.2.2 Johansen's Test for Cointegration

The Johansen test is a test for cointegration that allows for more than one cointegrating relationship, unlike the Engle-Granger and the Phillips-Ouliarismethod. The methodology takes its starting point from the vector autoregression (VAR) of order p given by;

$$y_t = \mu + A_1 y_{t-1} + \cdots + A_p y_{t-p} + e_t \qquad (5)$$

where is an vector of variables that are integrated of order one and is an vector of innovations. This VAR can be re-written as

$$\Delta y_t = \mu + \Pi y_{t-1} + \sum_{i=1}^{p-1} \Gamma_i \Delta y_{t-1} + e_t \qquad (6)$$

where

$$\Pi = \sum_{i=1}^{p} A_i - I$$

$$\Gamma_i = - \sum_{j=i+1}^{p} A_j \qquad (7)$$

If the coefficient matrix has reduced rank r < n then there exist matrices andeach with rank *r* such tha$\Pi = \alpha\beta'$ and $\beta' y_t$ is stationary. *r* is the number of cointegrating relationships, the elements of are known as the adjustment parameters in the vector error correction model and each column of $\beta$ is a cointegrating vector. It can be shown that for a given *r*, the maximum likelihood estimator of $\beta$ defines the combination of $y_{t-1}$ that yields the *r* largest canonical correlations of $\Delta y_t$ with $y_{t-1}$ith after correcting for lagged differences and deterministic variables when present. Johansen proposes two different likelihood ratio tests of the significance of these canonical correlations and thereby the reduced rank of the matrix: the trace test and maximum eigenvalue test, shown in equations (8) and (9) respectively.

$$J_{trace} = -T \sum_{i=r+1}^{n} \ln(1 - \hat{\lambda}_1) \qquad (8)$$

$$J_{max} = -T ln(\hat{\lambda}_{r+1}) \qquad (9)$$

Here *T* is the sample size and  is the *ith* largest canonical correlation. The trace test tests the null hypothesis of *r* cointegrating vectors against the alternative hypothesis of *n* cointegrating vectors. The maximum eigenvalue test, onthe other hand, tests the null hypothesis of r cointegrating vectors against the alternative hypothesis of *r* + 1 cointegrating vectors.

A major limitation of this method is that it assumes that the cointegrating vector remains constant during the period of study. In reality, it is possible that the long-run relationships between the underlying variables change. The reason for this might be technological progress, economic crisis, changes in people's preferences and behaviour accordingly, policy or regime alteration and institutional development. This is especially the case if the sample period is long.

**3.2.3 The Diks and Panchenko nonparametric nonlinear causalitytest**

The study used the nonparametric test developed by Diks and Panchenko (2006, hereafter DP test) for testing nonlinear Granger causality. The test is better, because it overcame the over-rejection issue observed in the previously popular test advocated by Hiemstra and Jones (1994, hereafter HJ test). The study used this approach because it circumvent the weakness of the linear causality test, which believe that economic variables follows a symmetric adjustment process, rather the adjustment process to economic variables may be non-linear and asymmetric (Enders and Siklos 2001).

The general setting for the Diks and Panchenko nonparametric nonlinear causality test approach is summarized as follows. The null hypothesis for the Granger test for non-causality from one series $(X_t)$ to another series $(Y_t)$ is that $X_t^{\ell x}$ does not contain additional information about $y_{t-1}$ that is,

$$H_0 = Y_{t+1}|(X_t^{\ell X}; Y_t^{\ell Y}) \sim Y_{t+1}|Y_t^{\ell Y} (10)$$

For a strictly stationary bivariate time series Eq. (10) comes down to a statement about the invariant distribution of the $(\ell_X + \ell_Y + 1)$ -dimensional vector $W_t = (X_t^{\ell X}, Y_t^{\ell Y}, Z_t)$ where $Z_t = Y_{t+1}$. To keep the notation compact, and to bring about the fact that the null hypothesis is a statement about the invariant distribution of we drop the time index and also is $\ell_X = \ell_Y = 1$ assumed. Hence, under the null, the conditional distribution of $(X_t^{\ell X}, Y_t^{\ell Y}, Z_t)$ given is the same as that of $Z$ given. Further, Eq. (10) can be restated in terms of ratios of joint distributions. Specifically, the joint probability density function $f_{X,Y,Z}(x,y,z)$and its marginals must satisfy the following relationship:

$$\frac{f_{X,Y,Z}(x,y,z)}{f_Y=(y)} = \frac{f_{X,Y,}(x,y)}{f_Y=(y)} \cdot \frac{f_{Y,Z}(y,z)}{f_Y=(y)} \qquad (11)$$

This explicitly state that and are independent conditionally on $Y = y$ for each fixed value of $y$. Diks and Panchenko (2006) show that this reformulated implies:

$$q = E\left[f_{X,Y,Z}(X,Y,Z)f_Y(Y) - f_{X,Y}(X,Y)f_{Y,Z}(Y,Z)\right] = 0 \qquad (12)$$

Let $\hat{f}_w(Wi)$ denote a local density estimator of a $d_w$ -variate random vector $W$ at $W_i$ defined by $\hat{f}_w(Wi) = (2\mathcal{E}_n)^{-d_w}(n-1)^{-1}\Sigma jj \neq iIij^w$ where $Iij^w = I(\|W_i - W_j\| < \varepsilon_n)$ with $I(.)$the indicator function and the bandwidth, depending on the sample size **n**. Given this estimator, the test statistic is a scaled sample version of q in Eq. (12):

$$T_n(\varepsilon_n) = \frac{n-1}{n(n-2)} \cdot \sum_i \left(\hat{f}_{X,Z,Y}(X_i,Z_i,Y_i)\hat{f}_Y(Y_i) - \hat{f}_{X,Y}(X_i,Y_i)\hat{f}_{Y,Z}(Y_i,Z_i)\right) \quad (13)$$

For $\ell_X = \ell_Y = 1$, if $\varepsilon_n = Cn^{-\beta}\left(c > 0, \frac{1}{4} < \beta < \frac{1}{3}\right)$ then Diks and Panchenko(2006) prove under strong mixing that the test statistic in Eq. (13) satisfies:

$$\sqrt{n}\frac{T_n(\varepsilon_n) - q}{S_n} \xrightarrow{D} N(0,1) \qquad (14)$$

$\xrightarrow{D}$ **denotes** Convergence in distribution and is an estimator of the asymptotic variance of the $T_n(.)$ application of this technique is reported in Table 5.

## 4 Results

The study begins the analysis, by testing for the order of integration of the series. The augmented Dickey Fuller (ADF), Phillip-Perron (PP) and the Ng-Perron(NP) reported in Table 1 suggests that government expenditures, gross domestic product, the GDP per capita, the total government expenditures per capita and the ratio of total government expenditures to GDP were stationary in their first differences.

The results show that the variables follow a unit root process, thus gives way for testing for possible long-run co-integrating relationship among the variables. Thus, we estimate the Engle-Granger and the Johansen cointegration tests.

Table 2 reports the two stage procedure advocated by Engle and Granger (1987). In the first stage we estimate the dynamic OLS and in the second stage we examine the unit root of residuals using the ADF statistic. The results indicate that the residuals are stationary at the 5 per cent level of significance. This shows that there is a long run relationship among the variables. As regards, the signs and magnitude of from the five specifications of the Wagner's law, we found that $\beta > 1$ for specifications (1-3) and that $\beta$ > 0 for specifications 4 and 5. These results support the validity of the Wagner's law in Nigeria. Also, the Johansen cointegration test reported in Table 3 reject the null of no cointegration in all the five specifications of the Wagner's law. The results also reaffirm the existence of a long-run relation among the variables.

### 4.1 Linear Causality

Next, we estimate the parametric linear causality testing using the Hacker and Hatemi-J (2006) bootstrap procedure. Based on the results reported in Table 4, there is evidence of unidirectional causality from the gross domestic product to total government expenditure in Nigeria. There is also evidence that the per capita GDP Granger cause total government expenditure and total government expenditure per capital. This further reaffirms the validity of the Wagner's law in Nigeria.

### 4.2 Non-Linear Causality

To implement the nonparametric causality test of DP, the study deals with cases where $\ell_X = \ell_Y = 1,$ considering the fact that we have a small sample size of 49 observations and following the suggestion of Diks and Panchenko (2006) the bandwidth was set to 0.5. Based on the results presented in Table 5, we were able to make the following remarks. The DP nonlinear causality test revealed a uni-directional nonlinear causality from the gross domestic product to total government expenditure in Nigeria. We also found evidence of unidirectional causality from per capita GDP to total government expenditure and total government expenditure per capital. However, we also found evidence of bidirectional causality between the ratio of government expenditure and GDP to per capital GDP, and the ratio of government expenditure and GDP to the GDP. In sum, the results show that Wagner's law holds in Nigeria.

The economic implications of this non-linear relationship are as follows; first, fiscal policymakers may respond differently to a deviation of the deficit or surplus from its long-run trend. Second, it is widely acknowledged that there is a very close connection between the government spending and the business cycle through automatic fiscal stabilizers and discretionary fiscal measures. To the extent that the business cycle is non-linear, thus, the change in government spending may also be non-linear occasioned from government spending on war, natural disaster all of which are unknown. Third, taxpayers' behavioural responses to changes in either the effective tax rate or the effective tax base may produce asymmetric variations in the budget, which in turn affect government expenditure.

## 5.0 Conclusion

This paper investigates the existence of linear and nonlinear causal relations between government expenditure and output in Nigeria. This study contributed to the Wagner's law literature in several ways. First, we examine the government expenditure and output causal relationship using the Hacker and Hatemi-J (2006) bootstrap causality test. Second, we employed a new nonparametric nonlinear Granger causality. In sum, results show evidence of uni-directional nonlinear causality from output to government expenditure in Nigeria. These conclusions, apart from offering a much better understanding of the dynamic linear and nonlinear relationships underlying the Wagner's hypothesis nexus, may have important implications for government fiscal policy in Nigeria. The policy implication of this result is that government should be careful of the danger involved in increased public sector participation arising from the uncertainty in oil prices which generates about 80 per cent of government revenue. Thus, government should intensify efforts to improve her revenue by diversifying into other sectors of the economy.

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**Table 1: Unit roots, Nigeria, 1961-2013**

| Variable | ADF | PP | MZ | MZ |
|---|---|---|---|---|
| GDP | -2.379 | -2.432 | -3.308 | -1.265 |
| ΔGDP | -5.326*** | -5.325*** | -21.595*** | -3.270*** |
| GE | -2.369 | -2.531 | -8.889 | -2.097 |
| ΔGE | -7.707*** | -7.705*** | -23.431*** | -3.421*** |
| GDP/N | -2.331 | -2.388 | -3.303 | -1.263 |
| ΔGDP/N | -5.335*** | -5.335*** | -21.656*** | -3.726*** |
| GE/N | -2.347 | -2.508 | -8.833 | -2.093 |
| ΔGE/N | -7.703*** | -7.700*** | -23.434*** | -3.421*** |
| GE/GDP | -2.559 | -2.271 | -7.735 | -1.916 |
| ΔGE/GDP | -9.145*** | -9.650*** | -21.710*** | -3.292*** |

Note: *,** and *** indicate level of significance at 10, 5 and 1 per cent respectively.

**Table 2: Engle-Granger cointegration test**

| Model | Cointegrating | | Equation | | ADF |
|---|---|---|---|---|---|
| 1.GE = | -0.860 | + | 1.002GDP | $+\varepsilon_t$ | |
| | (-5.063)*** | | (29.858)*** | | -3.139** |
| 2.GE = | 0.648 | + | 1.135GDP/N | $+\varepsilon_t$ | |
| | (4.694)*** | | (27.083)*** | | -3.086** |
| 3.GE/N= | -0.843 | + | 1.001GDP/N | $+\varepsilon_t$ | |
| | (-6.684)*** | | (26.126)*** | | -3.130** |
| 4.GE/GDP= | -0.844 | + | 0.001GDP/N | $+\varepsilon_t$ | |
| | (-6.684)*** | | (0.025) | | -3.131** |
| 5.GE/GDP= | -0.861 | + | 0.002GDP | $+\varepsilon_t$ | |
| | (-5.063)*** | | (0.046) | | -3.146** |

Note: *,** and *** indicate level of significance at 10, 5 and 1 per cent respectively.

Table 3: Johansen cointegration test

| Model | Null Hypothesis | Alternative Hypothesis | Trace test Statistics | 0.05 Level critical value | Eigen-value test Statistics | 0.05 Level critical value |
|---|---|---|---|---|---|---|
| 1 | r=0 | r=1 | 17.159** | 12.321 | 17.046** | 11.225 |
| | r=0 | r=2 | 0.113 | 4.129 | 0.113 | 4.129 |
| 2 | r=0 | r=1 | 17.159** | 12.321 | 17.046** | 11.225 |
| | r=0 | r=2 | 0.113 | 4.129 | 0.113 | 4.129 |
| 3 | r=0 | r=1 | 17.511** | 12.321 | 11.533** | 11.225 |
| | r=0 | r=2 | 5.978** | 4.129 | 5.979** | 4.129 |
| 4 | r=0 | r=1 | 17.511** | 12.321 | 11.533** | 11.225 |
| | r=0 | r=2 | 5.978** | 4.129 | 5.979** | 4.129 |
| 5 | r=0 | r=1 | 20.091** | 12.321 | 12.979** | 11.225 |
| | r=0 | r=2 | 7.115** | 4.129 | 7.115** | 4.129 |

Note: 'r' shows the number of cointegrating vectors and critical values are from the MacKinnon-Haug-Michelis table (1999)
*,** and *** indicate level of significance at 10, 5 and 1 per cent respectively.

Table 4: Hacker and Hatemi-J Bootstrap causality test

| Model | d | Null Hypothesis | T-test | 1%Bootstrap CV | 5%Bootstrap CV | 10%Bootstrap CV |
|---|---|---|---|---|---|---|
| 1 | 1 | $GDP \neq GE$ | 10.586*** | 8.442 | 4.099 | 2.949 |
| | 1 | $GE \neq GDP$ | 0.469 | 7.489 | 3.959 | 2.776 |
| 2 | 1 | $GDP/N \neq GE$ | 10.114*** | 8.558 | 4.111 | 2.900 |
| | 1 | $GE \neq GDP/N$ | 0.432 | 7.953 | 4.001 | 2.808 |
| 3 | 1 | $GDP/N \neq GE/N$ | 10.732*** | 8.409 | 4.153 | 2.950 |
| | 1 | $GE/N \neq GDP/N$ | 0.452 | 7.471 | 3.931 | 2.763 |
| 4 | 1 | $GDP/N \neq GE/GDP$ | 0.962 | 8.476 | 4.436 | 2.980 |
| | 1 | $GE/GDP \neq GDP/N$ | 0.452 | 7.604 | 4.105 | 2.651 |
| 5 | 1 | $GDP \neq GE/GDP$ | 0.996 | 8.501 | 4.369 | 2.947 |
| | 1 | $GE/GDP \neq GDP$ | 0.469 | 7.659 | 4.101 | 2.676 |

Note: *,** and *** indicate level of significance at 10, 5 and 1 per cent respectively.

Table 5: Diks and Panchenko Nonlinear causality test

| Model | Null Hypothesis | T-test |
|---|---|---|
| 1 | $GDP \neq GE$ | 1.656** |
| | $GE \neq GDP$ | 1.104 |
| 2 | $GDP/N \neq GE$ | 1.738** |
| | $GE \neq GDP/N$ | 0.930 |
| 3 | $GDP/N \neq GE/N$ | 1.586* |
| | $GE/N \neq GDP/N$ | 1.082 |
| 4 | $GDP/N \neq GE/GDP$ | 1.417* |
| | $GE/GDP \neq GDP/N$ | 1.487* |
| 5 | $GDP \neq GE/GDP$ | 1.449* |
| | $GE/GDP \neq GDP$ | 1.689** |

Note: *,** and *** indicate level of significance at 10, 5 and 1 per cent respectively.