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THE DETERMINANTS OF DEBT MATURITY STRUCTURE IN NIGERIAN FIRMS

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Abstract

The adoption of an appropriate debt maturity structure by firms among other reasons, enables the prevention of adverse effects on firm value and cost of capital, allows alignment of liabilities to assets and addresses underinvestment problems. In view of these reasons, this study investigates the determinants of debt maturity structure for a sample of 59 non-financial firms in Nigeria for the period, 2003-2012. Using an instrumental variable technique, the study finds that lagged debt maturity structure, profitability, leverage, and asset structure exhibit a positive relationship with debt maturity, while growth opportunity has a negative relationship with debt maturity. The results are robust to endogeneity and serial correlation issues that are common with dynamic panel studies. The findings are in support of the contracting/agency cost theory, signalling theory and matching principle of debt maturity structure.

Keywords: *Debt maturity, capital structure, generalised method of moment*

1. Introduction

The irrelevancy theory of capital and debt maturity structure of Modigliani and Miller (1958) laid the foundation of research into these two key financial decisions of firms. The theory is largely based on assumptions such as information being readily available, free entry and exit of firms into markets and absence of taxes, transaction and agency costs. Under these conditions, the value of a firm is not affected by the financing decision of the firm. Stiglitz (1974) extends the irrelevancy theory by including dividend and debt maturity structure decisions in a multi-period setting. However, the same set of assumptions under Modigliani and Miller (1958) was adopted with the same conclusion of non-relevancy. Nevertheless, several studies after Modigliani and Miller (1958) and Stiglitz (1974) show that the irrelevancy theory does not hold for debt maturity structure decisions when the

assumptions are relaxed (Antoniou, Guney, & Paudyal, 2006; Barclay, Marx, & Smith Jr, 2003; Barclay & Smith, 1995, 2005; Myers, 1977; Stephan, Talavera, & Tsapin, 2011). For instance, while Barclay and Smith (1995) argue that firms use the maturity structure of debt to signal firm quality, Myers (1977) argues that the underinvestment problem is reduced by short-term debt maturity.

The investigation of firms' debt maturity structure decision (choice of either long-term or short-term debt) is important for several reasons. One of such is that the adoption of an appropriate maturity structure prevents an adverse effect on the cost of capital and erosion of firm value (Alcock, Finn, & Tan, 2012). Other reasons include; choosing the right maturity structure enables firms to align asset structure to liabilities to prevent a mismatch; address agency related problems and give signals about firm and earnings quality (Cai, Fairchild, & Guney, 2008).

Alluding to the link between capital structure and debt maturity structure decisions, Barclay et al. (2003) assert that capital structure decisions comprise several parts such as leverage, maturity structure, contracts, convertibility and importance. The authors further argued that the different parts of capital structure complement each other rather than being independent of one another and suggested that the two financial decisions should be jointly determined. However, subsequent theoretical and empirical research that followed and investigated this line of argument for debt maturity structure determinants towards western studies (Alcock et al., 2012; Antoniou et al., 2006; Barclay et al., 2003; Barnea, Haugen, & Senbet, 1980; Fan, Titman, & Twite, 2012; Johnson, 2003; Ozkan, 2002) with dearth of studies from a developing country perspective. Furthermore, given that debt maturity structure decisions of firms are closely linked to capital structure decisions, most of the extant literature for Nigerian firms is largely on capital structure determinants (Adeyemi & Oboh, 2011; Akinlo, 2011; David & Olorunfemi, 2010; Ebel Ezeoha & Okafor, 2010; Salawu & Agboola, 2008). This situation presupposes a dearth of research in debt maturity structure for Nigerian firms.

Consequently, the western-styled literature and dearth of joint leverage-maturity determination create a research gap for developing countries. This study intends to fill the identified gap by examining firm-level determinants of debt maturity structure in 59 non-financial firms listed on the Nigerian Stock Exchange between 2003 and 2012. Nigeria is chosen for this study because although it has the largest economy in Africa, Nigerian financial markets lag behind other emerging economies such as South Africa, Egypt and Morocco in the continent. The underdevelopment of the capital and bond market has made most firms to rely on banks for debt

finance ((Etudaiye-Muhtar & Ahmad, 2015; Ncube, 2007). Moreover, such debts are usually short-term in nature and mostly in the form of bank overdrafts that fall due in less than a year. This is in contrast to more developed economies where the debt markets are better developed and maturity structure of debt is longer with more long-term debt in use (Ojah & Kodongo, 2014). Consequently, this serves as another motivation for the present study as it will be interesting to investigate the applicability of western-styled theories of debt maturity structure to an emerging economy such as Nigeria.

The remainder of the study is structured as follows: Section 2 gives a brief review of theoretical and empirical literature, while Section 3 details the data and methodology employed in the study. Section 4 presents the results and discussion obtained from the regression estimation as outlined in Section 3. Section 5 concludes the study and gives suggestions for future research.

2. Literature Review and Hypothesis Development

Extant literature on the debt maturity structure of firms identifies three main theories that explain the debt maturity structure adopted by firms. These include signalling theory; agency (contracting) cost theory and matching principle. These theories are discussed as follows:

2.1 Signalling Theory: Proponents of the signalling theory argue that the debt maturity structure adopted by firms signal the earning quality of such firms. For instance, Flannery (1986) argues that the market's inability to differentiate between good and bad quality firms may make good firms to issue short-term debts to signify their quality. This is particularly true in situations where credit deterioration occurs with long-term debts. The use of short-term debts suggests that such firms are able to afford the positive rollover (transaction) costs of short-term debts.

Extending Flannery (1986)'s argument, Kale and Noe (1990) further note that when variations in firm values have positive correlation, good quality firms tend to issue short-term debts and bad quality firms issue long-term debts. These arguments suggest an inverse relationship between debt maturity structure and firm quality. However, Fan et al. (2012) in a recent study argue that profitable firms have longer debt maturity structures because firm profit increases with longer-term maturity when firms borrow more to increase tax shields. This suggests a positive relationship between profitability and debt maturity structure. In addition, firms that have high leverage ratios try to control bankruptcy costs and risk by increasing

debt maturity. Although higher debt ratio increases the likelihood of liquidation, the issuance of long-term debt delays firms' exposure to this risk (Antoniou et al., 2006; Cai et al., 2008). In addition, and alluding to the positive effect of leverage on debt maturity, Flannery (1986) and Gopalan, Song, and Yerramilli (2014) show that refinancing risk is reduced when firms borrow long-term debts. Thus, the expected relationship between firm quality and debt maturity structure is ambiguous. Firm quality in this study is proxied by two variables: profitability and leverage ratio adopting from Cai et al. (2008). Accordingly, the testable hypotheses concerning the relationships between firm quality and debt maturity structure are:
H1: Profitability has a significant negative effect on debt maturity structure
Alternative H2: Profitability has a positive effect on debt maturity structure
H2: Leverage has a significant positive effect on debt maturity structure

2.2 Agency / Contracting Cost Theory: This strand of debt maturity structure theory emphasises the role of debt in the reduction of agency related problems between owners (shareholders) and managers of the firm. In a seminal article, Myers (1977) posits that underinvestment problems are resolved with the use of short-term debt particularly in firms with higher growth opportunities. Besides, firms with higher growth opportunities have limited access to funds to finance net positive investments, which accentuates the underinvestment problem. Short-term debt, which is less sensitive to changes in risk, reduces agency costs by imposing frequent monitoring of the borrower by the lender (Alcock et al., 2012; Antoniou et al., 2006; Stephan et al., 2011).

In addition, because most firms in Nigeria largely rely on bank debt that is associated with constant and frequent monitoring of firms, we expect that agency related issues would be reduced with short-term debt. Furthermore, larger firms are argued to be less informationally opaque than smaller firms, are thereby boosting creditors' confidence in extending credit to them at lower costs. Larger firms, which are less prone to bankruptcy costs, are also argued to have easier access to external finance and utilise economies of scale to employ more long-term debt due to the lower costs in contrast to smaller firms (Antoniou et al., 2006; Cai et al., 2008; Stephan et al., 2011). Agency related costs in this study are operationalised by growth opportunities and firm size following the aforementioned authors.

Thus, the testable hypotheses under the agency (contracting) cost theory are:

H3: High growth opportunities have a significant negative effect on debt maturity structure

H4: Firm Size has a significant positive effect on debt maturity structure

2.3 Matching Principle: The matching principle posits that firms match the maturity structure of the assets to their liabilities. Myers (1977) argues that assets may be viewed as protection against loan default with the suggestion that debt exposure be reduced in line with declining asset value. This is because of the nature of the assets that enable the firm to take on long-term debts with the assets serving as collateral for the loan. At the same time, it also controls for risk and financial distress costs (Antoniou et al., 2006; Fan et al., 2012; Kirch & Terra, 2012). In terms of asset maturity, Alcock et al. (2012) argues that transaction costs, particularly short-term debt refinancing costs are minimised when firms match the maturity of liabilities to assets. A positive relationship is therefore expected between asset maturity and debt maturity structure. Total net fixed assets scaled by depreciation expense operationalise asset structure in this study. The testable hypothesis under the matching principle is

H5: Asset maturity structure has a significant positive effect on debt maturity structure

3. Data and Methodology

This section is in two parts. The first part describes the data and the selection criteria for firms in the study, while the second part details the methodology employed.

3.1 Data

The sample consists of non-financial firms that are listed on the Nigerian stock exchange. In order to be included in the sample, a firm must have at least three consecutive years observation. Following previous debt maturity structure research, financial firms and other firms whose capital structures are subject to regulatory requirements are also excluded from the sample (Alcock et al., 2012; Antoniou et al., 2006; Cai et al., 2008; Johnson, 2003; Stephan et al., 2011). Annual firm-level data used in constructing the variables are obtained from the balance sheet and income statement of the firms sourced from Datastream over a period of ten years (2003-2012). The final sample consists of 59 non-financial firms. Table 1 gives the variable description and the expected relationship with debt maturity structure while Table 2 presents the summary statistics of the dependent and independent variables used in the regression equation. Long-term debt in this study is defined as debt that falls due after a year, while total debt is the sum of short-term and long-term debt. The correlation matrix of the variables is presented in Table 3.

Table 1: Variable Description

	Variable	Measurement	Expected Sign
Dependent variable	Debt maturity structure	Ratio of long-term debt to total debt	
	Profitability	Ratio of operating income to total assets	+/-
Independent variable	Leverage	Ratio of long-term debt to total assets	+
	Growth opportunity	Ratio of capital expenditure to total assets	-
	Firm size	Natural logarithm of sales	+
	Asset structure	Ratio of net fixed assets to total assets	+

Source: Author's review of literature

Table 2: Summary Statistics

Variable	No of observations	Mean	Standard deviation	Minimum	Maximum
Debt maturity structure	369	0.182	0.280	0	0.760
Profitability	369	0.113	0.086	-0.026	0.260
Leverage	369	0.186	0.174	0	0.475
Growth opportunity	369	0.160	0.152	0.0149	0.495
Firm size	369	16.135	1.662	13.744	18.57
Asset Structure	369	0.425	0.195	0.140	0.737

Source: Author's calculations from data obtained from Datastream

The mean of debt maturity structure in Table 2 is observed to be low at 0.182 suggesting that short-term debt is more popular than long-term debt. This observation is supported by the mean of the leverage variable at 0.186. Furthermore, when compared to firms in developed countries, the values are lower (e.g. Alcock et al., 2012; Antoniou et al., 2006; Johnson, 2003). This may be attributed to the underdeveloped status of the debt market in Nigeria and firms' reliance on bank credit, which generally tends towards short-term. Asset structure

with a mean of 0.425 suggests that firms in Nigeria have more current assets in their balance sheet than fixed assets. This implies that firms may not have adequate fixed assets that may serve as collateral to finance long-term investments.

Table 3 reports the bivariate correlation coefficients between the dependent and independent variables in this study. In addition, the correlation values are observed to be low (below 0.5) indicating the absence of multicollinearity. According to Cohen, Cohen, West, and Aiken (2013), correlation values lower than 0.5 implies the absence of multicollinearity.

Table 3: Pair wise Correlation Matrix

	Debt maturity structure	Profitability	Leverage	Growth opportunity	Firm size	Asset Structure
Debt maturity structure	1.000					
Profitability	0.109	1.000				
Leverage	0.356	-0.265	1.000			
Growth opportunity	-0.092	-0.086	0.058	1.000		
Firm size	0.065	0.261	0.055	-0.111	1.000	
Asset Structure	0.349	-0.120	0.152	0.393	-0.011	1.000

Source: Author's calculations from data obtained from Datastream

3.2 Methodology

In evaluating the determinants of debt maturity structure decision for Nigerian firms, an instrumental variable technique, the two-step system generalised method of moments is employed. This estimation technique is chosen to address two issues common to dynamic panel models such as the model in Eq. (1) namely: endogeneity and serial correlation. Endogeneity occurs when the lagged dependent variable is correlated with the error term, while serial correlation occurs when it is correlated with unobservable firm fixed effects. Furthermore, the use of pooled ordinary least square or generalised least squares method (random or fixed effects) to estimate Eq. (1) has been shown to yield biased and inconsistent estimates (Cai et al, 2008, Johnson, 2003).

$$y_{it} = \beta_0 y_{it-1} + \beta_1 X_{it} + \mu_i + v_{it} \dots \dots \dots (1)$$

Where y_{it} is dependent variable (debt maturity structure) for firm i at time t , y_{it-1} is lagged debt maturity structure for firm i at time t , X_{it} is a set of firm specific variables (profitability, leverage, growth opportunity, firms size and asset

structure) for firm i at time t , μ_i is unobservable firm fixed effects, v_{it} is error term and β_0 and β_1 are coefficients to be estimated.

The two-step system generalised method of moment's estimates Eq. (1) in levels and first differences by using lags of the dependent variable as instruments to control for endogeneity and unobserved firm heterogeneity in the regression specification (Arellano & Bover, 1995; Blundell & Bond, 1998). To confirm the validity of the regression estimates, probability values of AR(1) and AR(2) for the absence of serial correlation in the residuals of AR(2), Hansen-J test for instrument overidentification and Wald chi-square probability value for joint significance of the independent variables are reported.

4. Results and Discussion

Table 4 presents the regression estimates for Eq. (1) using the two-step system generalised method of moments. However, before proceeding with interpreting and discussing the results, it is important to confirm the validity of the estimates through the probability values of AR (2), Hansen-J statistics and Wald chi-square as noted in the previous section. Table 4 shows that probability values of the null hypothesis of AR(2) for no serial autocorrelation (0.392) and Hansen J test (0.925) for instrument overidentification cannot be rejected. Similarly, the p-value for the Wald chi-square (0.000) of joint significance of independent variables indicates that the variables are jointly significant in the regression specification. These tests imply that the regression estimates are valid and implications of each significant firm-specific variable can be discussed. Table 4 also reveals that four out of the five hypotheses stated in Section 2 are supported.

Table 4: Two-Step System Generalised Method of Moments Estimates for Determinants of Debt Maturity Structure in Nigerian Firms

Independent Variables	
Debt Maturity Structure t_{-1}	0.420*** (0.015)
Profitability	0.081** (0.035)
Leverage	0.082** (0.036)
Growth Opportunity	-0.002** (0.001)
Firm Size	0.003 0.002
Asset Structure	0.386*** (0.016)
AR (1) p-value	0.020
AR (2) p-value	0.392
Hansen –J p-value	0.925
Wald chi-square	27.095***
No of Observations	369

Notes: Table 4 presents the result of Eq. (1) estimated with the two-step system generalised method of moment's technique using Stata 11 software. The dependent variable is debt maturity structure. Corrected standard errors in parenthesis are robust to heteroscedasticity. ** and *** denotes 5% and 1% significance level respectively. AR (1) and AR (2) are first and second order autocorrelation of residuals and are asymptotically distributed as $N(0,1)$ with the null hypothesis of no serial correlation. Hansen –J is the test for instrument over identification with the null hypothesis of instrument validity. All variables are as defined and measured in Table 1.

In Table 4, it is observed that coefficient of the lagged debt maturity structure is positive and significant at 1% significance level (0.420). Consistent with previous studies, this suggests that the debt maturity structure decision for non-financial firms in Nigeria is a dynamic process such that the previous year decision has an effect on the current period decision (Antoniou et al, 2006; CAI Et Al, 2008; Stephan et al., 2011).

Leverage is also seen to have a positive and statistically significant effect on debt maturity structure (0.081) supporting the hypothesis of a positive relationship with debt maturity structure. This indicates that publicly-listed non-financial firms in Nigeria with higher debt ratios have more long-term, debt consistent with studies that show that firms tend to have high leverage ratios in order to reduce bankruptcy and financial distress costs (Antoniou et al., 2006; Cai et al., 2008; Gopalan et al., 2014). It can be thus be argued that the sampled firms in this study use high leverage to delay their exposure to bankruptcy and financial distress costs, and lower the refinancing risk associated with short-term debt.

The coefficient of profitability is also observed to be positive and statistically significant (0.081) thus supporting the argument of Fan et al. (2012) that profitable firms have longer debt maturity structures when they take on more long-term debt in order to increase benefits of tax shields. These two firm-specific variables (leverage and profitability) support the signalling hypothesis of debt maturity structure that firms adopt the structure that signals the quality of the firm.

Growth opportunity with a negative and statistically significant coefficient (-0.002) suggests that publicly-listed non-financial firms in Nigeria with higher (lower) growth opportunities have shorter (longer) debt maturity structures. This supports the contracting cost/agency hypothesis that firms with higher growth opportunities try to reduce the underinvestment problem by reducing debt maturity structure because they have limited access to external capital (Alcock et al., 2012; Antoniou et al., 2006; Myers, 1977; Stephan et al., 2011). This result also confirms the assertion in Section 2 that non-financial-firms in Nigeria are mostly financed with short-term bank debts that require constant monitoring. The frequent monitoring, as argued, reduces agency related problems. Firm size however does not have a significant effect on debt maturity structure.

The last firm-specific variable, asset structure, is observed to have a positive and statistically significant coefficient (0.386). This indicates that publicly-listed non-financial Nigerian firms match the structure of their assets to their liabilities to prevent a mismatch as posited by the matching principle (Myers, 1977). Furthermore, assets are viewed as protection against loan default especially when debt exposure is reduced in line with declining asset value. This implies that firms in this study usually have access to loans that are commensurate with the value of the fixed assets they have. Other studies with similar findings include Alcock et al. (2012), Antoniou et al. (2006); Fan et al. (2012) and Kirch and Terra (2012).

5. Conclusion

This paper examines firm-specific determinants of debt maturity structure in the Nigerian capital market using a sample of 59 non-financial firms listed on the Nigerian Stock Exchange for the period, 2003-2012. The two-step system generalised method of moments instrumental variable technique was used to determine coefficient estimates in a dynamic panel model. The results reveal that three debt maturity structure theories are applicable to non-financial firms in the Nigerian capital market namely: signalling theory, contracting /agency cost theory and the matching principle. The applicability of these theories to publicly-listed non-financial firms in Nigeria is not surprising due to the nature of the Nigerian financial landscape where short-term bank debt is the major source of external capital for firms.

Despite the findings of this study, necessary caution should be exercised in interpreting the results because of limitations that may affect the generalisation of the findings. One such limitation is that the sample consists of only non-financial firms. It may be that financial firms exhibit somewhat different behaviour due to their regulatory requirements. Another limitation is that the study investigates only firm-specific factors and excludes macroeconomic and institutional factors in the regression specification. The inclusion of these factors (non-firm-specific) may also have their own effect on debt maturity structure which might be worth investigating. This is against the backdrop that stronger macroeconomic and institutional factors promote long-term debt and maturity. In addition, the present study investigates debt maturity structure decision using long-term debt. It would be interesting to study this financial decision using the short-term component bearing in mind that it is the common type of debt available to Nigerian firms. Future research can build on these limitations to provide more insight into the debt maturity structure decisions of Nigerian firms.

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LOCAL GOVERNMENT AND RURAL DEVELOPMENT IN NIGERIA

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Abstract

This study examines the role of the local government in rural development. Nigeria today is in dire need of employment opportunities for the teeming unemployed youths who have been tempted to go into crime. This study is of the view that rural development would go a long way in bringing about employment opportunities, and a reduction in rural-urban migration which invariably can bring about reduction in crime rate in the country. It is argued that the reduction of crime rate and general level of insecurity has the capacity of stimulating development in Nigeria. This would further lead to more job opportunities and revenue for the government. It is further argued that with more revenue at the disposal of government and prudent utilization of the revenue, the existing infrastructure and social amenities would receive a boost, and new ones would be created for the use of the citizens. All these put together would bring about sustainable development.

Keywords: *Local Government, Rural Development, Rural-Urban Migration.*

Introduction

The need to have an efficient and effective local government system in Nigeria has been of major concern to scholars as well as policy makers. A good local government system would, to a very large extent, create an enabling environment conducive enough for economic activities to thrive within its area of jurisdiction. No doubt, in an environment with robust economic activities, jobs and wealth will be created for the benefit of the inhabitants. According to Adeboye, cited in Ijemere (1992) "Local government in Nigeria is to provide the development of the rural people in such a continuous manner as to enable them most effectively utilize their intellect, technology and other resource for further development of both themselves and their resources".

The efficient and effective functioning of the local government can bring about rural development. Rural development can as well lead to the reduction in rural-urban migration with its attendant advantages. No country can have meaningful and sustainable development if the rural areas are left undeveloped because the problems associated with the underdevelopment of the rural areas would definitely be exported wholesale to the urban areas, thereby undermining any genuine effort at developing the urban areas. The federal, state and local governments have the responsibility of developing the rural areas but for the purpose of this study, we are concentrating on the local government in relation to its role in rural development. According to Olatunde J.B. Ojo (2005) "In assessing the impact of local government on development, we focus on their role or achievements in two major components of development: (a) provision of social services and (b) effective local development planning and investment decisions". From this, it is very obvious to note that local government, as it were, has a serious role to play in ensuring rural development.

Conceptual Clarification – “Local Government” And “Rural Development”

In order to have a lucid understanding of the subject matter, it is very imperative to have major concepts in this study explicitly explained. On this note, adequate attention is given to these two concepts – “Local government” and “Rural Development”.

On Local Government

The strategic nature of local government the world over has made it to attract the attention of scholars as well as world governance institutions. It is known all over the world to be the government closest to the people at the grassroots and as such people at the grassroots are meant to have the local government as the vehicle through which they feel the impact of government at the higher levels. The local government is expected to inculcate in the people at the grass root a feeling of sense of belonging as far as governance is concerned. This would engender in the people a spirit of active participation in the process of governance.

According to the United Nations Office for Public Administration, “Local government is a sub – division of a nation or (in a federal system) State, which is constituted by Law and has substantial control of local affairs, including the power to impose taxes or exact labour for prescribed purposes. The governing body of such an entity is elected or otherwise locally selected”. From the above definition, it is very obvious that the local government exists to perform certain functions within its area of jurisdiction.

The 1976 guidelines for local government reforms in Nigeria in a similar vein views local government as;

“Government at a local level exercised through representative council, established by law to exercise specific powers within defined areas. These powers should give the council substantial control over local affairs as well as the provision of services, and to determine and implement projects of state and federal governments in their areas and ensure through devolution of functions to these councils through active participation of the people and their traditional institutions, that local initiatives and response to needs and conditions are maximized”.

This definition reveals clearly the fact that local government is an agent for rural development in the sense that it exposes the responsibilities of the local government to the people within its area of jurisdiction. Any local government worth its name cannot afford to abandon its responsibilities. Local governments are created for certain purposes and they exist to achieve the purposes for which they were created. It is in line with this that Obadan (1973) states that, “Local Government is widely acknowledged as a viable instrument for rural transformation and for delivery of social service to the people”

According to Bello Imam (2007), in addition to the constitutional functions, local government also plays the under listed role:

- i. Local government constitutes the most critical level of government through which the rate of development can be accelerated and sustained
- ii. It helps in the promotion of economic development from below
- iii. It aids in the provision of essential social services for the local communities
- iv. It aids the promotion of political integration and community unity
- v. It creates local freedom and autonomy
- vi. It helps the enhancement of grass root democracy.

Theories of Local Government

The centrality of local governments in governance in countries across the globe has made scholars to take serious interest in the field and as such they have come up with propositions and submissions on the need for their existence. For the purpose of our study, we are to examine three of the theories of local government, namely; (i) efficient services theory, (ii) democracy theory, and (iii) accountability and control theory.

The Efficient Services Theory

Local governments are the government closest to the people at the grassroots and as such are in the best position to perform certain functions at that level. Since the councils are the closest to the people at the grassroots, they are in a better position to know, understand and identify the nature of certain problems in a bid to proffering solutions to them.

The people at the grassroots level are expected to feel the positive impact of government more if the local governments perform their expected duties and responsibilities efficiently and effectively. This is the position of the efficient services theorists.

The Democracy School of Local Government

The proponents of democracy school of local government are of the view that local government is a training ground for political leaders. It is expected that before politicians can start playing national politics and holding political offices at higher levels of government, they would have undergone some form of political training at the local government level. This would boost their efficiency and performance at the higher levels of government.

To John Stuart Mill, local government is one of the “free institutions” which provides political education. Local governments provide political education not only to politicians but also to citizens. This becomes necessary because the citizens are major stakeholders in both the political and governance process.

Accountability and Control Theory

This theory is closely related to the one stated above. The politicians who occupy government positions in a democracy are voted into office by the electorate on the condition that they would protect the interest of the electorate. It is the responsibility of the citizens to ensure that the elected officials are accountable to them to ensure that they satisfy their yearnings and aspirations. The elected council officials are expected to perform their functions to the satisfaction of the citizens in the absence of which they are voted out of office at the next available opportunity. When this is the norm, the elected council officials would have no choice than to dance to the tune of the citizens in terms of satisfying their needs.

If all these roles are performed by every local government in Nigeria it will amount to not only rural development but overall development for the country.

On Rural Development

The term rural development is a multidisciplinary concept and as such has gained the attention of scholars of various disciplines. This situation explains why scholars of different disciplines have their various definitions of rural development. But despite the multidisciplinary nature, rural development generally connotes improvement in the standard of living of the rural dwellers.

Lele Umah (1975) views rural development as improving the living standards of the mass of the low income population residing in the rural areas and making the process of development self-sustaining. The World Bank (1975) defines rural development as a strategy designed to improve the economic and social life of a specific group of people-the rural poor. It involves extending the benefits of development to the poorest among those who seek livelihood in the rural areas.

As the name implies, rural development is a development initiative or effort centered on the rural area. It also shows that to sustain and increase the level of development in the urban centres, there is the need to have the rural areas developed. The government cannot afford to abandon the rural areas because that would not augur well for the urban dwellers. According to Fidelis O. Ogunmike (1995) “the concept of rural development focuses on an aspect of national development which deals specifically with the rural sector of the economy”. He goes further to say that the concept of rural development connotes any conscious effort by the government and the community aimed at enhancing the levels of living in the rural sector.

The World Bank is of the view that rural development strategy should specifically focus on the rural poor. This means that poverty alleviation should be the major aim of rural development. Poverty has been defined as a lack of basic needs. What then constitutes basic needs? The World Employment conference held in Geneva in 1976, cited in Ogunmike (1995) advocated a broad concept of basic needs, divided into private consumption needs and community needs. The first group of basic needs include adequate food, shelter and clothing in addition to certain household furniture and equipment. The second group of basic needs are those essentials provided for the benefit of the society in general, such as safe drinking water, adequate sanitation, public transportation, health, education and cultural facilities (Ilo, 1976). Aims and objectives of rural development include elimination of poverty, elimination of inequality and unemployment, self esteem and freedom from servitude, ability to choose.

Rural areas are identified by the following features:

- i. Low standard of living
- ii. Low levels of productivity
- iii. High rates of population growth and dependency burdens
- iv. High and rising levels of unemployment and underemployment
- v. Subsistence agriculture
- vi. Lack or complete absence of basic infrastructure

According to Tessy Nwobi (2007) “rural development is a multifaceted issue and as such many agents and groups are involved in the planning and execution of a rural development programme”. The agents of rural development can be grouped into (a) the macro and meso structures (b) the micro structure. The macro and meso agents are the government agents. At the national level, the agents are referred to as macro structure agents, while meso structure refers to state and local government bodies concerned with rural development. The micro agents are local village institutions such as community council, council of chiefs, local women’s organization, village cooperative societies, town unions, age grade etc.

From the foregoing, rural development could be seen as a collective responsibility of government at all levels as well as non- governmental institutions, and the end result is to ensure that the standard of living of the rural populace is improved tremendously. The question at this juncture is, to what extent is the local government an agent for rural development in Nigeria? This is the thrust of the next section.

Local Government, Rural Development And Nigerian Development: An Over View

There is no better time to interrogate the role of local government in rural development in Nigeria than now, considering the high level of unemployment and rural-urban migration in the country and the attendant consequences. Developing the urban areas and neglecting the rural areas, to a very large extent, is counter productive considering the implication that would have on the urban areas as well as the rural areas. On the issue of unemployment in Nigeria, no effort should be spared in ensuring that employment opportunities are created especially with the high level of youth unemployment in Nigeria. Dr. Yemi Kale, the Statistician General of the Federation and Chief Executive Officer of the National Bureau of Statistics, said that the total number of unemployed Nigerians rose from more than 12 million in 2010 to more than 14 million in 2011. This scenario is mind boggling considering the implication on National security and development.

In recent times Nigeria has witnessed very high incidences of social vices inimical to National security and development. Vices such as armed robbery, Kidnapping, terrorism, advanced fee fraud (419), prostitution etc are rampant in Nigeria today. It has been observed that unemployment to a very large extent, occasioned these vices. A country where these vices are prevalent cannot have adequate security that could contribute to development. It is against this backdrop that we decided to interrogate the local government to see how it can contribute to rural development which would invariably help in not only solving the unemployment problem but also the security problem.

The undeveloped nature of the rural areas has exacerbated rural- urban migration. According to Bhattacharya (1993), "Rural – urban migration has been historically connected with industrialization, urbanization and economic growth. These activities are associated with opportunities hardly found in the rural areas but abound in the urban areas. In order to avail themselves of the opportunities in the urban areas, rural dwellers particularly the able bodied young ones migrate to the urban areas leaving behind very young and old people who constitute the dependent population in the rural areas". In Africa, migration has been considered as a way of life where the people migrate from place to place due to political, socio – economic and demographic reasons. Chief amongst the reasons for rural – urban migration is the undeveloped nature of rural areas which manifests in lack of necessary social amenities and employment opportunities.

In an area where there is shortage of basic social amenities, investors would not invest and if there is no investment, employment opportunities would shrink. In this situation, the able bodied young ones would decide to migrate to the urban areas in search of greener pastures. Rural – urban migration has negative consequences. It leads to the overpopulation of the urban areas, thus encouraging crime in the society. Those who engage in crime prefer the urban areas with wealthy individuals. Rural – urban migration slows down the rate of development of the rural areas.

By the time the able – bodied young men would have left the rural areas for the urban areas, the rural areas would be left with a dependent population who cannot exploit and explore the natural resources that abound in the rural areas for the use of man. This scenario is very detrimental to the country's development. When a people abandon the rural areas for the urban areas, it depletes the rural areas of man-power that could have been used to generate resources and revenue for the rural dwellers. Rural development is a sectional but determined and conscious effort to concentrate on the overall upliftment of man's living conditions in the rural

areas of a given polity which are primary production centers that link the urban centers as a primary provider for the latter's need, Oniboken et.al (1988). Williams (1973), equates rural development with changes in the social and economic structures, institutions, relations and processes of the rural population and in 1978, he added generation of new employment opportunities, more equitable distribution of income and widespread improvement in housing, nutrition, health and investment, on the one hand, and creating wider opportunities to realize their full potential through education, sharing in the decision and actions which affect their lives, on the other hand, as issues that are in rural development.

If the rural areas are developed, graduates might not be so keen to migrate to the urban areas in search of white collar jobs which in most cases are not available. They would be encouraged to eke out a living in the rural areas. A lot of God-given resources abound in the rural areas; it is only when they are tapped that they would be useful for mankind. When social amenities are made available in the rural areas people will feel happy to stay and earn a living. This scenario would make jobs available for the rural dwellers. The higher the rate of economic activities in the rural areas, the higher the rate of revenue for the local government since it is the level of government that is closest to the people at the grass root level. This revenue can be used to provide more social amenities in the area and also maintain available ones. With this, the problem of unemployment, social vices, insecurity and rural -urban migration would be solved, and the country would be better for it. It is against this backdrop that we decided to interrogate the local government to see how it can contribute to rural development. In Nigeria today, we have 774 local governments, though not all the local governments are rural in nature, notwithstanding that if they all perform their functions creditably it would help a great deal in bringing about overall and sustainable development for the country. This is because when the problems of unemployment and rural – urban migration are solved it would lead to the resolution of many other problems hindering the country's development and all citizens and the country at large would be better for it.

The Role Of Local Government In Rural Development

According to Chinyere Ndukwe (2005) "local government as the third tier of government is charged with the responsibility of providing a system of administration at the grassroots level under which local communities are organized for the maintenance of law and order, and to work towards the improvement of the well being of the masses. Local government being the closest level of government to people at the grassroots should be able to perform functions that cut across every

aspect of life of the rural masses. That is to say that the people at the grassroots must feel the impact of the local government in such a way as to enable them have a sense of belonging, when this is done the potentials of the rural dwellers would be explored and fully utilized for the benefit of all and sundry.

In the political realm, the local government is to give civic and political education to people at the grassroots level. This will instill in the people at that level, the spirit of participant political culture that would enable them participate actively not only in the political process but also governance. Participating actively in politics would make the people take their destinies in their own hands, and as such act in a way that would make those in government accountable, this is the only way the local government would be in a position to serve the best interest of the people at the grassroots.

Local government can enhance rural development through the provision of basic facilities, amenities; infrastructure and equitable access to employment, when these are created, automatically the rural dwellers would have an enabling environment to engage in any economic activities of their choice. If the facilities and social amenities in the urban areas are made available in the rural areas many of the young rural dwellers would not have the need to migrate to the urban centers.

Since agriculture is the main occupation of the rural dwellers, it is the responsibility of the local government to provide incentives to farmers. According to Tessy Nwobi (2007), "Any attempt to improve the life of the rural people must address issues relating to agriculture. Agriculture, as a strategy for rural development concerns itself with such activities as input distribution and research to create high yielding varieties. It also includes credit institutional and organizational arrangements to ensure access of factor inputs to rural farming population." Mechanized farming through the provision of tractors, ridgers, rollers and other farm technology to farmers at a reduced cost or by hire to enable them embark on commercial farming.

Local government should in collaboration with the private sector establish cottage industries in the rural areas. These cottage industries will make use of raw materials produced through farming. This will definitely lead to the creation of both direct and indirect employment, and can help in reducing rural-urban migration. What Nigeria needs most now is avenues for job creation to give employment to the teeming unemployed youths both graduate and non-graduate.

Challenges Of Local Government In Nigeria

The 1999 Constitution of the Federal Republic of Nigeria as amended recognizes the local government as the third tier of government but failed to make local government an autonomous tier of government. The local government has several masters such as the federal and state governments. Specifically, local government is under the control of both the Governor and the House of Assembly (Section 7 of 1999 Constitution as amended). This is in line with the Dillion's Rule in the 1860's, cited in Akinsanya A.A (2005) which states explicitly'.

1. That there is no common law right of self-government by local government entities;
2. That local government entities are creation of the states, subject to creation and abolition at the unfettered discretion of the states, barring constitutional limitations.
3. That localities may exercise only those powers expressly granted; and
4. That localities are "mere tenants at the will of the legislature"

The 1999 constitution of the Federal Republic of Nigeria as amended, guarantees the existence of the local government system by democratic means. Section 7 of the constitution states that "the system of local government by democratically elected local government councils is under this constitution guaranteed. Part of section 7 (i) of this same constitution reads "And accordingly, the government of every state shall... ensure their existence under a law which provides for the establishment, structure, composition, finance and functions of such councils. This section of the constitution transferred the power to ensure the existence of local government to the state governments. The 1999 constitution of the Federal Republic of Nigeria as amended, places the creation and control of the local government in the hands of the state government. In the creation of local government by the state government, the concurrence of the National Assembly is required pursuant to section 8(5) of the constitution. With this, it means that it would be very difficult for the local government to assert itself in terms of the performance of the roles expected of it.

Under section 7(6) (a) the constitution empowers the National Assembly to make provisions for the statutory allocation of public revenue to the local government councils in the federation. However, the same constitution in the same sub section (b) empowers the state house of assembly "to make provisions for the statutory allocation of public revenue to the local government councils in the state. In order to do this, the 1999 constitution as amended, created what is known as the "state-joint local government account." This makes it, impossible for the local government to get its funds directly from the federation account. Not only that the local

government cannot get its funds directly from the federation account, virtually all the state governments in Nigeria are guilty of not distributing to the local governments the actual amount due them from the federation account. Some state governments, if not all, have been alleged to have held the money meant for their various local governments and only release to them money for salaries and allowances of workers leaving them with little or nothing to execute any project or engage in rural development programmes.

Apart from the constitutional provisions that weaken the local government system in Nigeria, the local government still faces the challenge of lack of highly skilled and efficient personnel. This problem can be said to be as a result of inadequate financial resources at the disposal of the local government. This makes the local government to be unattractive to highly skilled and efficient personnel that could assist the local government in achieving its goals.

Another challenge of the local government in Nigeria is corruption. Corruption in Nigeria has become so pervasive to the extent that it has permeated virtually all the segments of the country. Despite the lean resources of the local government, some officials still engage in the looting and mismanagement of the little funds available.

Furthermore, political interference by the state government and the political party in power at the state level also constitutes a serious challenge to the local government. Because the constitution vests the power of control of the local government in the state government, the state government interferes at will in the running of the local government. The state government through the State Independent Electoral Commission (SIEC) is constitutionally empowered to conduct local government council elections; most state governors use this opportunity to impose their stooges as members of local government councils. Having imposed these set of people, it would be very easy for the state governors and big party stalwarts at the state and federal levels to interfere in the running of the affairs of the local government. This scenario made Felix Alonge (2005) assert that, “cases of mismanagement often go uninvestigated due to the partisan nature of the councillors”

All these challenges put together weaken the local government and make it difficult for it to perform its functions which include that of bringing about rural development.

Conclusion

The high level of unemployment, rural-urban migration and insecurity in Nigeria make it very imperative and expedient to encourage the local government to function efficiently and effectively in such a way as to be able to perform its functions unhindered. It is believed that when all the obstacles that impede or hinder the local government from performing its functions creditably are eliminated, the local government would go a long way in contributing its quota to the socio-economic and political development of the country. The situation in the country today concerning unemployment, terrorism, general insecurity and other social vices is such that no effort should be spared in looking for ways to solve these problems. This call becomes very important considering the fact that no country can experience meaningful development when these vices are rampant and prevalent.

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STRATEGIC MANAGEMENT STYLES AND PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN OGUN STATE, NIGERIA

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Abstract

This study examines the influence of different strategic management styles on the performance and development of Small and Medium scale enterprises in Ogun State, Nigeria. Using a cross-sectional survey design, primary data were collected from Managers of Small and Medium businesses in three Local Government areas of Ogun state. The data collected were analysed using descriptive statistics and analysis of variance. The result revealed that coercive management style has no significant effect on the performance of SMEs. Meanwhile, visionary, and participative management styles are significantly related to SMEs outcomes. The study concludes that the avoidance of authoritative or coercive approach as a strategic management styles does not necessarily lead to improvement in the efficiency of employees and positive effect on the performance of small and medium scale enterprises. Thus, the appropriate blending of the strategic management styles towards improved business performance is imperative for those who direct the affairs of any business organisation.

Keywords: *Strategic management style, Small business, Performance, Leadership*

1. Introduction

The need to increase the performance of small business enterprises has pointed research focus to strategic management styles. For any organization to thrive well in a competitive market there is a need for such organization to embrace strategic management in its fullness (Aremu and Oyinloye, 2014). As a concept, strategic management has been defined as that set of managerial decisions and actions that determine the long-run performance of a firm (Wheelen and Hunger, 1995). Therefore, strategic management can be seen as a systematic process which aims at maximizing the utilization of resources in relation to organizational objectives which are in conformity with the demands of the environment both, internal and external. Hence, it aims at creating the future without neglecting the present thereby providing an appropriate platform for reacting to changes in business environment. Ansoff (1990) defined strategic management as a systematic approach to a major and increasingly important responsibility of the general management to position and relate the firm to its environment in a way to assure its continued success and make it secure from shocks. Strategic management is a stream of decisions and actions which lead to the development and implementation of an effective strategy or strategies to achieve organizational goals and objectives (Aremu and Oyinloye, 2014; Glueck and Juanxh, 1984).

The need to study SMEs cannot be overemphasized, since studies have showed that SMEs covered majority of African business operations and contribute up to above average of African employment and GDP (Chodokufa, 2009). It is increasingly recognized as a leading vehicle for economic development, a prime source of employment, revenue generation, innovation and technological advancement in both developed and developing nations (Zacharakis, Neck, Hygrave & Cox, 2002). Thus, the need for continued research for the sustainable development of small and medium enterprises is imperative for economic development. Moreover, understanding the management styles that are strategic in nature and can positively influence the performance of the organisation is essential for both academics and practitioners, since, the success or failure of a group, an organisation, or even an entire country rests on leadership (Idris & Alli, 2008). This study focuses on four different strategic management styles: coercive style, visionary style, affiliative and participative management style. This suggests that the fate of an SME is closely related to the strategic management style of the manager and the strategies chosen for implementation. Strategic management styles should shape the performance of core business activities in a strategy-supportive manner.

Different strategic management styles may lead to different levels of organisational performance (Michie, & Zumitzavan, 2012; Michie, & Sheehan-Quinn, 2001). Some scholars have indicated that leadership styles and innovation are important and interrelated variables contributing to organisational performance. Since appropriate leadership styles can lead to the creation of innovation within an organisation, maintaining customer satisfaction, there is a critical need to examine these relationships (Hadikin & O'Driscoll, 2000; Harris, 2007). Leadership can be observed as a part of the learning processes taking place through carrying out day-to-day responsibilities, and in turn influencing the creation of innovation and leading to an increase in organisational performance (Mabey & Ramirez, 2005). Hence, adopting appropriate strategic management styles can help to encourage learning in the organisation and this can lead to innovation and improvement in employees' skills, which in turn can improve firm's overall performance.

The extent to which a firm applies strategically chosen management styles is basically a systematic approach for managing changes which are fundamental to the success and survival of an organization. With the growing nature of small and medium enterprises (SMEs) in developing countries, and the need to tackle economic challenges, the selection of strategic management styles could be more important to achieving the objectives of raising income, reducing unemployment and achieving broad economic growth than ever before. Due to the dearth of literature on appropriate strategic management styles that could spur the development and performance of SMEs, this study seeks to identify suitable management styles for the growing SMEs by examining the relationship between the identified strategic styles and performance of small businesses.

2. Literature Review

2.1 Strategic management style

Strategic management studies in Nigeria focused majorly on large organisations, neglecting the small and medium scale enterprises that provide a prime source of employment, revenue generation, innovation and technological advancement in both developed and developing nations (Zacharakis, Neck, Hygrave & Cox, 2002). For the purpose of this study a strategic management style is viewed as the prominent management or leadership style of steering the affairs of business organisations. According to Idris and Alli (2008), the success or failure of a group, an organisation, or even an entire country rests on leadership. This shows that leaders are strategically important in the survival of any group or organisation. In most management literature, entrepreneurship seems to be associated with leadership

and are sometimes used as synonyms. (Gupta, MacMillan, & Suriec, 2004; Tarabishy, Salomon, Fernald & Sashkin, 2005). However, Davidson and Griffin, (2000) emphasize that management and leadership are not necessarily synonymous, but they may be related. More so, differences can also be found between managers and entrepreneurs, as entrepreneurs emerge out of the people while managers are appointed. Entrepreneurs have helpers, while managers have colleagues. Entrepreneurs tend to use their natural powers of wisdom, charisma, and intuition, while managers depend more on positional power. Although the influencing power of a manager is founded upon authority, entrepreneurs' influencing power goes beyond formal authority. Building on non-rational decision-making models from the behavioural decision theory, Busenitz and Barney (1997) asserted that entrepreneurs are more susceptible to the use of decision-making biases and heuristics than are managers. Thus, 'entrepreneurs are the people who notice opportunities, and take risks and responsibility for mobilising the resources necessary to produce new and improved good and services' (Jones and George, 2007). The style of management of both the entrepreneur and managers are never the same except where the entrepreneur is the manager. This has made studies on SMEs strategic management style as an indication of performance of the firm imperative, if the objective of managing the firm is not to kill the firm.

Strategic management style is the 'relatively consistent pattern of behaviour that characterizes a leader' (DuBrin, 2001) and today's organizations need effective leaders who understand the complexities of the rapidly changing global environment. Different strategic management styles may affect SMEs- performance.

Management/leadership style plays an important role in shaping the behaviour and attitude of the people within the organisation and studies on leadership/management style keep drawing attention due to its role in the failure or success of any business organization. However, scholars and researchers are yet to unanimously agree on the most appropriate style of management/leadership in organization. Thus several theories that could bring about organizational efficiency and effectiveness have been formulated.

2.2 SMEs Performance

The practices of developing economies in relation to the roles played by SMEs support the fact that, the relevance of SMEs cannot be overemphasized (Onugu, 2005). Hence, the need for continual research on various aspects (both tangible and intangible) for the sustainable business performance of SMEs. Studies have shown that, SMEs are more affected in today's multifaceted, dynamic and turbulent

management environment than big organizations because the response to management changes in SMEs is different from that of large organizations (Hartshon & Wheeler, 2003). While large organizations can move from one business to another, SMEs are limited due to lack of sufficient resources and strategic management. According to Terziovski (2010), there are three different levels of performance within an SME; distinguished as the business performance, organization performance and financial performance. Chu-Hua, Madu, and Lin, (2001) observe that performance is the key interest of every SME owner or manager.

3. Methodology

The study is a quantitative research through a cross-sectional survey design, carried out in three local government areas of Ogun state. The state is one of the fastest growing SMEs centers in Nigeria as current available statistics position the state as second in the southwest geographical region of Nigeria (Oduyoye, Adebola and Binuyo, 2013; National MSMEs, 2012). A database on small and medium firms held by the Nigerian National Micro, Small, and Medium Enterprises (MSMEs) collaboration survey of 2012 provided the population of 546 SMEs in Ogun State. A total of 300 SMEs Owners/Managers were randomly sampled. The data was collected by means of a structured questionnaire which was subjected to content validity and the Cronbach alpha test of reliability. The research instrument was confirmed valid for the research objective. A five-point likert scale of 6 items was computed for strategic management styles, while 4 items were computed for SMEs performance, which can help in the identification and assessment of significant progress toward the goals of the work and of the organization. The Cronbach alpha of the items was calculated to be 0.83 for strategic management styles and 0.78 for SMEs performance which were found to be reliable. Both scores were above the acceptable limits of Cronbach's alpha in assessing the internal consistency of an entire scale.

According to Pallant (2004), reliability scores greater than 0.70 are acceptable, while, Nunnally and Bernstein, (1994) have indicated 0.7 - 0.9 to be an acceptable reliability coefficient. Data was collected on the socio-characteristics, leadership styles of SMEs owners/managers and the performance of SMEs was captured using the non-financial measures. This is premised on the submission of Nagar and Rajan (2001) that non-financial measures are key indicators of economic performance, and a potential source of information about cash flows in the future. They corroborated an earlier study of Banker, Potter and Srinivasan, (2000), who concluded that non-financial performance measures are better indicators to predict the future of the organization than financial measures. Data collected was

analysed using descriptive statistics and analysis of variance (ANOVA). The mathematical model that describes the relationship between the strategic management styles and performance in SMEs for the one-way ANOVA could be represented thus; $Y_{ij} = \mu + \tau_i + \tilde{\delta}_{ij}$, where Y_{ij} represents the j -th observation ($j = 1, 2, \dots, ni$) on the i -th treatment ($I = 1, 2, \dots, k$ levels). μ is the common effect for the whole experiment, τ_i represents the i -th treatment effect, and $\tilde{\delta}_{ij}$ represents the random error present in the j -th observation on the i -th treatment.

4. Results and Discussion

4.1 Characteristics of respondents

The characteristics of sampled firms and sample respondents are presented in Table 1. Descriptive analysis of ownership structure in SMEs reveals that majority (63.11%) of sampled SMEs are strategically managed by the founders of the business. Whereas, 13.46 per cent are Cofounders, 9.12% inherited the business from the family, while 9.12% purchased from previous owners. In terms of number of businesses owned, a high percentage (55.64%) of sampled SMEs owned between 1 and 2 business units, 42.57% own between 3 and 4, while 1.79% own more than four businesses. Education level of respondents also varies. Most of the respondents (61.22%) had tertiary education, 26.31% had secondary education, and 11.24% had primary education. This result is an indication that most SMEs operators in Nigeria are graduates of higher institutions of learning.

Gender statistics shows that 41.32% were male and, 58.68% were female; an indication that more female are into small and medium scale enterprises than male. Age of respondents reveals diverse distributions across age categories. 11.33% are below 25 years, 15.36% are between 26 and 30 years of age, 23.21% are between 31 and 35 years, 30.36% are between 36-40 years, 19.65% are above 40 years of age.

On the number of employees in the organisations, the result revealed that 29.67% of the total respondents have less than 20 employees working in their organisation, closely followed by those that have employees ranging from 21- 40 accounting for 20% of the total respondents. The remaining 41.33% is shared by managers with more than 40 employees in their organisation.

Table 1: Characteristics of respondents and the firms

		Frequency	Percentage (%)
Ownership	Founder	189	63.11
	Cofounder	40	13.46
	Inherited from family	27	9.12
	Purchased business	31	10.38
	Hired / promoted by company	12	3.93
Number of business(es)	1-2	167	55.64
	3-4	128	42.57
	> 4	5	1.79
Number of Employees	< 20	89	29.67
	21 - 40	87	29
	41- 60	64	21.3
	61-80	31	10.3
	81-100	22	7.3
	> 100	7	2.3
Educational level	Primary school	34	11.24
	Secondary school	79	26.31
	Tertiary	184	61.22
	No formal education	4	1.23
Gender	Male	124	41.32
	Female	176	58.68
Age	< 25 years	34	11.33
	26-30 years	46	15.36
	31-35 years	70	23.21
	36-40 years	91	30.36
	> 40 years	59	19.65
Status	Owner and CEO	76	25.21
	Owner and manager	130	43.47
	Manager but not an owner	94	31.32

Source: Data analysis, 2015

Descriptive statistics of the variables of strategic management styles in SMEs

Different management styles were identified with the sampled SMEs in the study area. The prominent styles are described in Table 2. Coercive management style with the mean rating of 3.27 has the primary objective of immediate compliance from employees. The second strategic management style identified in the SMEs in the study area is authoritative or visionary management style. This strategic style usually provides long term direction and vision for employees. The major components of the style include management by persuasion and feedback variable (mean = 2.25). The other is firm but fair management style with a mean rating of 3.42. Other strategic styles include affiliative and participative management styles. The affiliative style has the primary objective of creating harmony among employees and between manager and employees. The style operates by using the 'people first, task second' approach as well as the avoidance of conflict and emphasizes good personal relationships among employees. The last identified management styles have the primary objective of building commitment and consensus among employees. The descriptive statistics however shows that affiliative and participative styles are predominant among sampled SMEs in the study area. The relationship between these styles and performance of SMEs is presented in Table 3.

Table 2: Descriptive statistics of the variables of Strategic management styles in SMEs

Variable	Mean rating	Standard deviation
Coercive style		
Motivation by threats and discipline	3.27	1.45
Close control of employees	4.49	2.31
Visionary style		
Management by persuasion and feed back	2.25	1.05
Firm but fair management style	3.42	1.34
Affliative style		
People first, task second manager	4.64	1.12
Participative	4.53	0.87

Source: Data Analysis, 2015

Relationship between strategic management styles and performance

The results in Table 3 highlight the relationship between strategic management styles and performance. The results show that visionary, affiliative and participative management styles are statistically significantly ($p < 0.05$) related to performance of SMEs. However, coercive management style is not statistically significant at 5% level indicating that employees that are highly skilled could become frustrated and resentful at the micromanaging of their employers. This could translate into their poor performance and an overall negative effect on SMEs outcome.

The significance of visionary styles show that the provision of clear managerial direction coupled with the credibility of managers could result in the positive outcomes of SMEs activities. Similar reasons could be adduced for affiliative and participative management styles. The finding of this study is consistent with Janssen and Yperen (2004) who acknowledged that strategic management styles assist in the performance of SMEs through the enhancement of innovative job performance and job satisfaction.

Table 3: Influence of strategic leadership styles on SMEs performance

S/N	Propositions	Df	Mean Square	F	Sig
I	Coercive management style	1 243 244	0.147 1.564	0.068	0.841
ii	Visionary management style	1 261 262	72.532 2.447	34.719	0.000*
iii	Affiliative management style	1 211 212	10.151 1.247	12.059	0.001*
Iv	Participative management style	1 235 236	0.607 2.531	6.372	0.002*

*, significant at 5% level.

1. Conclusion and Recommendations

This study examined the relationship between strategic management styles and the performance of SMEs. The basic management styles of the sampled SMEs were identified and their relationship with performance was evaluated. Coercive management style has no significant effect on the performance of SMEs. Meanwhile, visionary, affiliative and participative management styles are significantly related to SMEs outcomes. The study concludes that the avoidance of an authoritative or coercive approach as a strategic management style does not necessarily lead to an improvement in the efficiency of employees and a positive effect on the performance of small and medium scale enterprises. The study therefore recommends that managers of business establishment should ensure the appropriate blend of the strategic management styles that brings about the desired improved business performance.

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FRAGILITY OF STATES IN AFRICA: THE CONTEXTUAL PLACEMENT OF THE ELITE IN THE NIGERIAN CRISIS

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Abstract

This paper examines the fragility of states in Africa with particular reference to the contextual placement of the elite in the Nigerian crisis. It argues that the role of the elite in the cause of Nigeria's fragility cannot be underestimated. The paper posits that the fragile character of the Nigerian state has posed a lot of challenges to democratic stability, corporate existence of Nigeria and the well-being of its citizens. This paper contends that despite the seemingly collective efforts of the state, international agencies, donor countries and other stakeholders to resolve the Nigerian crisis, much is yet to be realised, more especially in the provision of security of lives and properties; and welfare services. The paper therefore concludes by recommending that in order to stem this ugly trend, the government should ensure that: public goods are evenly distributed among its citizens and every ethnic nationality with a view to promoting justice, equity and fairness; viable mechanisms are entrenched in the administrative, political and legal processes to checkmate the cornering of resources by the elite which has often resulted in the emergence of pervasive poverty; and also discourage the manipulation of ethnicity and religion by the elite which has always been used to advance elites' vested interest thereby causing violent conflicts of serious dimensions.

Keywords: State fragility, Group interest, Elite connection, Challenges, Africa, Nigeria.

Introduction

Fragility of states has been an issue of concern that has attracted the attention of scholars, donor agencies and international organisations worldwide. The situation has however become more worrisome in African states today considering the avalanche of statistics on this phenomenon with the experiences of countries like Somalia, Mali, Eritrea, Chad, Niger, Guinea, Sierra-Leone, Liberia, Togo, Cameroon, Angola, Central Africa Republic, Democratic Republic of Congo, Zimbabwe, Rwanda, Burundi, Uganda, Malawi, Kenya and Ethiopia. This perception is corroborated by a report released by the African -Capacity Building Foundation (2011), which made allusion to the high level of fragility in African countries. The report highlights that despite recent good economic growth performance, the African continent still has the world's most extensive history of civil wars and instability. For example, the report observes further that between 1990 and 2000, there were 19 armed conflicts and cross-border civil wars in Africa, and that in 1999 alone 16 countries were in armed conflicts. These observations confirm the prevalence of fragility and conflict in the African continent.

Though many scholars contend that leadership crisis could have been responsible for the fragility of African states, it could however be argued that this crisis has been compounded due to the role of the elite in the political process and political economy of these states. It is further argued that the manner of elite recruitment into political leadership and the zero-sum nature of African politics have accentuated the party crisis and eventual factionalisation, electoral crisis, ethno-religious crises and pervasive corruption that threaten not only the political stability of these states but also the cohesion and national integration of the culturally segmented ethnic nationalities that constitute these African states.

The paper holds that the phenomena of ethno-religious sentiments in themselves are not destructive. Right from the ages, they have always been unifying factors in socio-economic and religious settings. It is however the manipulation of this institution to further the realisation of the selfish interest of the individual politicians that pervert these primordial sentiments and reconstitute them into mechanisms of instituting conflicts which leads to state fragility. It is in this respect that the manipulative role of the elite is being regarded as a dominant competing factor in the explanation of state fragility in Africa.

The concern of this paper therefore is to focus attention on the role of the elite in the institution of state fragility in Africa with particular reference to Nigeria. To accomplish this task, the paper is divided into five sections. The first section

comprises of the conceptual analysis and theoretical framework to anchor this study. The second section deals with the trends of elite connection in the institution of state fragility in Nigeria. The third section explores the challenges of state fragility in Nigeria. Section four attempts a critique of the efforts made by stakeholders in resolving the fragility crisis, while section five offers possible recommendations for solving the crisis.

Conceptual Clarification on State Fragility

The concept of fragility has gained prominence in the development discourse during the last two decades and various practitioners have offered a plethora of definitions of fragility, in most cases to suit their own focus and objectives. Literature on fragility is thus, replete with debates on the conception and operation of the term fragile state. Theory and policy on state fragility have now moved beyond the first generation post cold war perspectives, which tended to equate state fragility with armed struggle and institutional collapse that result from war, social conflicts and other forms of systemic insurgency. According to Carment et al. (2008), these first generation approaches focused on a mono-causal explanation of state performance by giving credence to claims that failure and collapse were a function of the state and in a number of cases requiring foreign intervention.

There is no single definition of fragile state. There has been deep contention about what the international community labeled as fragility (DFID, 2005). Four definitions of state fragility and failure given by the United Kingdom Department for Internal Development, the World Bank, and the Fund for Peace and State Failure Task Force are provided in Iqbal and Starr (2007). This lack of consensus on the exact definition of fragility is extensively dealt with by Cammack et al. (2006), who observed that the term fragile is, in many documents, replaced by “failed”, “failing”, “crisis”, “weak”, “rogue”, “collapsed”, “poor performing”, “ineffective”, or “shadow” each with its own manifestations. From this nomenclature, state fragility is thus a multi-faceted concept and is a function of the disequilibrium between state functions and capacity to deliver on the one hand, and societal expectations on the other hand (Menocal, 2010).

Although no firm consensus exists on the definition of fragility, there is however a general agreement on the key characteristics of what are considered as fragile states and these common attributes include: weak national institutions, lack of leadership (authority, legitimacy) and limited state capacity to perform functions expected by the society. From a general perceptive therefore, fragility is associated with various combinations of systemic dysfunction leading to government inefficiency

and the breakdown of the social contract. A fragile state is one with weak capacity to carry out the basic functions needed for providing social services and development, reducing poverty, safeguarding the security and human rights of its population and its territory, and that lacks the political will to develop mutually constructive and reinforcing relations with society (OECD/DAC, 2010).

Despite the ever evolving debates on the definition of the concept of a fragile state and the different typologies, most analysts generally describe a fragile state and fragility to include countries trapped in violent conflicts/crisis or recovering from crisis or conflict, and which are characterised by weak state capacity or a weak state which leaves citizens vulnerable to social, political and economic shocks.

Measurement of fragility

The UNDP Users Guide on Fragility (2009) classifies the indicators of fragility into three broad categories of input, process and output indicators. The input indicators which are also referred to as structural rights, or commitment indicators, refer to the existence and quality of enabling structural conditions in any country, and usually focus primarily on the legal framework, institutions and procedures in place in any nation. Secondly, process or responsibility indicators measure efforts made by the government to achieve certain output or outcomes, for example, the proportion of the national budget allocated to military expenditure and/ or education. Finally, the outcome or performance indicators measure the result of actions or outcomes such as employment rates. Hence, the overall fragility indicator is a composite measure of these three indicator types. Despite the diversity of producers of these indicators, most of them measure fragility based on four broad and differently measured and weighted dimensions—security, political, economic and social dimensions.

The two alternative classifications of fragile states usually employed by international development partners are those proposed by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) which classifies a country as fragile if it belongs to the bottom two quintiles of the World Bank's policy institutional assessment (CPIA) rating or was not rated at all in the current CPIA exercise (World Bank, 2004; Ballimoune-Lutz and McGillivray, 2008). CPIA is a document annually put together by the staff of the World Bank based initially on 20 criteria, now reduced to 16, which are all related to the appropriateness of a country's economic policies and the performance of its public institutions. In 2004, thirty-five countries including Nigeria were classified as fragile using this approach. The second approach depicts

a country as fragile if it is in the low income under stress (LICUS) group. Forty-six nations were classified as fragile according to this definition in 2004.

Elite: A Conceptual Brief

The concept of elite has attracted the attention of many scholars and as such a plethora of definitions have been in literature. Pareto (1915), Mosca (1896), Mitchels (1911), Mills (1956) and others, have defined it from various perceptions. Etymologically conceived, the term is said to have originated from French where it is used to denote excellence. Pareto in his 'The Mind and Society' (1915), used the concept to represent a superior social group, that is, a group of people which exhibits the highest ability such as intelligence, talent, courage and cunning in their chosen career. They are also adept at using the two modes of political rule, force and persuasion. Invariably, this minority group takes all major decisions in the society. In contrast to this categorisation, Pareto reveals that there exists the "masses" the group that is characteristically lacking in qualities of leadership. Within the elite grouping, Pareto distinguished between the "governing elite" – which holds power for the time being, and non-governing elite – which constantly strives to replace the governing elite by trying to showcase greater ability and excellence. In behaviour, Pareto argues, the elite is characterised by constant competition between the two groups of elite, a process that results in what is called circulation of the elite.

Mosca in "The Ruling Class" (1896), regards the elite as that tiny group of minorities which out-organises and outwits large majorities and equally possesses a certain material, intellectual or even moral superiority over those they govern. Mosca defined the elite as the ruling class, the political class that represents the interests of the important and influential groups especially in democracy. Mitchels in his "Iron Law of Oligarchy" refers to the elites as few persons who, by virtue of their strategic location, in large or otherwise pivotal organisations and movements, are able to affect political outcomes regularly and substantially. This configuration is strictly on organisational and positional criteria. They use their manipulative skills including oratory, persuasion and appeal to sentiments to perpetuate themselves. They therefore become so prominent by virtue of their expertise and experience that it becomes very difficult to replace them at periodic re-election thus, ruling out the possibility of circulation of elites as envisaged by Pareto and Mosca. This perception is corroborated by Putnam (1976), who applied the term restrictively to persons who are on the top of the pyramid or pyramids of political, economic and social power without necessarily considering those in the society who enjoy high occupational, educational, or cultural statuses to be elites in a political sense.

Other scholars such as Mills, Domhoff, Putnam, Dahrendorf, Hunter and Burnham adopted and applied this concept to analyse the political contraption of various countries of their time, and established the fact that policy or decision-making generally and more importantly in the political arena fall exclusively within the purview of the elite. The concept of elite as espoused by these scholars though fascinating, nevertheless, has its limitations. It may be highly relevant when adapted to the industrialised nations but in an traditional and agrarian environment that has a characteristically unique culture, the experience may be quite different.

Theoretical Framework

In view of the multidimensional nature and complexity associated with state fragility, this study adopts multiple theories such as the elite theory, the group theory and state fragility theory to explain the Nigerian character of this perception. The elite theory of power was advanced in the early 20th century by three famous sociologists namely Vilfredo Pareto (1915), Gaetano Mosca (1896) and Robert Mitchels (1911). More illumination was however offered to the explanation of the theory through the works of C. Wright Mills (1956), Floyd Hunter (1953), Williams Domhoff (1967), James Burnham (1960), Robert D. Putnam (1976) and Ralf Dahrendorf (1990).

The elite theory is a theory of state which seeks to describe and explain power relationships in contemporary society. The theory posits that a small group of people usually a minority consisting of members of the economic elite and policy planning networks holds power in every setting and this power is usually independent of a state's democratic and electoral process. The elite theory is of the view that the elites possess distinctive qualities which set them higher than others in the society. Such attributes include intelligence and skills (Pareto), moral and material superiority (Mosca), and manipulative skills, competence and experience, oratory power, persuasion and resort to sentiments (Mitchels). They are thus able to utilise these virtues to exert significant or overwhelming influence and power over policy decisions of corporations and government.

The elite dominate the formal institutions of government and as such are a determining factor in governance and decision making processes. They are the decision makers in the society whose power is not subject to control by any other body in the society. Though there are varying perceptions of the role of the elite in democratic society, some scholars are of the view that elites are the chief threat to the survival of democracy (Dowse & Hughes, 1983). They have exceptional access to key positions in the society and appear to wield control over crucial policies

disproportionate to their number and to this extent they can understandably be a living contradiction to the notion of democracy and its stability. In this respect, the blame of democratic failure and bad governance should also be on the elite.

Various policies in the public service can be viewed as emanating from the elite-political, administrative and economic leaders. This is contradictory to democratic tenets that lend credence to participation, openness, accountability and freedom in all spheres of societal life (Arowolo and Aluko, 2012). The elite are therefore capable of setting the tone of society by coming out with policies of their choice. By implication, the level of stability and progress achieved in the society is a function of the elite's initiatives. The import of this by extrapolation is that the civil unrest, political violence and state fragility cannot be divorced from the activities of elites in societies. When a society oscillates between democratic stagnancy and backward governance, it is reflective of the elite's pursuit of personal aggrandizement and promotion of egocentrism rather than altruistic policies that are nationalistic and people centred in nature.

The inadequacy of this theory lies in the fact that crisis and tension frequently erupt in the democratic process of the developing countries in Africa through the practice of Mosca's notion of the circulation of the elite. When one analyses the nature of intra-party politics or national politics of these nations, one discovers that the process is usually accompanied with violence during elite recruitment or leadership succession. Furthermore, by practice, the elite theory does not promote and enhance democratic values, since in every democracy; there is no likelihood that the interest and values of the majority will be upheld in spite of the rigours of the electoral process. In other words, democratic institutions and practices would never flourish because elite theory is in practical terms incompatible with democratic ideals.

Another complimentary and reinforcing theory that is central to the explanation of this paper is the group theory. The group perspective on power corresponds to the pluralist theory. Protagonists of the theory include Arthur Bentley, Tocqueville, Robert Dahl, David Truman and James Madison. Unlike the elite or class perspective which divides the society into two main groups, namely the dominant and the dominated groups, the group theory does not subscribe to this perception. Rather, group theory perceives that power in society is not concentrated in a single group but is dispersed among a variety of social groups. These groups are largely autonomous and almost independent centres of decision. Examples of such groups in contemporary society are organisations of workers, farmers, traders,

industrialists and consumers among others. Since these groups are somehow interdependent with the social organisation they tend to balance each other's power. Public decisions are therefore regarded as an outcome of this equilibrium. This theory offers a description of power distribution in the society emphasising that power and authority are not concentrated in a particular group but are spread to various centres of decision. These groups in modern times are designed to serve as intermediate bodies between individuals and the state. They strive to convey the sentiments and emotions of their members to government and also try to influence the process of policy-formation and decision making.

Equally, the group theorists are of the view that there is a widespread distribution of political resources, and different interests prevail in different disputes and at different times. In such a process, the society is controlled by a set of competing interest groups with the government as little more than an honesty broker in the middle. Critics of the group theory point out that pluralism though has a balancing mechanism for the political process, nevertheless it focuses only on the decision making process and overlooks those issues on which no decision could be taken though some of those issues might be very important. There are times when the leaders or spokespersons of groups may play a dominant role which may often be at variance with group interests. Stevens Luke, in concurrence with this view pointed out in his "Power: A radical view (1974), a third-dimension of power, implying that power holders can so manipulate the wants of others in such a manner as to suppress their interests. This is why Robert Dahl conceded that pluralism cannot be treated as an open competition between truly equal political forces. Dahl thus, eventually recommended the reduction in the inequalities of these forces by ensuring those policies that would promote the redistribution of power in society. In essence, subtle forms of domination within various groups and during interaction should not be ignored while using the group perspective for the analysis of power in society.

The theory of the fragile state is another relevant paradigm for understanding the elite connection in the fragility of the Nigerian state. As pointed out under the conceptualisation of state fragility, the terminology is often used interchangeably with such concepts as 'weak state', 'failed state' and even 'collapsed state'. The criteria for measuring weakness, failure and collapse are almost the same. They include the incapability of the state to provide basic welfare services and security for the citizen, lack of legitimacy or the shrinking of the political bases of state authority.

Some scholars have, through the broad characterisation of fragility, categorised fragile states into five groups namely weak states, divided states, post-war states, semi-authoritarian states and collapsed states (UNIECA, 2012). Weak states exhibit low levels of administrative control across the entire country or portions of it with significant gaps, insecurity, performance and legitimacy; divided states manifest substantial divisions between national, ethnic or religious groups; post-war states are those that have experienced violent conflict and are just emerging from war; semi-authoritarian states are those where order is imposed through coercion while collapsed states are those where core government institutions do not function at all; the state has ceased to function completely (Call, 2008; UNIECA, 2012).

The state of being fragile is a continuum and these various descriptions are different stages or levels of the state of fragility. As noted in Roche et al (2008), fragility can be entrenched or transitory, thus it poses challenges of different magnitudes from a socio-economic development perspective. Fragile states thus vary and often the definitions used focus on the analysis in different dimensions. As a result, some analysts emphasise that countries cannot be described based on one form of fragility (Menacal, 2010).

State Fragility in Nigeria: Trends of Elite Connection

Based on the criteria for measuring state fragility such as security, political, economic and social dimensions, Nigeria in spite of its enormous resources is classified alongside countries like Somalia, Malawi, Sudan, Burundi, Mali and others as being a fragile state. When one considers all these factors and the actors precipitating such crises, one discovers that the Nigerian elite dominate the processes. Most of the security crises escalating within the country are being directly caused or remotely instigated by the elite in the pursuit or protection of their vested interests. Some of the conflicts that degenerate into violence of great magnitude today are either thrown up by the elite or a reaction to elite manipulation.

On the economic front, most of the economic crimes that drained the Nigerian economy like money laundering, corruption, oil subsidy scandal (like the Femi Otedola/Lawan Faruq saga), police pension scam, bank-fraud scam and contract kick-backs are more often than not perpetrated by the elite in Nigeria. This development left the country broke or not strong enough to prosecute most of its programmes and projects leading to the emergence of poverty and lack of opportunities to the common man. The environmental scarcity created by oil exploration and the unwillingness of the Nigerian leadership to compensate those

displaced or affected by exploration activities snowballed into the Niger Delta insurgency which brought untold hardship on the country. As a reaction to government insensitivity to the plight of the Niger Delta people, their youth rose up in arms leading to political crises of gargantuan magnitude.

As observed and elaborated on by Collier (2007), conflicts in any country exacerbates fragility in a circular manner. Hence, the circular nature of these various causative factors and their interrelationship is at the heart of the fragility trap in which Nigeria is currently enmeshed. The attendant consequence of this precarious economic situation is that economic hardship becomes prevalent while poverty also becomes pervasive. People generally become restive and any slightest provocation results in open confrontation and violence.

More central to the issue of state fragility in Nigeria is the elite's manipulation of the political process. Ideally, in an all inclusive democratic and electoral process, one expects intra-party democracy to be a desirable phenomenon. Two major schools of thought emanate from the desirability of intra-party democracy. One calls for an oligarchic system as maintained by Duverger (1954), where a few should have effective control over the party machinery to ensure cohesion. The position further argues that inner-party democracy weakens political parties and compromises their ability to compete against their opponents and is therefore undesirable. This argument is further bolstered by Teorell's (1999) perception that democratic consolidation requires the participation of a few party members preferably by the party leaders in decision making processes so as to ensure the presentation of acceptable candidates before the electorates.

Contrary to the pro-Duvergerian perception is the pro-competitive school which canvases for intra-party democracy in order to ensure effective interest aggregation and provide a safeguard for participatory democracy in a wider society (Maiyo, 2005). In analysing the practice of the two schools of thought, one could lay bare the hidden agenda of either god-fatherism or the tendency of a power holder manipulating and suppressing the interests of others, knowing fully that equality and fairness in an atmosphere devoid of god-fatherism and money politics are expected to enthrone democratised intra-party politics (O'Rourke, 2010). In so doing, crisis could erupt which could be inimical not only to the party but to the entire polity as was the case in the Western region's 'operation wetie' in the early 1960s. The role of the elite in such political manipulation to protect personal interest always breeds violent conflict which is inimical to the peace and corporate existence of the country.

Party defection is another characteristic political action/ manouvre of the elite which often heat's up the polity. It is sometimes referred to as party switching and could be defined as the abandonment or change of party affiliation or movement of a politician and/or political office holder, either elected or appointed to an alternative party from the one under which they were elected or appointed into power or position to another (Ogundiya, 2011). The recent crisis within Peoples Democratic Party (PDP) necessitating the defection of about seven governors, many senators, House of Representatives member and their overwhelming crowd of supporters actually brought heat on the polity. This almost brought disequilibrium to the national politics. The National Assembly became a fragile institution, waiting for take-over by the opposition, the Action Congress of Nigeria (ACN), while deliberations equally became fragile thereby sending bad signals to the public. The president and his government panicked over the development while tension became high on the terrible eventuality the political drama may cause. What started as a mere PDP party- affair snowballed into crises of unpredictable consequences.

The Nigerian elite who are actors or personae dramatis in the political drama have always regarded violence as an integral instrument of achieving political goals. Since violence often begets violence, the circular nature of this phenomenon sometimes leads to crisis and fragile situations. In view of the high premium placed on political power in Nigeria like in any other African nation, the electoral process has become warfare for the elite. The zero-sum Nigerian politics, which constitutes the electoral process into a do or die affair spurs the elite to adopt any and every strategy to ensure victory at polls. Once an election is lost, instead of approaching the court to seek redress as provided for by the nation's constitution, the elite engages in lawlessness, burning, arson and wanton destruction of lives and property, thus making the atmosphere tense and fragile.

In terms of social criteria, the issues of language, culture, ethnicity and religion are the various elements that are being exploited by the elite in the bid to capture and retain political power at all costs. The Nigerian elite believe in the notion of 'foul is fair' in the quest for power. Often times, the elite resort to ethnicity and religion as political weapons to achieve their goals. In this process, violent political conflicts ensue. In Northern Nigeria for instance, once the Hausa-Fulani hegemony is being threatened, there is usually the tendency to arouse primordial sentiments of religion which usually results in bitter conflict between Muslims and Christians or Hausa-Fulani and other ethnic minorities. The crises in the Kaduna-Benue and Plateau axis have always revolved around these phenomena and the indigenes-settlers

notion, which has always been flared up by the elite in the defence of their vested interest is an integral part of elite manipulation to dominate.

In contemporary Nigeria, the horizon of insecurity has reached a state of disequilibrium. Kidnapping is terribly increasing on a daily basis. The discovery in recent time, of the “Soka groove” in Ibadan and a “slaughter house” within a residential building in Abeokuta in Oyo and Ogun states, respectively has heightened the state of insecurity and by extension fragility in Nigeria. It is being argued that in every depressed economy, there is always the tendency to make money through foul means. The resort to kidnapping for money rituals by the Nigerian elite in order to stabilise and consolidate their hitherto socio-economic status is becoming more alarming in Nigeria. Arguing from the African perception, more especially the Yoruba cultural notion that “a being must eat human flesh in order to be successful” (Eeyan laa je kaa to jeeyan/nilari laye) the elite in business, administration and more importantly politics have raised the issue of kidnapping to prominence and the level of an institution in contemporary Nigeria. It is however pathetic that the government is doing nothing in terms of the arrest, investigation and prosecution of those involved in this heinous crime in order to reverse this ugly trend. Even when these kidnappers were eventually apprehended by members of the public, the law enforcement agencies usually collude to set them free on trumped up explanations.

From the foregoing exposition, it could be argued that Nigeria as a nation is no doubt sitting on a keg of gun powder and it could explode at the slightest opportunity.

Challenges of State Fragility in the Nigerian State

The challenges of state fragility are enormous and inimical to the economic development of a nation, well-being of its citizens and its corporate existence. Paramount among these challenges is the issue of insecurity. The environment of a fragile state is usually unsafe for lives and property while it is equally not conducive for business to thrive. Investors are always scared of investing in the economy of such states. Invariably, the low level of economic development leads to lack of employment opportunities with the attendant mass poverty. This will inevitably provoke ill-health and diseases, and the possible outbreak of epidemics. This insecurity will make every crime escalate and thrive. Armed robbery, banditry and kidnapping rate will increase as it is the situation in Nigeria today.

The democratic stability of the nation will be threatened and the lawless situation of the country will negatively affect the corporate existence of the nation. Warlords

may begin to lay claims to spheres of influence, extort people and restrict the free movement of people and goods as is currently the case in Somalia. Social cohesion and personal freedom would be lost. Civil liberties will be at its lowest ebb while freedom of movement, association, expression and choice may be curtailed.

Added to the national economic weakness which a fragile nation may experience, there is the likelihood that the domestic and external debt to GDP ratio will be high, a situation which translates to a significant proportion of revenue being largely eaten up by debt servicing. The hostile situation may force the existing and prospecting businesses and investors to experience some constraints and get discouraged from operations.

Efforts at Resolving State Fragility in Nigeria

There is no doubt that there are significant correlations between economic crises such as inequality in access to opportunities and resources, outright exclusion, denial of rights, and social tension, high crime rate and violence, and insurgency that threaten the stability of the polity and corporate existence of the nation. In view of this realisation, several efforts have been made by successive administrations to stem the crises of state fragility in Nigeria but have all yielded limited success.

The government having noted the various inequalities that led to the emergence of pervasive poverty initiated a lot of poverty reduction programmes. However, more often than not, the anticipated success of these programmes has been perverted by corruption. Its resources often times have been used to maintain the realigned political forces considered most crucial to the durability of the regimes in power (Rosenje & Moliki, 2007).

Other economic recovery and development strategies like the National Economic Empowerment and Development Strategy (NEEDS), seven point agenda of President Shehu Musa Yaradua and the vision 20:20 designed to bail the country out of economic doldrums, and generate the employment opportunities required to generate personal income have been hijacked by the Nigerian elite who lack a financial base and regard such schemes as an avenue for wealth.

Even in the democratic governance and electoral process that are expected to be all inclusive, where Nigerian electorates were assured that their votes would count there still evidence to suggest that the elite would conceive politics as a zero-sum game and a do-or-die affair. The violence that is brought to bear in the process alienates the electorate and sometimes results in apathy, thus giving the impression

that politics is a fragile venture. Often times, the intra-party politics or internal democracy of political parties become a violent arena to behold. The issue of leadership succession or elite recruitment is usually attained with high stakes. Despite the presence of security agencies at the venues of such rallies or campaigns, the security of lives and property could not be guaranteed due to the inadequacy of the security agencies. In essence, while Nigeria has all the instruments of democratic institutions in place, it is largely undemocratic, possesses significant autocratic strains and largely ineffective (Oyelaran-Oyeyinka, 2011).

The existence of a hostile environment for private sector growth constitutes a hindrance to the orchestrated government private – public partnership ventures. In spite of the assurance given to foreign investors that Nigeria is the nation of destination; the LPI (2010) cited in UNECA, (2012) ranked Nigeria 103 out of 110 countries for entrepreneurship and opportunity. The LPI reveals that Nigerians are relatively optimistic about the value of hard work but opportunities are limited. The mono-cultural nature, gross inability to diversify the productive base and limited opportunities in the Nigerian economy are partly due to the hostile environment to investment and business. Existing and prospecting businesses and entrepreneurs face significant constraints including poor infrastructure, particularly electricity supply, road network, security and corruption in Nigeria. For instance, in spite of the annual budgetary allocation and special grants released for power generation, power production and consumption were 21.92 and 19.21 billion KWh respectively compared to 70 and 69 billion KWh world average respectively in 2007. The global competitiveness outlook for Nigeria 2007 – 2008 remains dismal and a major disincentive for both foreign and domestic investors.

Though government through budgetary allocations and special grants had on several occasions tried to re-organise and fund the security agencies with a view to coping with the magnitude of security challenges, such efforts have ended up in futility. Corruption in high places and among the elite, the political leadership and top echelons of the security agencies have always denied the outfit the opportunity of maximally benefiting from such largesse. Hence, equipment becomes obsolete while training is either non-evident or haphazardly arranged bringing about low morale and lack of commitment to duty on the part of both men and officers of the security agencies.

Conclusion

In this paper, an attempt has been made to conceptualise state fragility and the elite and as well offer a theoretical framework to illuminate our understanding of

the issue under consideration. The trend of elite connection to state fragility in Nigeria has been explored while the challenges of state fragility to the development, democratic stability and corporate existence of the nation have been documented. In order to overcome all these challenges, the paper submits that:

- (i) the government and all stakeholders should go into dialogue possibly by convening a national conference where true representatives of the people would frankly and objectively discuss issues of common interest;
- (ii) the government should introduce reforms on economic fronts with a view to initiating policies that will improve national productivity, create employment opportunities and thus, make life more abundant for the generality of the people;
- (iii) the government should embark on massive construction works to revitalize the nation's economy, open up the isolated areas and strengthened the security agencies to enable them cope with the increasing security demands required to put the nation back on course;
- (iv) the government should institute political reforms to accommodate other contending interests in an all inclusive manner in order to enhance social cohesion and promote national integration;
- (v) other social groups, mass movements and civil society groups should be given recognition and brought on board in order to checkmate the excesses of the elite in political calculations;
- (vi) the government should embark on massive enlightenment campaigns using both the print and electronic media as well as the traditional communication strategies to educate the citizenry on the need for collective efforts to bail the nation out of the doldrums.

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THE EXTENDED BALANCE OF PAYMENT CONSTRAINED GROWTH MODEL AND NIGERIA'S LONG-RUN GROWTH PERFORMANCE

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Abstract

Utilizing both the McGregor and Swale (1985) and McCombie (1989) test procedures, the study investigated the applicability of the extended BPC growth model using Nigeria as a case study of a developing economy. The empirical analyses using the ARDL cointegration framework reveal that both the demand for import and export are income inelastic, whilst the supply of export is a direct and elastic function of world income. A percentage increase in world income will lead to 6.63 percent increase in exports. The results show that the growth in exports, the growth in real exchange rate and terms of trade are crucial to the economic growth process in Nigeria in the short run. However, little evidence of a long-run relationship between the variables exists.

JEL Codes: F32, F40, F43

Keywords: Balance of payment constraint growth model (MPC), Capital flows, Cointegration analysis, ARDL model

1. Introduction

The importance of the theories of economic growth in the literature is well rested. Economic factors alone do not determine economic development. Growth is influenced by a set of non-economic phenomena, such as history, geography, anthropology, sociology, culture, among others in the long run (McCloskey, 2010). That literature is replete with thought on economic growth is no exaggeration. The classical, neoclassical and the endogenous schools of thought are either silent or have assigned equal weight to all the economy sectors in explaining the macroeconomic productivity. The structuralist hypothesis posits that structural change is critical to the growth of the economy. The process of economic development is characterized by fundamental transformation of the structure of production and employment. The structural modification is driven by changes in domestic and international demand (Pasinetti, 1993; Setterfield (2010), and Thirlwall, 2013).

Openness and the composition of foreign trade have however been identified by Amable (2000) as the vehicles for promoting growth. Such countries tend to adopt the Ricardian postulate of specializing in the production of commodities for which they have a comparative advantage coupled with the importation of goods which are relatively expensive to produce. However, specialization alone is not enough for generating higher growth rates as exemplified by the experiences of developing countries which have depended on the export of primary products. In formulating models of export-led growth, Kaldor (1966) and Thirlwall (1979) relied on Verdoorn's (1949) law which posited that low prices for traded goods coupled with high competition in the export sector may lead to the reallocation of resources to a productive export sector from the less efficient non-trade sector. The resultant changes in the pattern and of level demand affect the sectoral employment. The consequential effect of this is the increase in specialization and labour skills which in turn leads to further structural changes within industries, manufacturing for export and output growth. In Kaldor (1966), view net exports must increase at a faster rate in the advanced stages of development, in order to finance the soaring need of imported capital goods. The position canvassed by Thirlwall (1979) which is reemphasised by Thirlwall in 2011 is that the rates of growth of several countries do not surpass the ratio of the rate of exports growth to income elasticity of imports demand. The 1979 model asserted that no country outgrows the rate consistent with the balance of payments equilibrium on the current account unless the resulting deficits can be financed. In general no country can do this. The implication of this is that the balance of payments equilibrium may restrain growth.

The summary of Thirlwall's (1979 and 2011) main proposition is that, when external constraint is reduced, the dynamic economies of scale allied with the manufacturing sector, directed, in turn, by the demand side, explains the long-term growth of the economy. The reallocation of resources from the less efficient non-trade sector to the more productive export sector especially in the industrial sector portends enhanced productivity as the economy is structurally geared for expanded exports and to output growth. In order to achieve sustainable economic growth without the attendant balance of payments constraints, Thirlwall's Law posits that a country needs to have an income elasticity of demand for exports in excess of the income elasticity of demand for imports. A developing country like Nigeria needs to in addition to having a large and diversified export basket, should ensure that the majority of its net exports basket is composed of goods of high income elasticity of demand in the long run.

The BOP-constrained growth model by Thirlwall (1979, 2011) proposes and postulates a simple rule, known as “Thirlwall’s Law”. The law hypothesises that the long-run growth rate consistent with BOP equilibrium is given by the ratio of exports growth to the income elasticity of demand for imports. The model is based on the assumption that relative Purchasing Power Parity (PPP) holds in the long-run, so that relative prices (measured in a common currency) do not change and BOP equilibrium is achieved via adjustments in the level of economic activity. This supposition of the BOP-constrained growth has been largely subjected to empirical scrutiny. Existing pieces of evidence are far from being uniform.

While previous studies on Nigeria are based on the traditional BPC growth, this research seeks to investigate the applicability of the extended model. As recommended by Thirlwall (2011), our model incorporates three additional variables: capital flows on the capital account balance, interest payments on debt and terms of trade movements in predicting long-run growth performance. For a better understanding of the growth experience of developing countries, the capital flow element is required for the impact of the financing major development initiatives. Also, the interest payment on debt cannot be ignored in the wake of the heavy debt burden of most developing countries during the study period. The unfavourable (slanted) terms of trade also begs for attention in view of the impact of past colonialism and continuing neo-colonialism as explained by the dependency theory (Ferraro, 2008).

This paper covers 1980 to 2010, and various economic cycles since the political independence of Nigeria was discussed. The period provides an opportunity for a comprehensive evaluation of the impact of the external sector on the economy. The rest of this paper is structured as follows: in section two, the theoretical framework of the study and review of relevant literature is presented. The methodology incorporating the model specification, and data description are discussed in the third section. In section four, the data analysis and discussion of the results are presented. Section five concludes and offers some recommendations.

2. Literature Review and Theoretical Underpinning

2.1 Literature Review

The literature on the impact and contributions of net export to national output presents varying results. Specifically, the channels through which the external sector balance of payments has facilitated or constrained the pace of economic growth have also been empirically reported. In the opinion of the neoclassical school of economic thought, macroeconomic productivity is critical in explaining the

contributions of the other components and sectors of the economy. In applying a different approach to the dynamics of structural economic formulations, Araujo and Trigg (2013) derive the demand regime by applying a disaggregated version of the Keynesian multiplier and Kaldor-Verdoor productivity regime for an open economy. The outcome is Pasinetti's (1981) model of the multi-sector growth model of the structural change and cumulative causation. In addition, the result shows that the evolution of demand patterns is affected by differential rates of productivity growth in different sectors of the economy and the critical role of technical progress.

The endogenization of technological progress in Pasinetti's framework was deployed by Araujo and Teixeira (2011). The same approach by D'Agata (2010) in adopting evolutionary theory to endogenize consumption dynamics and technological progress with bounded rational firms and consumers in Pasinetti's framework yielded similar results that dynamic capability is a fundamental driving force of technological changes and therefore economic growth. This is consistent with the research by Naiya and Manap (2013) which applied the ARDL bound testing technique to test the relationship among growth, inequality and poverty in Nigeria. The study reveals that the structural transformation of the economy led to the shifting of production structure from the primary to the industrial high productivity. Abu-Ismael (2003), covers actual and equilibrium growth between 1960 and 1999, and suggests that the theory of export-led growth is not generally applicable one. He submits that based on stylized facts, the manner of a country's economic performance is not affected by the export trade in both commodity and service. The level of openness and the diversity of specialization patterns, he contends are not consistently reflective of economic performance outside the cluster of other Gulf countries which are oil- dependent and Asian, export-intensive economies.

An experiment on the Turkish economy by Aricioglu et al. (2013) shows that neither the weak nor strong form of the Thirlwall's law is valid. Also, Mirza & Mazhar (2012) on Pakistan utilizing both the Johansen's test for cointegration as well as the bound test (ARDL) approaches and reports inconclusive results. In an attempt to determine the long-run rate of growth in Brazil, Britto (2008) estimates the balance-of-payments constrained model using the VAR technique, and finds that Thirlwall's Law is linked with the long run equilibrium rate of growth. However, the preeminent work by McCombie and Thirlwall (1994) deployed the original Thirlwall model for Brazil over the period 1955-1988. The study used a time series data, the cointegration procedure and the vector error correction mechanism techniques for determining the long run and short run adjustments between the

variables. The Brazilian economic growth was found to be a balance of payments constrained in the long run. Similar work by Jayme (2003) which extended by another ten years (1955 – 1998) also provided evidence in support of Thirlwall's law. Atesoglu (1993) employed a two-stage least squares method to test the validity of Thirlwall's law on the USA economy. Using two separate groups of time series data for the period, 1955-1970, the study provides evidence in support of the law in the long run. A similar study of the Canadian economy in 1994 by the same author (Atesoglu) reveals growth in exports as a significant and important source of Canadian economic growth, but evidence for capital inflows is found to be otherwise.

Comparing the impact of the export sector on the Spanish and the European economies, the research of Bajo-Rubio (2010) utilized time series data from between 1850 and 2000. He calculated the balance of payments-constrained growth rate from estimated demand and real exchange rate elasticities for exports and imports, and taking into account the role of capital inflows. The results show that holding other variables constant, the Spanish rate of GDP growth was slightly above both the EU's growth rate, and the balance of payments-constrained growth rate. This, in effect, means that the foreign sector was not a constraint to the growth of the Spanish economy in the long run. An Indian study by Razmi (2005) relaxed the assumption of similarity in the elasticities of substitution between goods produced in different regions between 1950 and 1999. The estimation of the amended Balance of Payments Constrained Growth (BPCG) model using Johansen's cointegration technique and the vector error correction framework confirms Thirlwall's law. Studies by An Sy Pham (2007) on Vietnam between 1990-2004; Fida et al (2009), on Pakistan between 1950-2007, Alvarez-Ude et al (2008) on Cuba and Abaidoo (2011) on Ghana from 1965-2004 all found support for Thirlwall's law.

A generalized version of Thirlwall's law by Soukiazis et al (2012), which incorporates private sector and public sector influences on internal demand shocks, shows that a generalized version is a better predictor of the actual growth of output in Portugal than the original model. Using the autoregressive distributed lag (ARDL) and vector error correction model (VECM) to estimate the income elasticity of imports demand, the findings by Yongbok (2006), and Ozturk and Acaravci (2009) showed that China's and South Africa's economic growth dynamics respectively reflect the prediction of Thirlwall's law.

A study of 43 countries (including Nigeria) by Oyejide (1975) reported a positive relationship between average growth rates of GDP and export as a percentage of GDP, between 1960 and 1967. The verdict reached by Adewuyi and Adeoye (2008) in a study quantifying the potential growth rates of the Nigeria economy under the balance of payments constraint was that the Nigerian output gap remains unbridged and the economy has fallen short of its potential growth rates. Similar work by Anoka (2013) covering 1970-2010, applied the Johansen cointegration and vector error correction techniques. The findings show that exchange rate, gross domestic product, and world gross domestic product have significant and positive effects on Nigeria's sectoral compositions of export and import.

That there is an increasing number of empirical studies on Thirlwall's law, is indeed knowledge, however the uniqueness of this study, lies in its being the first to investigate the applicability of the extended Thirlwall law for predicting growth performance in Nigeria. This is crucial because of the need to take cognizance of the capital flows involved in the funding of development projects by developing countries. This notion is pursued in greater detail in the next section.

2.2 Theoretical Framework

The Neoclassical school of thought has preference for the use of total factor productivity (TFP) as the more suitable gauge of economic development rather than labour productivity. The advantage of TFP being that it better captures technical progress by taking full cognizance of the contributions of both physical capital and labour. The labour on the other hand is bereft of both physical capital and technical progress productivity. The TFP however only estimates technical progress as residual. The endogenous growth school contends that both technological spillovers and innovations are the core engine for explaining productivity growth. As mentioned in the previous section, the neoclassical schools of economic thought have assigned equal weight to all the economy sectors in explaining the macroeconomic productivity. The suppositions of structuralist (Verdoorn, 1949; Kaldor, 1966 and Thirlwall, 1979) run contrary to these assumptions.

Following Says law, which suggests that supply creates its own demand, the mainstream versions of economic growth generally neglect not only the demand side of the economy, but also external sector constraints of the balance of payments. Although the orthodox supply constrained growth theories are closed economy models, Thirlwall's balance of payments constrained growth (BPCG) model links trade to growth because exports pull demand. Thirlwall (1979) also developed the balanced trade version of the BPCG model infused with the standard

multiplicative imports and exports functions. The balance of payment equilibrium stated in domestic currency is presented in equation 1:

$$P_{dt} X_t = P_{ft} M_t E_t \quad (1)$$

where:

X_t = unit of exports at time t;

M_t = units of imports at time t;

P_{dt} = domestic price of exports at time t;

P_{ft} = foreign price of imports at time t, and

E_t = exchange rate or domestic price of foreign currency at time t

Using standard demand theory, expressing the imports demand functions in the multiplicative forms and taking their logarithm of equation and differentiating with respect to time gives:

$$pd + x = pf + m + e \quad (2)$$

$$m = \psi(pd - pf - e) + \pi y \quad (3)$$

$$x = \eta(pd - pf - e) + \varepsilon z \quad (4)$$

Where:

y = growth in domestic income

z = growth in world income

x = growth in unit of exports m = growth in units of imports

pd = growth in domestic price of exports

pf_t = growth in foreign price of imports

ψ = the growth in price elasticity of demand for imports ($\psi > 0$)

$\tilde{z}$ = the price elasticity of demand for exports ($\tilde{z} < 0$)

π = the income elasticity of demand for imports ($\pi > 0$) and

ε = the income elasticity of demand for exports ($\varepsilon > 0$).

Equation (3) and (4) are the import and export equation, while equation (1) represents the current account balance. Thus, solving for y gives the growth rate of output consistent with balance of payments equilibrium (y_{BOP}) in equation (5) (Thirlwall, 1979):

$$y_b = \frac{(1 + \eta + \psi)(p_{dt} - p_{ft} - e_t) + \sigma z_t}{\pi} \quad (5)$$

Applying the law of 'one price' or the Marshall-Lerner condition, equation (5) can either be expressed in equation (6) in the context of the law of one-price:

$$p_{dt} = p_{ft} + e_t \quad (6)$$

Or in the Marshall-Lerner condition which states that currency devaluation will only lead to an improvement in the balance of payments if the sum of demand elasticity for imports and exports is greater than one:

$$1 + \eta + \psi = 0 \quad (7)$$

in which case equation (7) becomes,

$$y_b = \frac{\sigma z_t}{\pi} \quad (8)$$

Where: y_b = growth rate of output.

The implication of equation (8) is that a country's growth rate depends on the growth rate of its trading partner(s). The pace of a country's growth rate relative to others however, depends on the income elasticity of demand for exports, which Thirlwall (2009), and Mirza & Mazhar (2012) identify, as a function of the structure of production and exports which is responsible for the growth rate differences between countries. In effect, the balance of payments equilibrium growth rate can be directly related to the growth in world income and the income elasticity of exports, while it is inversely related to the income elasticity of imports.

This traditional model of Thirlwall (1979) suggests that the external sector constraint on long-run growth of output can be relaxed or increased by increasing the income elasticity of exports, reducing the income of elasticity imports. This, according to Setterfield (2002), is the supply-side Keynesianism and global Keynesianism. Equation (8) also known as the Thirlwall's law states that 'a country cannot grow faster than its balance of payments equilibrium growth rate for very long, unless it can finance an ever-growing deficit' (Thirlwall, 2011:43).

Different versions of the BPC growth model have been subjected to empirical verification using various data sets and econometric techniques. In order to fit the model (equation 8), some basic parameters need to be estimated which include the income elasticity of demand for imports and exports. Therefore, we would be considering a standard multiplicative import demand function of the form:

$$M = \alpha \left(\frac{P_f E}{P_d} \right)^\psi NY^\pi \quad (9)$$

Where M is the volume of imports, α is a constant, P_f is foreign price, P_d is domestic price, E is the nominal exchange rate, defined as the domestic currency price of a unit of foreign currency, NY is Nigerian income, ψ is the price elasticity of import which is expected to be negative and π is the income elasticity of imports which is expected to be positive. Taking logs of equation (14) yields:

$$\ln M = \ln \alpha + \psi (\ln P_f + \ln E - \ln P_d) = \pi \ln YN \quad (10)$$

The above import demand function tends to be suggesting that imports depend on the level of domestic income and price competitiveness, measured by the real exchange rate. Similarly, the export performance of a country depends on price competitiveness and the level of world demand for its product. Hence, we specify a standard multiplicative export demand function of the form:

$$X = \beta \left(\frac{P_f E}{P_d} \right)^\eta WY^\sigma \quad (11)$$

Where X is the volume of export, β represents a constant; WY is the level of World Income, while η and σ are the price and income elasticities respectively. These elasticities are expected to be positive. Taking logs of equation (11) above yields:

$$\ln X = \ln \beta + \eta (\ln P_f + \ln E - \ln P_d) + \sigma \ln WY \quad (12)$$

Essentially, the traditional Thirlwall (1979) Law represented in equation (8) relies on two main assumptions of constant relative prices, and no capital flows. This however, limits the suitability of the model in explaining the growth behaviour of developing economies, which rely heavily on capital flows to finance development projects. To this end, the basic BPC growth model might not be sufficient to predict the long run growth performance of developing economies. However, in order to accommodate the growth experiences of developing countries like Nigeria, Thirlwall (2013) relaxes the two by extending the basic model to account for additional variables such as capital flows on the capital account balance, interest payments on debt and terms of trade movements. These are the crux of the model, presented in the next section.

3. Methodology and Data Description

3.1 The Model

The extended model starts from the balance of payments accounting identity:

$$P_{dt} X_t + K_t = P_{ft} M_t E_t \quad (13)$$

Where X_t is the volume of export, P_{dt} is the domestic price of export, M_t is the volume of imports, P_{ft} is foreign price of imports, E_t is the exchange rate, and K_t is the value of nominal capital flows measured in domestic currency. $K_t > 0$ measure capital inflow while $K_t < 0$ implies capital outflow. However, the differentiation of the variables in equation (13) gives their rate of change which could be expressed in rate of growth form as:

$$\lambda (p_{dt} + x_t) + \Phi k_t = p_{ft} + m_t + e_t \quad (14)$$

Here, the lower case letters indicate the rate of changes of variables expressed in natural logarithms with λ and Φ representing the proportions of the total import bill financed by export earnings and capital flows respectively. The extended BPC growth model for the rate of growth of real domestic income can be obtained by incorporating the first difference of equations (10) and (12) into equation (14) such that,

$$y_{bop} = \frac{(\lambda\eta + \psi)(p_{dt} - p_{ft} - e_t) + (p_{dt} - p_{ft} - e_t) + \lambda(\sigma z_t) + \Phi(k_t - p_{dt})}{\pi} \quad (15)$$

By applying the law of 'one-price' as in equation (6), equation (15) will be reduced to:

$$y_{bop} = \frac{\lambda(\sigma z_t) + \Phi(k_t - p_{dt})}{\pi} \quad (16)$$

This is the weighted sum of the growth of exports due to world income growth and the growth of real capital flows, divided by the income elasticity of demand for imports. This is the strong version of the unbalanced trade approach to the BPCG rate.

Some growth implications are manifested from equation (16). (i) *ceteris paribus*, the higher the income elasticity of demand for imports (π) the lower the growth rate of domestic income would be; (ii) a higher growth rate of world income would result to an increase in demand for domestic exports, and this in turn could lead to an increase in the growth rate of domestic income; (iii) the increasing growth in capital inflows could soften the constraints that the balance of payments impose on growth even with growing income so long as the increasing balance of payments deficits are sustainable, and (iv) the devaluation of domestic currency will improve growth in income provided that the absolute sum of the price elasticity of export weighted by the proportion of the total import bill financed by exports earnings, and the price elasticity of demand for imports is greater than unity ($\lambda\eta + \psi > 1$).

In the absence of information on exports demand elasticities, Perraton (2003) recommends that the actual growth rate of exports can be assumed to be approximate to the rate determined by the exports demand function (i.e. $x = \sigma z_t$). This is the rate adopted by this study in view of paucity of data on the elasticities of export. The import of this is that equation (16) is converted to become the weak version of the unbalanced trade approach to the BPCG as follows:

$$y_{bop} = \frac{\lambda(x_t) + \Phi(k_t - p_{dt})}{\pi} \quad (17)$$

The main argument of this study, in line with Thirlwall (2013) is that for typical developing countries like Nigeria, the extended BPC growth model is the appropriate model to explain their growth experience. The extended model incorporates three factors (capital flows, interest payment and the rate of growth of real exchange rate which determines the terms of trade movements) that might cause a country's growth rate to behave differently from the rate predicted by the basic BPC growth model. The rationale is that most developing countries rely heavily on the export earnings of a few primary commodities, which makes them susceptible to changes in the real exchange rate. In addition, the developing economies rely heavily on capital flows to finance development projects. As a result, foreign exchange becomes a more significant bottleneck for growth and development than for developed countries. To this end, growth in capital flows then becomes an important determinant of growth in domestic income. For the purpose of empirical analysis in addition to the above argument, we added intercept and stochastic error terms to equation (17) such that,

$$y_{bop} = \beta_0 = \beta_1 x_t + \beta_2 (k - p)_t + \beta_3 rer_t + \varepsilon_t \quad (18)$$

Where:

$$\beta_1 = \frac{\lambda x_t}{\pi}, \beta_2 = \frac{\Phi}{\pi} \text{ and } \beta_3 = -\frac{(1+\psi)}{\pi}.$$

While the expected value of β_1 is positive, the expected signs of β_2 and β_3 cannot be determined apriori. They can be positive, negative or equal to zero. In order to also test for the effect of terms of trade on growth in income, equation (18) is extended to include terms of trade variable (tot). and therefore, the final equation to be tested is represented as follows:

$$y_{bop} = \beta_0 = \beta_1 x_t + \beta_2 (k - p)_t + \beta_3 rer_t + \beta_4 tot_t + \varepsilon_t \quad (19)$$

3.2 Estimation Techniques and Procedure

A number of studies have empirically verified the applicability of different versions of the BPC growth model using various data sets and econometric techniques with mixed results. Three main test procedures have been proposed in the literature (Thirlwall & Hussain, 1982; Perraton, 2003; Pacheco-Lopez & Thirlwall, 2006, 2007; and Pacheco-Lopez, 2005). The McCombie test procedure compares the estimated income elasticity of import demand with the hypothetical elasticity which will equate the actual and the BPC model growth rates of income. The second approach by McGregor and Swales (1985) regresses the actual growth rate (y) on the model's predicted growth rate (y_{bop}). It thereafter tests whether the slope

coefficient equals unity and the constant equals zero. If these conditions are satisfied, then the BPC model's predicted growth rate is considered to be a good estimate of the actual growth rate. However, McCombie (1989) criticizes the McGregor and Swales test on the basis that the independent variable (y_{bop}) is itself calculated using estimated parameters and could suffer from a misspecification analogous to an "error in variables" problem. He then suggests a third method which involves regressing (y_{bop}) on "(y)" and testing whether the slope coefficient equals unity and the constant term equals zero.

All the aforementioned test procedures are based on the estimation of one important parameter which is the income elasticity of demand for imports. To this end, we applied an Autoregressive Distribution Lag (ARDL) modeling approach to the cointegration testing of the import, export and the growth equations. The test for co-integration is meant to verify whether Nigeria's GDP growth could be considered to be BOP-constrained during the period under consideration (1980 to 2012) or not.

The ARDL cointegration approach is considered superior to the conventional Johansen cointegration testing method since it includes a mixture of I(0) and I(1) data, assigned different lag-lengths for different variables as they enter the model. In addition, the ARDL cointegration approach involves just a single-equation set-up, which lends it ease of calculation and interpretation (Pesaran & Pesaran, 1997). Pesaran and Shin (1999) recommend the formulation of the ARDL cointegration ($p, q_1, q_2, \dots, q_k$) as follows:

$$\alpha(L, p)y_t = \alpha_0 + \sum_{i=1}^k \beta_i(L, q_i)x_{i,t} + \varepsilon_t \quad (20)$$

Where α_0 is a constant, y_t denotes the dependent variable, L is a lag operator, $x_{i,t}$ is the vector of regressors (where $i = 1, 2, \dots, k$) and ε_t is the disturbance term. In the long-run, we have $y_t = y_{t-1} = \dots = y_{t-q}$ and $x_{it} = x_{i,t-1} = \dots = x_{i,t-q}$. Here, $x_{i,t-q}$ denotes q^{th} lag of the i^{th} variable. The long run equation can be written as follows:

$$y_t = \alpha + \sum_{i=1}^k \beta_i x_{i,t} + \mu_t \quad (21)$$

The error correction (EC) representation of the ARDL model can be written as follows:

$$\Delta y_t = \Delta \alpha_0 - \sum_{j=1}^p \alpha_j \Delta y_{t-j} + \sum_{i=1}^k \beta_{i0} \Delta x_{it} - \sum_{i=1}^k \sum_{j=1}^q \beta_{it-j} \Delta x_{i,t-j} - \alpha(1, p) ECM_{t-1} + \varepsilon_t$$

$$ECM_t = y_t - \alpha - \sum_{i=1}^k \beta_i x_{it}$$

(22)

Where Δ is the first difference operator, $\alpha_{j,t-1}$ and $\beta_{i,t-1}$ are the coefficients estimated from equation (20), and $\alpha(1, p)$ measures the speed of adjustment. A two-step procedure is used in estimating the long run relationship and the short run dynamics. In the first stage, the existence of any long run relationship among the variables of interest is determined using the following ARDL equation:

$$\Delta y_t = \alpha_0 + \sum_{i=1}^n \beta_i \Delta y_{t-i} + \sum_{i=0}^n \sigma_i \Delta x_{t-i} + \delta_1 y_{t-1} + \delta_{2i} x_{it} + \varepsilon_t \quad (23)$$

The order of the lags in the ARDL model is selected by the Akaike or the Schwartz criteria. The second stage of the analysis uses equations (20), (21), and (22) to estimate the short-run and the long run parameters.

The F-test is used for testing the existence of a long-run relationship in equation (23). The null hypothesis of no long-run relationship is defined by $(H_0 : \delta_1 = \delta_{2i} = 0)$ is denoted by $F_y(y/x, y)$. The F-test has a non-standard distribution which depends upon: (i) whether variables included in the ARDL model are to be $I(0)$ or $I(1)$, (ii) whether the ARDL model contains an intercept and/or a trend. Pesaran and Pesaran (1997) report two sets of critical values (CVs): one set is calculated assuming that all variables included in the ARDL model are $I(1)$ and the other is estimated considering the variables are $I(0)$. If the calculated F-statistic is higher than the upper bound critical value, it suggests the rejection of the null hypothesis of no long run relationship. If the calculated F-statistic is lower than the lower bound of the critical value, then the null hypothesis cannot be rejected.

Finally, if it falls in between the lower and upper bound, then the result is inconclusive. Furthermore, we check the specification of the ARDL model from which the long run coefficients and the ECM models are derived by conducting the following diagnostic tests: serial correlation, functional form, normality, and heteroscedasticity. Having described the estimation procedure the next discussion is on the types, sources and description of the data to be used which is presented next.

3.3 Data Source and Descriptions

Data used in this paper are annual figures covering the period 1980 to 2010. The data on the variables are sourced from World Development Indicators (WDI) database. Real imports (*RIMP*) is measured as imports of goods and services (constant 2005 US\$), while real exports (*REXP*) on the under is measured as exports of goods and services (constant 2005 US\$). Domestic income (*NY*) is represented as Nigeria's gross domestic product (constant 2005 US\$), while the World Income (*WY*) is measured as World GDP less Nigeria's GDP (constant 2005 US\$). Capital Flow (*CFL*) is measured as real imports less real exports.

Terms of Trade (*TOT*) is measured as relative price of exports to imports while real exchange rate (*RER*) is defined as:

$$ER \times \frac{P_f}{P_d}$$

where *ER* denotes nominal exchange rate (i.e. quantity of Naira per one US Dollar), P_f represents the price index of the United States, while P_d represent Nigeria's price index. The next presentation is on the findings and discussions thereon.

4. Empirical Findings and Discussions

4.1. Preliminary Analyses

The preliminary characteristics of the data and the summary of the statistics of the variables are presented in Table 1. There seems to be evidence of significant variations in the trends of all the variables over the scope covered. This is shown by the huge difference between the minimum and maximum values of the series. Regarding the statistical distributions of the series, all the series with the exception of *RER* are positively skewed. However, *RIMP*, *REXP* and *NY* are leptokurtic in nature, while *WY*, *RER*, *CFL* and *TOT* are platykurtic in nature. The Jarque-Bera (*JB*) statistic which takes into consideration information from skewness and kurtosis to test for normality suggests non-normality of all the variables.

Table I: Descriptive Statistic (1980-2012)

Statistics	<i>RIMP</i>	<i>REXP</i>	<i>NY</i>	<i>WY</i>	<i>RER</i>	<i>CFL</i>	<i>TOT</i>
Mean	1756.63	1890.05	85576.86	36168813	152.83	-0.15	66.08
Maximum	12695.61	17470.6	177678	53462144	266.87	0.31	105.28
Minimum	192.446	188.39	44556	22240375	46.73	-0.56	27.55
Std. Dev.	3117.11	3506.31	37136.09	9804528	72.58	0.23	20.77
Skewness	2.60	3.308	1.02	0.246258	-0.03	0.09	0.16
Kurtosis	8.66	13.99	3.00	1.803	1.70	2.24	2.15
Jarque-Bera	81.30	226.35	5.67	2.30	2.31	0.84	1.14
Observation	33	33	33	33	33	33	33

Source: Author's computation (2015)

Note: Real import (*RIMP*), real export (*REXP*), domestic income (*NY*) and world income (*WY*) are all measure in million USD, while real exchange rate (*RER*), capital flow (*CFL*) and terms of trade (*TOT*) are in rate form.

Though the bound test approach to cointegration does not require the pre-testing of variables for unit roots, it is however, important to perform this test in order to verify and ascertain that none of the variables considered in the study is integrated of an order higher than one. The procedure adopted in this study involves the use of the two standard unit root tests namely Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The null hypothesis of ADF and the PP tests is non-stationarity, thus failure with respect to rejection implies a unit root in the series.

The obtained results are reported in Table 2. At the first difference, the trending instability condition appears to vanish for the variables which are hitherto non-stationary at level.

Table II: Unit Root and Stationarity Tests

	Augment Dickey-Fuller (ADF)			Ng-Perron (NP)		
	<i>Level</i>	<i>First Difference</i>	<i>I(d)</i>	<i>Level</i>	<i>First Difference</i>	<i>I(d)</i>
<i>LRIMP</i>	-2.682 ^{***a}	-	I(0)	-3.482 ^{**a}	-	I(0)
<i>LREXP</i>	-3.381 ^{**a}	-	I(0)	-3.381 ^{**a}	-	I(0)
<i>LNY</i>	-1.489 ^b	-5.184 ^{*a}	I(1)	-3.274 ^{***b}	-	I(0)
<i>LWY</i>	-2.860 ^b	-4.379 ^{*a}	I(1)	-2.263 ^b	-4.258 ^{*a}	I(1)
<i>LRER</i>	-2.159 ^a	-4.707 ^{*a}	I(1)	-2.261 ^a	-4.695 ^{*a}	I(1)
<i>TOI</i>	-3.445 ^{***a}	-	I(0)	-3.237 ^{**a}	-	I(0)
<i>LCFL</i>	-5.245 ^{*b}	-	I(0)	-5.499 ^{*b}	-	I(0)

Source: Author's computation (2015)

Note: ^a Indicates a model with constant but without deterministic trend; ^b is the model with constant and deterministic trend as exogenous lags are selected based on Schwarz info criteria.

*, **, *** imply that the series is stationary at 1%, 5% and 10% respectively.

ADF and NP represent Augmented Dickey-Fuller and Ng-Perron Unit Root and Stationarity tests respectively. The null hypothesis for ADF and NP is that an observable time series is not stationary (i.e. has unit root).

Since the stationarity property of variables under consideration are a mixture of $I(1)$ and $I(0)$, hence the ARDL technique is found appropriate for estimation.

4.1. Discussion of Results

4.1.1. Imports Equation

The calculated F-statistic under the assumption of unrestricted intercept and trend is (14.72) which is higher than the upper bound critical value of (5.07) at the 5 percent significance level (*Asymptotic critical value bounds are obtained from Table CI(v) Case V: Unrestricted intercept and unrestricted trend for $k = 3$ (Pesaran et al, 2001).* Therefore, the null hypothesis of no long-run relationship among the variables in the import equation is rejected. The results of the ARDL approach to estimate equation (23) is presented in Table 3.

Table III: *Estimation Results of Import Using ARDL (1,0,0,)*

Regressor	Long-run	ECM	Diagnostic Tests
<i>LNY</i>	6.946* (5.335)	2.965* (2.856)	Serial Correlation: 2.6782 (0.102)
			Functional Form: 4.5083 (0.534)
			Normality: 1.3495 (0.509)
			Heteroscedasticity: 0.0977 (0.755)
			Calculated F-statistic under the assumption of unrestricted intercept and trend = 14.72
<i>LRER</i>	0.263 (1.220)	0.112 (1.247)	
<i>Constant</i>	-66.48* (-4.71)	-28.37* (-2.823)	
<i>Trend</i>	-0.397* (-6.98)	-0.169* (-2.815)	
<i>ECM₍₋₁₎</i>	-	-0.426* (-3.035)	
<i>R²</i>	0.967	0.384	
<i>DW</i>	1.484	1.484	

Source: Author's computation (2015)

Note: *t*-statistics are shown in parentheses.

*, **, *** denotes significance of the coefficient at 1, 5, 10 percent respectively.

Variables in the long run equations are measured in log levels.

The diagnostic tests show probabilities and they correspond to the ARDL models from which the ECM models and the long run coefficients are derived.

The ECM model and the long run coefficients derived from the import ARDL (1, 0, 0,) are reported in Table (4). The long run estimation indicates that the income elasticities of demand for imports have the expected signs and are thus, significant in determining Nigerian import growth behaviour. The theoretical proposition that the demand for a commodity is a direct or positive function of income is also

confirmed by the result presented in Table (4), where it was shown that import demand is a direct or positive function of income (gross domestic product).

The coefficient of the log of income variable (LNY), which is the income elasticity of import demand is relatively large suggesting that import is a necessity or a luxury and therefore, consumes a relatively significant proportion of national income. This, by implication, is an indication that, import demand will change significantly in the face of a change in national income.

However, the apriori expectation of a negative relatedness of exchange rate to the import growth did not manifest. The positive sign of the coefficient of exchange rate implies that the higher the import price relative to the domestic price (export price), the higher the demand for imports. The explanation for this relationship is that the country is import- dependent with consequential inelastic import demand. Also, it does not appear that the exchange rate has any clear-cut effect on the growth of import in Nigeria as revealed by the insignificance of their relationship.

The ECM result shows the short run coefficients of the variables and the error correction term. The ECM term has the expected sign and suggests that almost 43 percent of the difference between the actual and the equilibrium value of imports is corrected within a year. All the statistics for the diagnostic tests are statistically insignificant, implying that the ARDL model for imports is appropriate.

4.2.2 Export Equation

The results of the Bounds co-integration test of the export growth equation reveals that the null hypothesis of no cointegration against its alternative is easily rejected at the 5 percent significance level. The computed F-statistic of (6.75) is greater than the upper critical bound value of (5.07), thus indicating the existence of a steady-state long-run relationship among the variables. The short run and the long run coefficients derived from the ARDL (1, 0, 0) are reported in Table 4.

Table IV: Estimation Results of Export Equation Using ARDL (1,0,0,)

Regressor	Long-run	ECM	Diagnostic Tests
			Serial Correlation: 0.10715 (0.743)
			Functional Form: 0.56944 (0.450)
			Normality: 0.26100 (0.878)
			Heteroscedasticity: 0.0037471 (0.951)
			Calculated F-statistic under the assumption of unrestricted intercept and trend = 6.75
<i>LWY</i>	57.120 (1.137)	6.615** (2.276)	
<i>LRER</i>	0.178 (0.201)	0.021 (0.202)	
<i>Constant</i>	-957.99 (-1.128)	-110.95** (-2.26)	
<i>Trend</i>	-1.6213 (-1.196)	-0.188** (-2.345)	
<i>ECM_(t-1)</i>	-	-0.116** (-1.487)	
<i>R²</i>	0.958	0.416	
<i>DW</i>	2.101	2.101	

Source: Author's computation (2015)

Note: *t*-statistics are shown in parentheses.

*, **, *** denotes significance of the coefficient at 1, 5, 10 percent respectively.

Variables in the long run equations are measured in log levels.

The diagnostic tests show probabilities and they correspond to the ARDL models from which the ECM models and the long run coefficients are derived.

An increase in the Nigerian export growth predicted by the real depreciation of the Nigerian currency and increase in world income appears insignificant in the long-run. However, the value of the coefficient on world income suggests that a 1 percentage increase in world income will lead to 6.63 percent increase in exports. This implies that export supply will change significantly in the face of a change in world income, which thereby reflects the significance of Nigeria's crude oil to the world.

This positive impact of world income on export growth is however, only significant and sustainable in the short-run. Again the unusual evidence of export growth and exchange rate relationship may not be unconnected to the mono economy nature of the country. Thus, the coefficient of the error correction term has the right sign and indicates that about 11 percent of the discrepancies between the actual and equilibrium value of real exports is corrected within a year. The diagnostic test statistics show that the ARDL model, from which the long run coefficients and the short run dynamics are derived, is correctly specified.

4.2.2 Growth Equation

Stemming from the main argument of this study, we use the ARDL method to analyze the prediction of the extended BPC growth model and determine the impact capital flow and terms of trade on the relationship predicted by the model. We are specifically interested in determining whether the extended BPC growth model is a good predictor of Nigerian's long run economic growth performance. We applied the ARDL procedure to equation (19) and found that the calculated F-statistic is (24.32) which is higher than the upper bound of the critical value of (4.25) at the 5 percent significance level. Therefore, we reject the null hypothesis of no long run relationship among growth in income, exports, capital inflows, the real exchange rate and terms of trade. Consequently, we estimate the ECM and the long run coefficients using ARDL (1, 0, 0, 0). The estimates are reported in column (4a) of table 4.

The empirical findings reveal that growth in exports with the exception of intercept and time is the only significant determinant of growth in income in Nigeria. Hence, the extended BPC growth model that postulates that, beside growth in exports, growth in capital inflow, growth in real exchange rate and terms of trade are important to the growth process in Nigeria is not valid. Among the factors, export growth, is the only factor that has shown positive and significant long-term influence on income growth. The pattern of the coefficients in the ECM is similar to those of the long run equation. The error correction term is significant and has the right sign, while suggests that about 53 percent of the discrepancy between the actual and the equilibrium values of growth in income is corrected within a year. The probability values reported for the diagnostic tests in column (5) are statistically insignificant, implying no evidence of the misspecification of the growth equation.

This evidence of poor predictability of Nigerian growth performance by growth in capital inflow, growth in real exchange rate and terms of trade might have further exposed the mono economy nature of the structure of Nigerian economy, that dependence on crude oil export as a major source of its income, which in turn depends directly on oil price level.

This therefore, make promoter of non-oil export products such as exchange rate, capital inflow and terms of trade to have little or no impact on the growth performance of economy of this nature.

Table V: Estimation Results of Growth Equation Using ARDL (1,0,0,0,)

Growth ARDL (1,0,0,0,0)			Diagnostic Tests
Regressor	Long-run	ECM	
<i>LREXP</i>	0.117 [*] (5.869)	0.062 [*] (3.572)	
<i>LRER</i>	-0.010 (-0.363)	-0.005 (-0.359)	
<i>CFL</i>	-0.006 (-0.088)	-0.003 (-0.089)	
<i>TOT</i>	-0.253 (-0.281)	-0.135 (-0.276)	
<i>Constant</i>	9.620 [*] (49.572)	5.121 [*] (4.366)	Serial Correlation: 2.2465 (0.134)
<i>Trend</i>	0.057 [*] (20.441)	0.030 [*] (4.674)	Functional Form: 0.25802 (0.611)
<i>ECM_(t-1)</i>	-	-0.532 [*] (-4.456)	Normality: 2.1625 (0.339)
<i>R</i> ²	0.945	0.707	Heteroscedasticity: 6.6180 (0.110)
<i>DW</i>	1.482	1.482	

Source: Author's computation (2015)

Notes: *t*-statistics are shown in parentheses.

*, **, *** denotes significance of the coefficient at 1, 5, 10 percent respectively.

Variables in the long run equations are measured in log levels. The diagnostic tests show probabilities and they correspond to the ARDL models from which the ECM models and the long run coefficients are derived.

4.2.2 Testing the validity of the BPC Growth model

The focal point of this is to test the applicability of the extended BPC growth model as a predictor of the long-run growth performance in Nigeria. The study utilizes both the McGregor and Swale (1985), and McCombie (1989) tests procedures and the estimates from the ARDL method to test for the validity of the prediction of the extended growth model. The McGregor and Swales approach regresses the actual growth rate (*y*) on a constant and the predicted growth rate (*y_{bop}*). The McCombie approach however, regresses the predicted growth rate on the constant *term* and the actual growth rate. The null hypotheses of both tests are that the constant *term* is zero and the slope coefficient equals unity.

The results of both the McGregor and Swales, and the McCombie's test techniques are presented in Table 6. These results indicate that the extended BPC growth model is a good predictor of the actual growth rates. The constants in both cases are not significantly different from zero. The independent variables are also either unity or close to it. Furthermore, the *t*-statistic reveals that the slope coefficient is statistically equal to unity. Based on this, it can be concluded that in the case of the Nigerian economy, the extended BPC growth model can be considered as a good estimate of the actual growth rates.

Table VI: *Testing the Applicability of the extended BPC Growth Model*VIa: *McGregor and Swales' test procedure*

Dependent Variable	Constant	y_{bop}	se		R^2
Actual growth rate (y)	-0.1971 (-0.001)	1.000 (81.201)	0.13907 0.012315		0.99

VI b: *McCombie's test procedure*

Dependent Variable	Constant	y	se		R^2
Predicted growth rate (y_{bop})	0.051 (0.370)	0.995 (81.201)	0.13844 0.012215		0.99

Source: Author's computation (2015)

Note: Figures in parentheses are the usual t-statistics.

The t-statistic based on the null hypothesis that the slope coefficient is unity.

Another fall out of this analysis concerns the validity of McCombie's criticism of the McGregor and Swales test procedure which states that independent variable (y_{bop}) being an estimated parameter could suffer from a misspecification analogous due to an "error in variables" problem. This does not hold in Nigeria context. Both test procedures provide uniform evidence that validates the applicability of the extended BPC as a growth predictor in Nigeria.

4 Conclusion and Policy Recommendations

We argue that for typical developing countries like Nigeria, the extended BPC growth model that takes cognizance of capital flows is the appropriate model to explain their growth experience. Thus, we test for the validity of the extended BPC growth model for predicting long-run growth performance in Nigeria. Given the stability nature of the concern variables, which were often ignored in previous related studies, we used the ARDL approach to cointegration to investigate the short-run dynamics and the long-run relationship among growth rates in output, exports, capital flows, real exchange rate and terms of trade. We then used the framework to test for the applicability of the extended BPC growth model via the McGregor and Swale (1985) and McCombie (1989) test procedures.

The empirical analyses reveal that the demand for import is income elastic in Nigeria, thereby suggesting that import demand is a necessity to Nigeria. With respect to supply of export, it was revealed that Nigeria's export is a direct function of world income, and that export supply is income elastic. This finding reflects the importance of crude oil export from Nigeria to the rest of the world in the short run. However, there is scant evidence of its importance in

the long-run. The country's over dependence on crude oil *exportation which is majorly determined by oil price is sustainable only in the short-run.*

Furthermore, we find that an increase in the growth of exports leads to an increase in the growth rate of income. Growth in exports is the most important source of economic growth in Nigeria, while evidence from the long and short runs estimates reveal that, the growth in capital flows, the growth of real exchange rate as well as terms of trade play little or no significant role in determining economic growth performance in Nigeria. Uniform evidence from the use of the McGregor and Swale (1985), and McCombie (1989) test procedures for validating the applicability of the extended BPC model, tends to suggest that, growth in exports, growth in capital inflow, growth in real exchange rate and terms of trade are important to the growth process in Nigeria.

To this end, a policy change that could encourage the restructuring of the Nigerian economy from its mono economy nature is thus recommended. This may in reality induce the significant impact of these factors (i.e. capital flows, real exchange rate and terms of trade) in determining economic growth in Nigeria, as statistically predicted by the extended BPC growth model considered in this study.

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IMPACT OF INTERNATIONAL TRADE ON ECONOMIC GROWTH IN NIGERIA

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Abstract

This study examined the impact of international trade on economic growth in Nigeria between 1980 and 2014. The study was piloted via linear regression analysis using data spanning from 1980 to 2014. The estimated result shows that export (LogEXP), import (LogIMP) and inflation rate (INFR) exert a positive effect on economic growth rate as measured by changes in real GDP (LogRGDP) in Nigeria between 1980 and 2014 fiscal year. This conforms to the theoretical expectations excluding the effect of inflation rate. In terms of magnitude, this implies that for a percentage increase in export (LogEXP), import (LogIMP) and inflation rate (INFR), then real economic growth increased by 0.3%, 0.6% and 0.01% respectively.

Keywords: *International trade, Economic growth, Export, Import, Real Gross Domestic Product.*

Introduction

International trade has been identified by many economists as an engine for growth and development but trade as an engine for growth and development was first identified by Smith in 1772. For the past four decades, trade among nations has gained significant attention among both developed and developing countries, and this can be hugely attributed to the impact of technology and globalisation. Presently there is virtually no country around the world that does not trade with another country. This has led to an increase in the number of bilateral trade agreement and multilateral trade agreement across the globe. The role of trade in promoting industrialization and economic development cannot be overemphasized. This is because foreign trade provides impetus for industrial development by making inputs available for domestic production, particularly in developing economies, including Nigeria where production activities heavily depend on imported inputs. Also, foreign trade enlarges the market frontiers for domestic industrial output (exports), thus leading to increased investment, employment, output and income. Foreign trade expands production possibility frontiers and broadens the consumption baskets of the people in the participating countries and thereby improves their welfare (Adewuyi

and Adeoye, 2008). However, the extent to which a country benefits from foreign trade is a function of a number of factors. Among these factors is the trade policy regime operating in an economy. This could be protective or liberalized. Nigeria as a country has experimented with a mix of the two trade policy regimes.

At independence, Nigeria embarked upon the import substitution industrialization (ISI) strategy as a means of promoting industrial transformation. The implementation of the ISI necessitated the imposition of a high rate of tariff and non-tariff barriers to trade (Oyejide, 1977; Adewuyi and Adeoye, 2008). Trade policy in the post-independence period was largely import licensing and the haphazard application of tariff via annual budget. This engendered a serious anti-export bias which seemed to hinder the growth and development of the Nigerian economy (Oyejide, 2001). Since 1986 however, trade policies have aimed at the liberalization of the economy as well as the achievement of greater openness and greater integration with the world economy. The policies thus ranged from the abolition of marketing boards, to introduction of the second tier foreign exchange market (SFEM), various export expansion incentive schemes, establishment of the Nigeria Export- Import Bank etc. The liberalization of trade regime began with a partial dismantling of quantitative restrictions in 1986, which gave room for interim measures that led to a reduction of the number of items in the import prohibition list from 72 to 17 product categories (Adewuyi and Adeoye, 2008). Thus, this implies selective import prohibitions and the elimination of import licensing. Coupled with this was a tariff reform which was instituted via the Customs, Excise and Tariff Consolidation Decree 1988. This Decree featured a new classification based on the Harmonised System of Tariff classification (HS Chapters), which permitted the direct international comparison of the country's tariff lines and levels. It also featured a seven-year tariff regime so as to usher in stability and predictability. This reform was continued with Decree No.4 of 1995, which specified the tariff for another seven-year tariff regime spanning 1995 to 2001.

Economic theorists like Smith have argued that countries engage in external trade to reap the gains that arise from specialized production with each country concentrating on the production of those goods and service that involve the least opportunity cost. Various studies on international trade recognize trade as a vital catalyst for economic development. For developing countries, the contribution of trade to overall economic development is immense, owing largely to the obvious fact that most of the essential elements for development such as, capital goods, raw materials and technical know-how, are almost entirely imported because of inadequate domestic supply. Increased domestic demand invariably solicits

corresponding expansion in exports. To enhance export capacity therefore, improved technology must be required, and this in turn further pushes up the demand for imports. This circle of activities has the tendency of pushing imports far ahead of exports and in consequence exerts undue pressures on the balance of payments. Prolonged pressures on the balance of payments constitute constraints to economic development and thus, appropriate economic policy measures have to be put in place to streamline external trade transactions to conform to the desired goal of economic development. One of such policies is the external trade policy. External trade policy regulates external trade in line with the domestic requirements of a country.

Furthermore, most economists especially development and international economists have argued in favour of international trade as it relates to global and domestic economic growth and development. Their belief is that international trade leads to specialization, increase in resource productivity, large total output, creation of employment, generation of income and relaxation of foreign exchange restraints (Nnadozie, 2003). The positive relationship that exists between global trade and economic growth may be as a result of the likely positive externalities due to the involvement of different countries in the international trade. Many empirical studies have argued in favour of the importance of global trade on economic growth using the degree of trade openness, terms of trade, tariff and exchange rate as variables to explain the claim that open economies grow faster than closed economies (Edwards, 1998). On the contrary, some economists have argued that the practice of protectionism is a better way of ensuring domestic economic growth because in some instances the domestic economy may have comparative advantage over the foreign economy (Nnadozie, 2003). Nevertheless, the overwhelming evidence of the positive impact of international trade on economic growth cannot be overemphasized.

Hence, the overall aim of this study is to examine the impact of international trade on the economic growth of the Nigerian economy in the years 1980 - 2014. This study examines the impact of international trade on the economic growth of Nigeria. The importance of this study is that it shows the effect of excess export and openness of trade on the economic growth of Nigeria. The study is found significant to the existing knowledge base because it proffers recommendations to government's policy makers, donor agencies as well as NGOs and other stakeholders in the current improvement on the trading benefits and economic growth. On the basis of the foregoing, this paper discusses some recent literature on this topic as well as the causal relationship between the trade and economic growth in the Nigerian

economy between 1980 and 2014. The remaining part of the paper is structured as follows: Section 2 review existing theoretical and empirical literature. Section 3 covers methodology, data description and sources. Section 4 presents results and discussing of findings, while section 5 concludes and proffers proper policy recommendations.

Theoretical and Empirical Review

Theoretical Literature

Mercantilist Trade Theory: This theory identifies the fact that a country can only be rich and be powerful if it ensures that its export is more than its import. Some of the propagandists of this theory are Jean Baptiste Colbert and Thomas Hobbes. It was understood then, that, the most important way in which a country could be rich was by acquiring precious metals such as gold. This was achieved by ensuring that the volume of export was better than the volume of import.

Absolute Cost Advantage Trade Theory: This theory was propounded by Adam Smith in his book “wealth of the nation” 1776. As a criticism against mercantilism, the theory advocates free trade for the nations of the world. Smith argued that each nation could specialize in the production of those commodities it could produce more efficiently, and import those commodities which it could produce less efficiently in a free trade environment.

Comparative Advantage Trade Theory: This theory was propounded by David Ricardo. The theory assumed the existence of two countries, two commodities and one factor of production. In his view, a country exports the commodity that has a lower comparative advantage and imports the commodity that has a higher comparative cost. The theory also assumed that the level of technology is fixed for both nations, and that trade is balanced and rolls out the flow of money between nations. However, the theory is based on the labour theory of values which states that the price of the value of a commodity is equal to the labour time that goes into the production process. Labour is used in a fixed proportion in the production of all commodities. But the underlying assumptions are quite unrealistic because labour can be subdivided into skilled, semiskilled and unskilled labour and there are other factors of production. Despite the limitations, comparative cost advantage cannot be discarded because its application is relevant in explaining the concept of opportunity cost in the modern theory of trade.

Hecksher-Ohlin Trade Theory: The theory focuses on the differences in relative factor endowments and factor prices between nations on the assumption of equal

technology and tastes. The model was based on two main propositions; namely; a country will specialize in the production and export of commodities that require the intensive use of abundant resources for their production. Secondly, countries differ in factor endowment. Some countries are capital intensive, while some are labour intensive. He identified the differences in pre-trade product prices between nations as the immediate basis of trade, the prices depend on the production possibility curve (supply side) as well as the taste and preference (demand side). But the production possibility curve depends on factor endowment and technology. To him, a nation should produce and export a product for which abundant resources is used, be it capital or labour. The model suggests that developing countries are labour abundant and therefore they should concentrate on the production of primary product such as agricultural products and they should import capital intensive products i.e. manufactured goods from the developed countries. The model also assumes two countries, two commodities and two factors, and that two factors inputs-labour and capital-are homogenous. The production function is assumed to exhibit constant return to scale.

However, the theory is not free from criticism and this is because factor inputs are not identical in quality and cannot be measured in homogenous units. Also factor endowments differ in quality and variety. Relative factor prices reflect differences in relative factor endowment- supply therefore outweigh demand in the determination of factor prices. Despite this criticism, trade increases the total world output. All countries gain from trade and it also enables countries to secure capital and consumption of goods from the rest of the world.

Empirical Review

Studies have been carried out to provide clear evidence on the impact trade across borders has on the economy. Previous findings on the Nigerian economy are majorly reviewed. Omoju and Adesanya (2012) examined the impact of trade on economic growth in Nigeria using data from 1980 to 2010. Adopting the Ordinary Least Square (OLS) technique, the study showed that trade, foreign direct investment, government expenditure and exchange rate have a significant positive impact on economic growth. Saibu (2012) investigated the direct and interactive effects of capital inflow, trade openness and economic growth using data from Nigeria over the period 1960 to 2011. The study employed the composite indicator derived from principal component analysis (PCA) in the Autoregressive Distributed Lag (ARDL) bound testing model. It found a statistically significant effect of capital inflow and trade on economic growth. The study further provided new evidence in support of the modernization hypothesis that capital inflow and trade policy are

complementary and growth enhancing in developing economies like Nigeria, and that trade liberalization policies tend to enhance the effectiveness of capital inflow and jointly promote higher economic growth in Nigeria.

Javed, Qaiser, Mushtaq, Saif-ullaha and Iqbal (2012) examined the impact of total exports to GDP ratio, import to GDP, terms of trade, trade openness, investment to GDP ratio and inflation on the Paskitani economy using time-series data from 1973-2010. Employing the Chow test and Ordinary Least Square method, the estimated results revealed that all the explanatory variables have a positive and significant impact on Pakistan. The study further discovered that an increase in the import of raw-materials boosted the production, employment and output of Pakistan. Ulasan (2012) revisited the empirical evidence on the relationship between trade openness and long-run economic growth over the sample period 1960-2000 in contrast to previous studies focusing mainly on the period 1970-1990. The study used various openness measures suggested in literature rather than relying on a few proxy variables. The findings from the cross-country analysis indicated that many openness variables are positively and significantly correlated with long-run economic growth. The study suggested that because of the fragility of the openness-growth association, the significance of openness variables disappear once other growth determinants, such as institutions, population heterogeneity, geography and macroeconomic stability are accounted for.

Emeka, Frederick and Peter (2012) evaluated the role of trade on Nigeria's economy for the period 1970 to 2008. By applying a combination of bi-variate and multivariate models, the relationships between the selected macroeconomic variables was estimated. The findings indicated that exports and foreign direct investment inflows have a positive and significant impact on economic growth. The study suggested that there should be a congruence of exports and fiscal policies, towards a greater diversification of non-oil exports by the Nigerian government in order to attain the desired growth prospects of external trade.

Adelowokan and Maku (2013) examined the effect of trade and financial investment openness on economic growth in Nigeria between 1960 and 2011. Estimates from the reported dynamic regression model indicated that trade openness and foreign investment exert positive and negative effect on economic growth respectively. Also, the partial adjustment term, fiscal deficit, inflation and lending rate were found to be growth increasing. It was evidenced that a long-run relationship exists among trade openness, foreign investment, and economic growth in Nigeria.

Also, Kotil and Konur (2010) investigate the relationship between the Gross Domestic Product (GDP) and foreign trade (FT) for the Turkish Economy in the period 1989 to 2007 using the Granger Causality Test. It was found that there was a direct relationship between Gross Domestic Product and foreign trades during the period considered and posits that the result accessed in this study renders support to the export-led development hypothesis in agreement with preceding studies on many countries. Ozdeser and Ozyigit (2007) analyzed the role of foreign trade in the Turkish Republic of Northern Cyprus (T.R.N.C's) economic growth using regression analysis with the data for the period 1985-2005 and found that trade is very beneficial to the level of national income and highly correlated with GNP growth. Their finding suggests that the volume of trade helps explains the growth of GNP in Northern Cyprus signifying that trade openness, regardless of the level of concentration, helps Turkish Cyprus per capita income and economic growth. International trade has, by and large, been an "engine of growth" for the global economy and Nigeria. But there have been a large number of dissenting voices in the 20th century, claiming that international trade only perpetuates the underdevelopment of poor countries due to the fact that there is a disproportionate share of gains from trade that accrues to industrialized countries.

Methodology

The econometric model approach employed by Azeez, Dada and Aluko (2014) and later extended in the work of Nageri, Ajayi, Olodo and Abina (2013) for the case of Nigeria is adopted to analyze the impact of international trade on economic growth in Nigeria: an econometrics analysis. Also, the effect of international trade on Nigerian economic growth: the 21st century experience, based on their methodological relevance. The adopted empirical models are formulated using trade and financial variables, and augmented with the integration of exogenous factors. The adopted econometric model is expressed as:

$$Y_t = \alpha_0 + \alpha_1 OPEN + \alpha_2 X + \mu \quad (1)$$

Where:

Y = Economic growth Indicators (like GDP growth rate and Per Capita Income);

OPEN = Trade Openness

X = set of exogenous factors.

α_0 = Intercept or constant;

α_{1-2} = Parameters or Co-efficient of explanatory variables;

μ = Error term

However, the empirical models adopted from the work of Azeez, Dada and Aluko (2014) and Nageri, Ajayi, Olodo and Abina (2013) are modified taking into consideration the main focus of this study, the structure of the Nigerian financial system and trade relations, and relevance of interest rate in explaining the growth effects of trade relations, in terms of trade openness and inflation rate. Also, political stability is incorporated as an exogenous factor of economic growth status in a developing country like Nigeria. Therefore, the empirical model for this study is specified as:

$$Y_t = \alpha_0 + \alpha_1 EXP + \alpha_2 IMP + \alpha_3 EXCHR + \alpha_4 INFR + \mu \quad (2)$$

Where:

Y = Gross domestic product growth rate a measure of economic growth

EXP = Export

IMP = Import

EXCHR = Exchange rate;

INFR = Inflation rate, proxy by Consumer Price Index;

α_0 = Intercept or constant;

α_{1-4} = Parameters or Co-efficient of explanatory variables;

μ = Error term

The a priori expectation provides expected signs and significance of the values of the coefficient of the parameters under review on the part of the empirical evidence and theoretical assertions. All, the incorporated variables in the modified model are expected to enhance economic growth positively excluding interest rate and inflation rate. This can be expressed symbolically as follows:

$$\frac{\partial Y}{\partial EXP} > 0; \frac{\partial Y}{\partial IMP} > 0; \frac{\partial Y}{\partial EXCHR} < 0; \text{ and } \frac{\partial Y}{\partial INFR} > 0$$

In estimating the multiple regression model, the unrestricted Ordinary Least Square (OLS) is used. The estimated parameters are subjected to evaluation by using the student t-statistic test and F-statistic test. While, the overall stability of the specified empirical model is tested before adjusting for degree of freedom was measured using multiple co-efficient of determination (R^2), while it was measured by adjusted R^2 after adjusting for the degree of freedom. Durbin-Watson statistic was used to test for the presence of autocorrelation in the disturbance terms.

In examining the impact of trade on economic growth in Nigeria, the study spans over the period of 1980 to 2014 based on the availability of data. The research time frame is chosen in order to precisely cover major structural economic eras in

Nigeria since two decades after independence. This covers the period of Pre-SAP to Post- SAP era. The time series data employed for this study are real GDP, export, import, exchange rate of naira vis-à-vis U.S dollar, and inflation rate. The nature of this study requires basically secondary data compiled by various bureaus in the country. The secondary data was sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, Volume 25, 2014.

Results and Discussion

The results of the estimated regression model are shown on Table 4.1.

Table 4.1: Estimated Regression Results

Dependent Variable: LogRGDP				
Method: Least Squares				
Sample: 1980 2014				
Included observations: 35				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.796209	0.071541	11.12941	0.0000
LogEXP	0.346874	0.211351	1.641222	0.1086
LogIMP	0.644773	0.216874	2.973030	0.0050
EXCHR	-0.001307	0.001128	-1.158688	0.2533
INFR	0.001049	0.002043	0.513461	0.6104
R-squared	0.981435	Durbin-Watson stat		0.551461
Adjusted R-squared	0.979579	F-statistic		528.6540
S.E. of regression	0.183004	Prob(F-statistic)		0.000000

Interpretation of Results

The interpretation of the estimated regression model results presented in table 4.1 is discussed in this section of the study. The estimated result for the regression model specified to capture the role of international trade in economic growth in Nigeria between 1980 and 2014 presented in Table 4.1 revealed the effect of incorporated macroeconomic factors for the econometric analysis of the study.

The estimated results on Table 4.1 revealed that export (LogEXP), import (LogIMP) and inflation rate (INFR) exert positive effects on economic growth rate as measured by changes in real GDP (LogRGDP) in Nigeria between 1980 and 2014 fiscal year. This conforms to the theoretical expectations, excluding the effect of inflation rate. In terms of magnitude, this implies that for a percentage increase in export (LogEXP), import (LogIMP) and inflation rate (INFR), then real economic growth increased by 0.3%, 0.6% and 0.01% respectively.

Also, the presented results on Table 4.1 further indicated that exchange rate (EXCHR) exerts a negative effect on economic growth rate in Nigeria proxied by changes in real GDP (logRGDP), and this was in tandem with the theoretical expectation. In terms of effect size, a percentage decrease in exchange rate (EXCHR), decelerated economic growth by 0.001%.

In assessing the partial significance of the estimated parameters for the considered variables, the t-statistics results are presented on Table 4.1. The result showed that the estimated parameters for export (LogEXP), import (LogIMP) and inflation rate (INFR) were found to be partially and statistically significant at 1% critical levels. While, the estimated parameter for exchange rate (EXCHR) was found to have an insignificant effect on changes in economic growth in Nigeria at 5% critical levels. The t-statistics of the estimates stood at 1.64 for EXP, 2.97 for IMP, -1.16 for EXCHR, 0.51 for INFR and 11.13 for the Constant Value. At 5 per cent (5%) level of significance, the Tabulated Value (t_{tab}) is 1.68 and this proves that a large proportion of the value of the explanatory variables is greater than the tabulated value at 5 per cent level of significance. The alternative Hypothesis which states that international trade has a significant influence on Nigeria's economic performance can therefore be accepted.

Also, the F-statistic result shows the incorporated explanatory variables were simultaneously significant at 5% at critical level, state the difference of calculated statistics and F-statistics if it is greater or less than. While, the co-efficient of determination, that is R-squared result, revealed that 98% of the total variation in changes in real GDP, as an economic growth measure, was accounted export (LogEXP), import (LogIMP) and inflation rate (INFR) and exchange rate (EXCHR) during the review period while the other 2% does not change in real GDP as an economic growth and is explained by variables outside the model.

The coefficient of estimation (R^2) is 0.981435. This means that about 98% variation in Gross Domestic Product (GDP) is explained by the independent variables (export, import, exchange rate, inflation rate), while the remaining 2% will be accounted for by other factors not included in the model.

Conclusion and Recommendations

This study critically examined the econometric analysis of the role of international trade on economic growth in Nigeria between 1980 and 2014. This ranges from the period of the fourth National Development Plan (4th NDP: 1981-1985), Structural Adjustment Programme (SAP: 1986-1993), Post Structural Adjustment

Programme (Post-SAP: 1994-1998), Democratic Transition (1999-2002), National Economic Empowerment and Development Strategy (NEEDS: 2003-2007), and Global Economic and Debt Crises (2008-2014) eras. During these eras, the Nigerian economy has undergone series of economic and financial reforms to enhance economic growth over the years through financial and trade integration.

The empirical econometric model employed for analyzing the role of international trade on economic growth in Nigeria was formulated based on the adopted and modified model of Azeez, Dada and Aluko (2014) and Nageri, Ajayi, Olodo and Abina (2013). The model incorporates export (LogEXP), import (LogIMP) and inflation rate (INFR) and exchange rate (EXCHR) in Nigeria during the review periods. Also, real Gross Domestic Product (RGDP) was considered as the regress and the ordinary least square (OLS) is employed as the econometric method of estimation. The estimated model results revealed that export (LogEXP), import (LogIMP) and inflation rate (INFR) exert a positive effect on the economic growth rate as measured by changes in real GDP (logRGDP) in Nigeria between two decades after independence and 2014 fiscal year. This conforms to the theoretical expectations excluding the effect of interest rate. Also, exchange rate (INFR) exerts a negative effect on economic growth rate in Nigeria proxied by changes in real GDP (logRGDP) and this was in tandem with the theoretical expectation.

The result showed that the estimated parameters for export (LogEXP), import (LogIMP) and inflation rate (INFR) were found to be partially and statistically significant at 5% critical levels because their p-values are less than 0.05. While, the estimated parameter for exchange rate (INFR) was found to have an insignificant effect on changes on economic growth in Nigeria. Also, 98% of the total variation in changes in real GDP as an economic growth measure was accounted for by export (LogEXP), import (LogIMP) and inflation rate (INFR) and exchange rate (EXCHR) during the review period as reported by the adjusted R-squared result.

The analysis of the role of international trade on economic growth in Nigeria between 1980 and 2014 that covers the period of Pre-Structural Adjustment Programme (Pre-SAP), Structural Adjustment Programme (SAP), Post-Structural Adjustment Programme (SAP) and also the present era of National Economic Empowerment Development Strategy (NEEDS) revealed that export (LogEXP), import (LogIMP) and inflation rate (INFR) and exchange rate (EXCHR) were significant factors influencing the real economic growth rate of the Nigerian economy. Therefore, based on the F-statistic result this study rejects the null hypothesis and concludes that international trade has a significant influence on Nigerian economic performance during the reviewed period.

The contribution to be drawn from this study is that international trade has a significant economic impact on output growth in the presence of other internal and external macroeconomic shocks. Nevertheless, to achieve a high and sustainable output growth, the study proffers some policy recommendations which when properly implemented will surely stimulate greater growth of output. Meanwhile, not all the areas that need proper treatment are adequately addressed due to various limitations faced by this research work. The study recommends that further studies be genuinely carried out using different and more sophisticated methodologies and choice variables in order to harmonise the structural relationship between international trade and economic growth in Nigeria.

On the basis of the empirical findings for the role of international trade on economic growth in Nigeria between 1980 and 2014 fiscal year, the following strategic policy options are proffered as follows:

There should be optimal control of trade through the borders of the economy. The underground economic activities of bunkering, smuggling, child and drug trafficking, and other related illegal activities should be properly checked. This will help the economy to fully account for every trade/transaction through the border and determine its impact on the output growth of the economy. In order to achieve this, governments trade policy must be liberal. Also, government should properly regulate import tariffs so that it will not be discouraging in such a way that it will aid illegal importation.

There is a dire need for adequate infrastructural development in the country. Nigeria has been recently noted to be one of those African countries that have difficult geographic conditions. The country is the largest oil producer in Africa and the 6th largest oil producer in the world. Yet, the country's infrastructure is in serious decay. This has a negative effect on output growth as the cost of production is high due to high transportation, communication, and other services costs. Government should devote much of its resources to the development of infrastructure. Excess crude oil revenue should be properly allocated for infrastructural development such as good roads, potable waters, a standard rail system, buildings and other public utilities.

There is a need for a stable macroeconomic policy as regards the exchange rate system of the country. Exchange rate is one of the most volatile macroeconomic variables. But this variable has not been properly handled in such a way that the country will derive optimum benefit from it. As a result, the growth of output in the

economy has been thwarted. The government should put a sound machinery in place to properly monitor the movement of exchange rate and regulate it indirectly through currency depreciation or directly through devaluation. This will make the country's exports become cheaper and imports more expensive; hence, a favourable balance of payment which will enhance output growth would be created. The country's reserve also needs proper management. There is still room for greater development in the financial sector of the economy. The financial sector is said to be the hub of every economy. The on-going capital markets as well as the money market reform are examples of steps towards the development of the financial sector. The government needs to put in place proper and non-partisan machineries for the supervision and regulation of this sector so as to achieve optimum performance.

Moreover, stagnation is one of the various macro-economic problems the economy has been facing for the past three decades. This is a situation where the economy is experiencing a rise in inflation and unemployment rate at the same time. Various government efforts towards solving this problem have proven to be economically insignificant and this has seriously inhibited the growth of productivity, and output, in the economy. Government should redirect its priority and properly allocate its resources to combat these problems. This could be achieved by creating conducive environment for business; giving special attention to education, proper control of government financial spending, effective expenditure switching and expenditure reducing policies, and sound fiscal and monetary policy objectives for the economy in a specified period.

Furthermore, there is an urgent need for the diversification of the economy. The Nigerian economy has been depending on crude oil exportation. But today, this strange dependency has really dampened the growth of the economy as the country is open to every international shock associated with the oil market. Government should look inward to search out other fallow grounds where it can explore and generate resources. Government should explore other sectors of the economy such as manufacturing, agriculture, mining and quarrying.

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AN ARDL ANALYSIS OF THE IMPACT OF LENDING RATE ON BANK CREDIT IN NIGERIA.

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Abstract

This research examines the impact of lending rate on bank credit in Nigeria. Secondary data from 1999 to 2014 were fitted into the regression model using various econometric techniques particularly the Augmented Dickey-Fuller (ADF) test and the Autoregressive Distributive Lag (ARDL). The findings reveal that bank credit to the private sector is not influenced by lending rate. Based on the findings of this research work, the study recommends that there is a need to develop the financial market to favour more credits to the private sector in order to stimulate economic growth. The policy implication of this finding is that non-interest rate factors such as paucity of funds and institutional policies drive the allocation of bank credits to the private sector in Nigeria.

Jel Classification: E58, G21

Keywords: Bank Credits, Autoregressive Distribution Lag, Lending Rate

Introduction

Bank credit to the industrial sector can be regarded as bank loans and advances provided by the financial institutions to the industrial sector in order to enhance industrial productivity which by implication leads to economic development. However, some key factors, like the lending rate, credit management and savings, which bring sustained industrial finance, must be efficiently and effectively studied. Bank credit which is considered to be a blood stream of an economy bridges the gap between the borrower and the lender, particularly in a developing economy like Nigeria. Therefore, credit management constitutes a sensitive variable being managed by the monetary authorities under the supervision of the Central Bank of Nigeria (CBN) (Tawose, 2012). The manufacturing sector in Nigeria could literally be assumed to have a vast potential for economic development due to the abundant labour force coupled with the agrarian nature of the economy (Adebiyi, 2011).

However, the absorptive capacity for labour expected from the manufacturing and other spillover effects have been a mirage. The import substitution industrialization and other incentives to attract foreign entrepreneurs have failed

and this has resulted in the stagnation of the industrial sector of the economy. This paved the way for export promotion industrialization particularly in the early 1970s as Nigeria recorded windfall gains from crude oil sales.

In spite of the continuous policy strategies to attract credit to the industrial sector, most Nigerian industrial enterprises have remained unattractive for bank credits. For instance, as indicated in Central Bank of Nigeria (CBN) reports, almost throughout the regulatory era, commercial banks' loans and advances to the private sector deviated persistently from 1999-2014. Furthermore, the enhanced financial intermediation in the economy following the financial reforms of the 1990s, notwithstanding credits to manufacturing as a proportion of total banking credits, has not improved significantly averaging 15.7 percent between 1990 and 1994, and 25.8% between 1995 and 2000. Consequently, many firms in the country have continued to rely heavily on internally generated funds, which have tended to limit their scope of operation.

Since the attainment of independence in 1960, commercial banks in Nigeria have been playing an important role in the development process of the economy. The banks in collaboration with other financial institutions have been mobilizing the scarce domestic resources for the rapid social, economic and industrial transformation of the country (Anyanwu, 2007). Among the traditional roles of banks in a financial system includes; lending of money to customers, and financing and discounting bills of exchange in order to create liquidity for promoting economic growth.

In spite of the contributions of the industrial sector to the GDP, past studies have not addressed the link between the direction of bank credits in an atmosphere of uncertainty and fluctuating lending and exchange rates. This ultimately affects the growth of the industrial sector in Nigeria. This study hopes to fill this gap by investigating the relationship between bank credits and lending rate in Nigeria.

2.1 Conceptual Review

2.1.1 The Concept of Bank Credit

Credit is the extension of money from the lender to the borrower. Ajayi (2000) notes that credit implies a promise by one party to pay another for money borrowed or goods and services received. Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in the form of deposits from the surplus units of the economy and passed on to the deficit units who need

funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds.

According to CBN (2003), the amount of loans and advances given by the banking sector to economic agents constitute bank credit. Credit is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit channels savings into investments thereby encouraging economic growth. Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy.

2.1.2 A view of Bank Lending

Dikko (2005) comments that the financial system, as wide, complex and regulated as it appears, is saddled with enormous tasks and the success of the economic, social and political systems of the nation is hinged on how it is managed. The financial institutions by providing the much needed capital for output and growth fill an important gap in the development process. He opines that the efficiency of the financial intermediation process can be accessed through the determination of the level of allocated efficiency, cost efficiency and price efficiency. The boldest socio-economic contribution of banks is the emergence of the small and medium industries equity investment scheme (SMIEIS) since the banks expect returns over time only if the project operates profitably. This scheme focuses on the need for banks to expand their financial support to the real productive sector so as to enhance the development of the sector.

Onwumere and Ugbam, (2008) explain the need for banks to conduct a scan of the environment of an organization with a view to gathering information about its activities which will be useful to such an organization. Environmental factors must be analyzed because of their capability to impede the borrower's ability to repay the debts. Some of these are economic variables (inflation, deflation, demand for the borrower's products, foreign exchange rate, fluctuations, fiscal policy etc.). Others include political factors, legal factors and socio-cultural factors. They are only discernible through environmental scanning. Other conditions are the type or nature of business requesting the loan, the composition of the lending bank's loan portfolio, obligor credit ceiling or limit, bureaucratic considerations, geographical limitations, sectoral constraints or pricing consideration. Environmental scanning in lending cannot be overemphasized.

Without environmental scanning, credit analysis, credit administration/monitoring and recovery are bound to fail. Lending is an important banking activity significantly underlining its intermediation function.

2.3 Review of Past Studies

The theoretical works of Mckinnon (1973) and Shaw (1973) are associated with financial repression and economic growth. They submitted that financial repression is associated with sluggish growth in developing countries. These countries, as put by Nnana and Dogo (1998), are characterized by high and volatile inflation, and distorted interest and exchange rates, low savings and investments and low level of financial intermediation because interest rates in such countries do not reflect the cost of capital. This is because several other factors such as the unavailability and paucity of funds, and unfavourable government and institutional policies determine the cost of funds in such countries. Empirical evidence on the impact of bank credit on economic growth has been mixed and remains a debated subject. Dey and Flasherty (2005) used a two-stage regression model to examine the impact of bank credit and stock market liquidity on GDP growth. They found out that bank credit and stock market liquidity are not consistent determinants of GDP growth. Cappletio et al (2010) in their study of European area find that in contrast to recent findings for US, the supply of credit, both in rates of volumes and in terms of standards applied on loans to enterprises, have significant effects on real economic activity. Hence, a change in loan growth has a positive and significant effect on GDP.

The study carried out by Muhsin and Eric (2006) on the Turkish economy reveals that when bank credit, private sector credit or domestic ratio are alternatively used as proxies for financial development, causality runs from economic growth to financial development. The study concludes that growth seems to lead financial sector development.

Obadan (2003) analyzes the finance-growth nexus using a fixed-effect panel and a balanced panel data from 25 transition countries during the periods of 1993-2000. His results show that (i) the interest rate margin was significantly and negatively related to economic growth (ii) a rise in credit did not seem to accelerate economic growth. Based on the findings, he concludes that the increase in credit has not always been sustainable and in some cases it may have led to a decline in growth rate.

Chang et al (2010) use panel data to examine bank fund reallocation and economic growth in China and find a positive association between bank deposit and growth. Vazakidis and Adamopoulos (2009) employ a Vector Error Correction Model (VECM) to investigate the relationship between the credit market and development and economic growth for Italy for the period of 1965-2007 taking into account the effect of inflation rate on credit market development. The empirical results indicate that economic growth had a positive effect on credit market development, while inflation rate had a negative effect.

Using a Vector Autoregression (VAR) approach Shan and Jianhong (2006) examine the impact of financial development on economic growth in China. They find that financial development comes as the second force (after the contribution from labour input) in leading economic growth in China. Their study supports the view in literature that financial development and economic growth exhibit a two-way causality and hence, is against the so-called “finance-led growth” hypothesis.

By employing a panel data set covering 29 Chinese provinces over the period of 1990-2001, Liang (2007) employs the Generalized Method of Moment (GMM) technique to empirically examine the relationship between banking sector development and economic growth for the case of China. Empirical results show that, without an effective and well developed legal system banking sector development only partially contributed to China’s economic growth.

Mishra et al (2009) examine the direction of causality that runs between credit market development and economic growth in India for the period 1980 -2008. In the VAR framework the application of Granger Causality Test provided the evidence in support of the fact that credit market development spurs economic growth. The empirical investigation indicated positive effect of economic growth on credit market development of the country.

Mukhopadhyay and Pradhan (2010) recently examine the causal relationship between the financial development and economic growth of 7 Asian developing countries (Thailand, Indonesia, Malaysia, the Philippines, China, India and Singapore) during the last 30years using the multivariate VAR model. The study concludes that no general consensus can be made about the finance- growth relationship in the context of developing countries. Using microeconomic data on the Kenyan manufacturing sector, Tawose’s (2012) study finds that conditional on survival, the firms that use credit grow faster than those not using it. There is also evidence that small firms grow faster than large ones, confirming the convergence hypothesis.

Methodology and Empirical Results

The time series data was sourced from the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). However, the empirical implementation of the model makes use of Autoregressive Distributive Lag (ARDL) econometric technique covering a period of 15 years (1999-2014) in Nigeria.

Model Specification

The effect of bank credit is felt through the private sector to the economy. The fluctuation in the private sector is a function of commercial bank credit and lending rate. For this study a functional and behavioural relationship between bank credit and lending rate are hereby posited.

The functional relationship is stated as thus:

$$BC = f(LR) \dots \dots \dots (1)$$

Where:

BC = Bank Credits measured as the amount of bank credit allocated to private sector as a share of GDP

(LR) = Lending Rate of commercial banks

$$BC = \alpha_0 + \alpha_1 BC(-1) + \alpha_2 BC(-2) + \alpha_3 BC(-3) + \alpha_4 BC(-4) + \alpha_5 LR + \mu \dots \dots (2)$$

α_0 = intercept, α_1 - α_5 = are the slopes of the regression equation, μ = Stochastic error term. In a-priori terms, Bank lending rate is theoretically expected to be negatively associated with lending rate, that is:

$$\frac{dBC}{dLR} < 0$$

3.2 Trend Analysis of Bank Credit in Nigeria

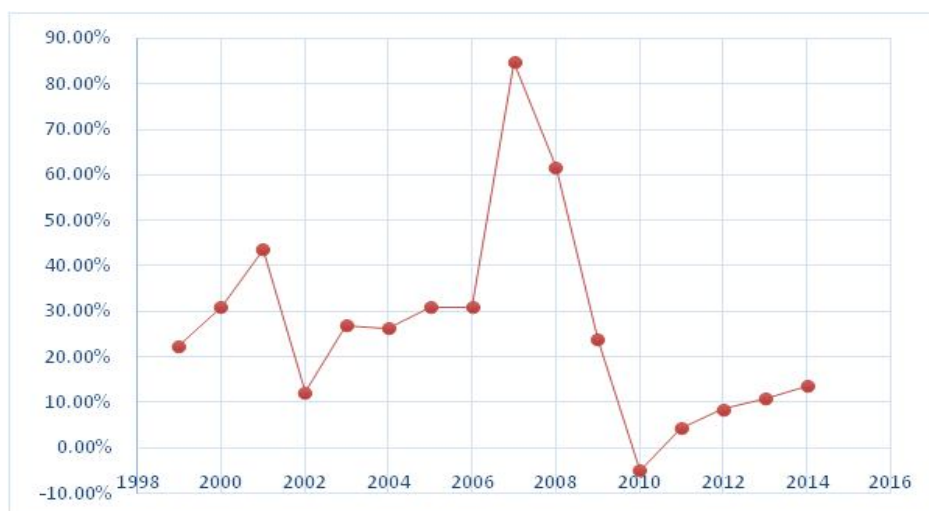


Figure 1: Trend Graph of Bank Credits in percent.

Figure 1 shows the trend in bank credit, which by implication shows that there has been a lot of fluctuation in bank credit to the private sector. Bank credit increased from 22.51% in 1999 to 43.62% in 2001. It declined to 12.31 in 2002 and subsequently increased from 26.86% in 2003 to 84.75% in 2007. From 2007 there was a negative decline until 2010 before rising again in 2011 through 2014.

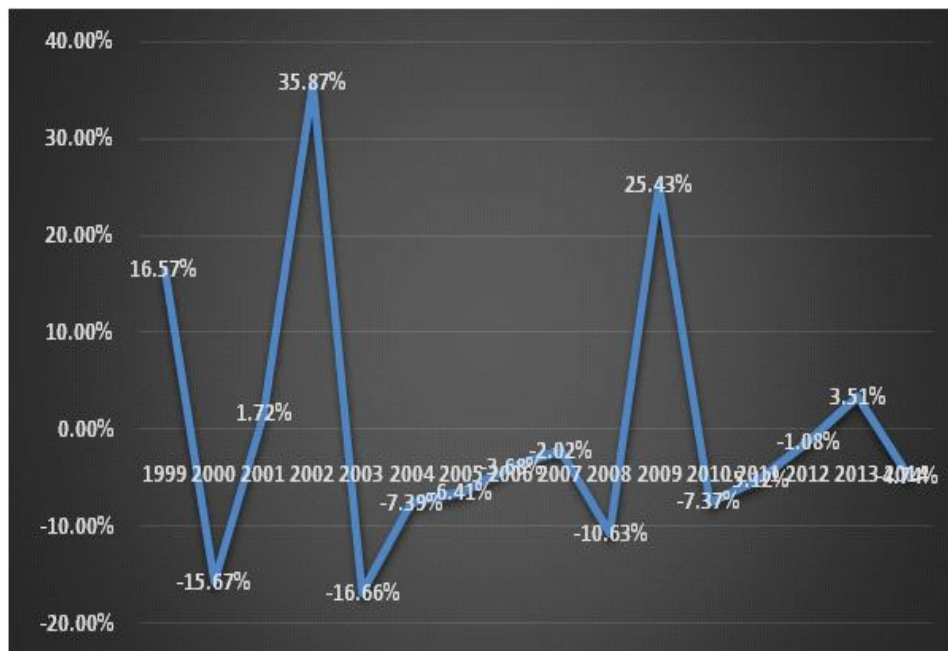


Figure 2: Trend Graph of Lending Rate in percent

Figure (2) reveals the trend in lending rate, which also shows that there have been series of fluctuations in the lending rate to the private sector of the economy.

Results and Discussions

Augmented Dickey-Fuller (ADF) test was used to test for the stationarity behaviour of the macroeconomic time series. This is very necessary because often times most macroeconomic time series exhibit non-stationarity behaviour in their present form, and this develops serious problem for econometric analysis, leading to wrong results. Hence, to guide against spurious and misleading regression results, this study takes caution by checking the properties of the variables via the Augmented Dickey-Fuller (ADF) test. The result is presented in table 1 below.

Table 1: Unit Root Test on Variables with Intercept

Variables	Level	Test Critical values	Status	1%	5%	10%
		1 st Difference				
BC	-	-2.078570	I(0)	-2.771926	-1.974028	-1.602922
		1.627183***				
LR	-	-5.151355*	I(1)	-2.754993	-1.970978	-1.604392

Source: Authors' Computation, 2016. *, **, * are 1, 5, and 10 percent levels of significance.**

The ADF test on Table 1 reveals lending rate as I(1) series and bank credit as I(0). Based on the fact that the time series are not of the same order it is therefore pertinent to employ the use of the Autoregressive Distributive Lag (ARDL). Co-integration is concerned with the analysis of long-run relations between variables integrated in the same order (i.e. series made stationary at the same order of differencing) (Olanrewaju et al, 2012). The co-integration test is not applicable in cases of variables that are integrated of different orders. A distributed-lag model is a dynamic model in which the effect of a regressor X on Y occurs over time rather than at once. The result of the ARDL is presented in table (2) below.

Table 2: Autoregressive Distributed Lag

Variable	Coefficient	Std. Error	t-Statistic	Prob.*	
BC(-1)	1.841397	0.293057	6.283401	0.0001	
BC(-2)	-1.362706	0.517821	-2.63162	0.0273	
BC(-3)	0.574126	0.314077	1.827983	0.1008	
LR	21478.76	20606.21	1.042344	0.3244	
R-squared	0.972549	Mean dependent var		6506497	
Adjusted R-squared	0.963399	S.D. dependent var		4441759	
S.E. of regression	849771.6	Akaike info criterion		30.39098	
Sum squared resid	6.50E+12	Schwarz criterion		30.56481	
Log likelihood	-193.5414	Hannan-Quinn criter.		30.35525	
Durbin-Watson stat	1.962007				

The result of table 2 shows that there are significant effects of the lags of the bank credit, and lending rate on bank credit. The result reveals that there is a positive effect of the first lag and third lag on the bank credit and the static variable of the lending rate reveals a positive relationship with bank credit. The lending rate is not significant in determining the level of bank credit to the private sector, which is against the a-priori expectation. The t-statistics shows that only the first lag of the bank credits $BC(-1)$, and the second lag $BC(-2)$ of bank credit are significant in measuring bank credits. From this result, it shows that the previous bank credits explain movements in bank credit. In addition to this, it reveals that the lending rate has no significant influence on the bank credit to the private sector.

The overall coefficient of determination R^2 of 0.972 implies that 97.3 percent variations on the bank credits are explained by the lagged bank credit and lending rate. The Adjusted R^2 of 0.96.3 shows that having included the influence of a number of explanatory variables, the model is still of good fit and the dependent variable is explained by 96.3percent.

Conclusion and Policy Implications

The ARDL result reveals that lending rate is wrongly signed, showing a positive relationship with bank credit which is not in line with the a-priori expectation. However, no sufficient evidence for its significance as indicated by the t-statistics of 1.042344 and a corresponding probability value of 0.3244. It implies that the lending rate has no impact on the bank credit. Meanwhile, it is also revealed that the past values of bank credit have significant effects on credit to the private sector in Nigeria. These findings also confirm with the findings of Aremu and Adeyemi, (2011).

In conclusion therefore, lending rate is not a major indicator for bank credit in Nigeria. Other salient factors drive the allocation of credit to the private sector and these might include the desire of the borrower to seek finance at all costs irrespective of the prevailing lending rate, unavailability and paucity of funds and unfavorable government and institutional policies against the private sector. For the desired growth to be achieved in the economy, government should encourage the banks and other lending institutions to provide credit to the private sector at permissible rates.

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**RELATIONSHIP BETWEEN JOB TENURE, JOB STATUS AND
EMPLOYEES' ATTITUDE TO WORK AMONG SELECTED
NON-ACADEMIC STAFF OF OLABISI ONABANJO
UNIVERSITY**

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Abstract

The study examined the relationship between job tenure, job status and employees' attitude to work. Participants in the study were 150 non-academic staff who were purposively drawn from Olabisi Onabanjo University. Data was collected via responses elicited using the questionnaire instrument. Results show that there is a significant relationship between job tenure, job status and employees' attitude to work. The findings were discussed with reference to relevant empirical literature, with recommendations for management of organizations both for practice and future research highlighted.

Keywords: Job tenure, Job status, Employees, Attitude, Work, Organization

Introduction

In organization research and practice, workers' attitude is an important construct, because it is related to workers' behaviour and performance in their jobs. However, this is a broad-brush statement that underplays the complexities of the relationship between job tenure, job status and employees' attitude to work. The possible perception that workers could be laid off from their jobs at any given time may influence their attitude on the job. On the other hand, at most times, the longer the tenure of an employee on a job, the likely tendency it is that such employee may become unserious about work. This may accrue to the fact that, having stayed long on the job, the worker becomes well informed about the organizational culture and norms. As a result, such a worker may choose to be deviant and still get away with it. Whenever it is difficult for this worker to be guided by the norms of the organization, his/her full knowledge of the norms afford him/her the audacity to exhibit attitudes in deviance of the same norms. He/she has developed the wisdom of getting away without being reprimanded in such a situation. This attitude also

bears upon the workers' status as well. Among the senior staff, this attitude is often common for the fact that they rarely report to a higher authority within the cadre (ILO, 2007). This of course may slow down the pace of work in the organization. The attitude to work of the junior staff differs from the attitude of the senior staff. Most of the junior staff are likely to have positive attitudes toward their jobs apparently because they are new. They will do their job well because they have to report to a higher authority to retain their job.

Surprisingly, there is a dearth of empirical research on the relationship between job tenure, job status and employees' attitude to work in Nigeria. Therefore, the objective of the study is to examine the relationship between job tenure, job status and employees' attitude to work among non-academic staff of Olabisi Onabanjo University, Ago Iwoye, Ogun State, Nigeria.

Review of Previous Literature

Job tenure

Tenure is the length or period spent in an office. Security of tenure in the university and other organizations are usually granted after the probationary period. Tenure in office can be terminated only on the grounds of serious misconduct, incompetent, misbehavior or expiration of time (ILO, 2007). Antecedents have shown that workers with longer tenure often feel that they know more about their job; with the knowledge of the nooks and crannies of the job and therefore, take work with levity. These workers might be capable of getting away with workplace deviances on the account of their ability to bend the rules or play politics to suit them. This notion might not be prescriptive for workers with low tenure in an organisation. Consequently, the way job tenure is played could affect workers' attitude on work related outcome like productivity that is attained through multi-dimensional concepts like job, satisfaction job, job commitment and work performance. In view of this, Duffy, Gangster and Shew (1998) have shown that, tenure negatively affect relationship between job satisfaction and counter productive work behaviour. Their justification is premised on the fact that, workers with longer tenure often feel that they know more about the job and thereby act unquestionable when workers at lower tenure seek for better understanding over a pressing issue, where the junior workers know or understand what ought to be. On their own part, Julie Katherin Rice (2009) opined that, workers will be initially satisfied with their supervisors and co-workers due to the fact that the workers are new and they have to report to their superiors or because they want to do their best to be retained on the job while their tenure increases so that they can become more autonomous and accepted, however, after a while, when they progress in their tenure, this positive stance might wane or disappear to favour negative attitude.

Job Status

Job status is the position that an employee occupies in the workplace. Within almost every organization, there is a hierarchy among the employees that is based on position, title, role, and function. Some are categorized as 'top', some 'middle', while others 'bottom' employees (Esty, Griffin and Hirsch, 1995). In some sense, hierarchical distinctions create a class system in the workplace. For instance, Robert Fuller (2003) in 'Some bodies and Nobodies' suggests that rank divides us into 'some bodies' and nobodies'. More than most care to admit, we treat others... and we are treated by others... based on our relative rank. The truth is that each of us has felt like a 'somebody' sometimes and a 'nobody' at others. A key to feeling like a 'somebody' is being recognized by others. Without recognition from others, we may feel discounted, disconnected, marginal, or even invisible. The greater the recognition we receive from others via personal or professional achievement, the higher we rise on the status ladder to exhibit different attitudes in the workplace. Our position in the status signifies our level of power, who has authority, and who we are expected to submit to. If you think about it, one of the first questions people ask when they first meet you, both in and out of the workplace, is "what do you do"? Regardless of the answer, everyone from top to bottom has a strong desire for dignity and a feeling of connection.

Rank/status is generally earned and represents levels of excellence Todd (2003). The problem is not that rank counts. Although some exercise their rank properly within their area of competence and in a way that respects the dignity of those under their authority, others do not. Rank is an important and necessary tool in the management of organizations. Within the area where it has been earned, rank deserves and commands our respect. However, rank-based mistreatment in the workplace can result in disrespect, inequity, and discrimination of those on lower ranks. Too often, classism in the workplace or "rankism" goes unchallenged. Left unchallenged, resentment builds among those in lower ranks. Most of us are pretty good at detecting condescension or indignity in the way others treat us. No matter our place of work, we have all felt it, and it does not feel good. Some recipients of rank-based mistreatment may look for ways to sabotage the organization; others may take their frustrations out on family and friends. For many, however, who simply work in quiet desperation, their frustrations are translated into lower levels of job satisfaction and performance, and lower levels of loyalty and commitment to the organization (Fuller, 2003).

Attitude to Work

Attitudes are propensities, or tendencies, to react in a favourable or unfavourable way toward an object. The object could be almost anything in the world around us. Attitudes reflect a person's likes and dislikes toward other persons, objects, events, and activities in their environment. Attitude toward job tenure, job status, or anything that might trigger positive or negative reactions as a result of employee satisfaction represent one of the key areas for measuring organizational effectiveness. According to a 2006 study by Gerard Seijts and Dan Crim, "...an employee's attitude toward the job and the company had the greatest impact on loyalty than all other employee factors combined". Employees' attitude determines the success of an organization in fostering a conducive environment which nurtures of great approach among employees towards their jobs and organizations. Irrespective of one's tenure or status in an organization, everyone deserves to work in a climate of dignity and respect. One way to make that happen is to protect the dignity of others, because it has a strong link to their attitude to work.

Research Hypotheses

Arising from the background of the study and the subsequent review of literature, the following hypotheses were generated for testing:

Hypothesis 1

There is a significant relationship between job tenure and employees' attitude to work

Hypothesis 2

There is a significant relationship between job status and employees' attitude to work

Hypothesis 3

There is a significant relationship between job tenure, job status and employees' attitude to work

Methodology**Participants**

Participants in the study were 150 employees comprising of both junior(50), intermediate (50) and senior (50) employees, all of whom were selected from the numerous work units operational in the university.

Sampling Procedure

A purposive sampling technique was used for the study. It was used so as to limit the number of respondents to those perceived to have time and possess the ability and willingness to give useful information to the study across sections and departments of the study area.

Instrument

The instrument used for the study was a closed-ended questionnaire. The researchers adapted the Wilmar Schaufeli and Arnold Bakker Utrecht Work Engagement Scale (UWES) consisting of seventeen items that have quite satisfactory psychometric properties to measure job tenure, job status and employees attitude to work. Scoring was based on a five-point Likert format ranging from strongly disagree to strongly agree. The reliability test yielded an internal consistency co-efficient of 0.73. A total of 150 questionnaires were given out. All of them were filled, returned and found usable for a response rate of 100%.

Results

H1: There is a significant relationship between job tenure and employees' attitude to work.

Table 1: T-TEST Showing the Significant Relationship Between Job Tenure And Employees' Attitude To Work

Years in Service	N	Mean	SD	T	P	Remark
Less than 10 years	86	61.74	9.05	1.06	<0.05	Accept
10 years and above	64	60.28	7.29			

Source: Field Work, 2012

A T' test was performed to test the significant relationship between job tenure and employees' attitude to work so as to answer question raised in hypothesis one. Results are shown in table 1. As shown in table 1 above, the mean score for those who had worked less than 10 years is more than those who had worked for 10 years and above (61.74 and 60.28), which suggests that those who had worked for 10 years and above are likely to be less influenced by their job tenure in view of their attitude to work, unlike the other group of workers- those who have worked less than 10 years-who are likely to be influenced more by their tenure on the job in view of their attitude. The Standard Deviation for both groups of workers is 9.05 and 7.29 respectively, while the calculated t-value is 1.06. The result shows further that the relationship between job tenure and employees' attitude to work is significant as $t(148) = 1.06 > p(0.01, 0.05) = 0.20$ and 0.29 ; thus the alternative hypothesis is accepted. This result therefore, confirms that there is a significant relationship between job tenure and employees' attitude to work.

H2: There is a significant relationship between job status and employees' attitude to work.

Table 2: T-TEST Showing the Significant Relationship Between Job Status And Employees' Attitude To Work

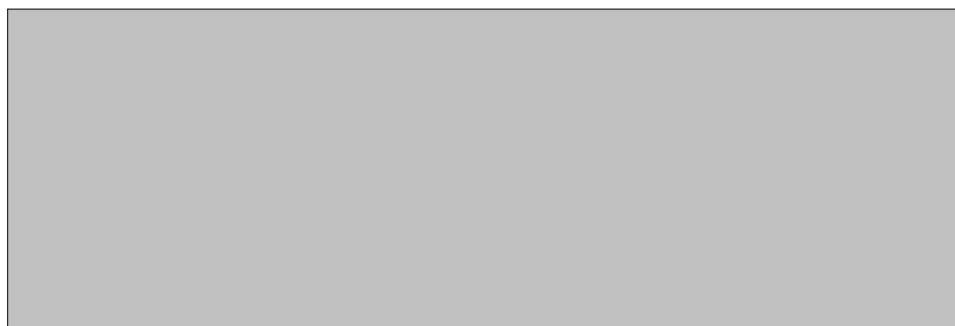
Years in Service	N	Mean	SD	T	P	Remark
Less than intermediate	103	61.82	8.34	1.52	<0.05	Accept
Intermediate and above	47	59.60	8.26			

Source: Field Work, 2012.

A T' test was performed to test the significant relationship between job status and employees' attitude to work so as to answer the question raised in hypothesis two. Results are shown in table 2. As shown in table two above, the mean score for those whose status was less than intermediate (junior employees), is more than those whose statuses were intermediate and above(intermediate and senior employees), which is 61.82 and 59.60 respectively. This suggests that those who occupied the less-than-intermediate status are likely to be less influenced by their job status in line with their attitude to work, unlike the other group of workers- the intermediate and senior employees- who are likely to be influenced more by their job status in line with their work attitude. The Standard Deviation for both groups of workers is 8.34 and 8.26 respectively, while the calculated t-value is 1.52. The result also shows further that the relationship between job status and employees' attitude to work is significant at $t(148)=1.52 > p(0.01,0.05)=0.49$ and 0.13 ; thus the alternative hypothesis is accepted. This result therefore, confirms that there is a significant relationship between job status and employees' attitude to work.

H3: There is a significant relationship between job tenure, job status and employees' attitude to work.

Table 3: An ANOVA Showing the Significant Relationship between Job Tenure, Job Status And Employees' Attitude To Work



Source: Field Work, 2012.

The result from the table shows that the sum of squares between and within groups for employees' status is 34.88 and 64.88 respectively, while that of the employees' tenure is 15.35 and 54.15 for between groups and within groups sum of squares respectively. The mean square for employees' status between and within groups is 0.92 and 0.59. For employees' tenure, it is 0.40 and 0.49 respectively. The degree of freedom (df) for both variables between and within groups is 38 and 111 respectively. The calculated F coefficient for both variables is 1.57 and 0.83 which comes out significant in both ways. Therefore, the above stated positive hypothesis is accepted unconditionally. Thus, there is a significant relationship between job tenure, job status and employees' attitude to work.

Discussion

Based on the first hypothesis of the study which states that there is a significant relationship between job tenure and employees' attitude to work, the result of the finding shows that, there is a significant relationship between job tenure and employees' attitude to work. The finding corroborates what Duffy, Ganster and Shaw (1998) said in the earlier part of this study. They found out that tenure negatively affected the relationship between job satisfaction and counter-productive work behaviour. To them, workers with longer tenure often feel that they know more about the job; with the knowledge of the dos and don'ts of the job. Hence, work is taken with levity. These workers are capable of getting away with workplace deviances on the account of their ability to bend the rules to suit them. This in a way has a negative effect on productivity. Also, as earlier mentioned, Julie Katherin Rice (2009) opined that, new employees who are engaged with their work will be initially satisfied with their supervisor and co-workers. This is due to the fact that they are new and they have to report to the superior or because they wanted to do their best to be retained on the job, while their tenure increases, they may become more autonomous and, although they remain engaged, their satisfaction with supervisors and co-workers may diminish.

Based on the second hypothesis of the study which states that there is a significant relationship between job status and employees' attitude to work, the results of the findings show that, there is significant relationship between Job status and employees' attitude to work. In line with this, sociologists have long argued that greater conformity to group norms are demanded of those of lower social status (Homans, 1950) and that the labeling of "deviant" behavior is a tool for those of higher status to maintain their dominance. Studying "social outsiders," Becker (1963) demonstrated how lower status actors receive more severe social sanctions for the same rule infractions. This sociological research suggests a main effect of target

status on the evaluation of workplace deviance with lower status actors being evaluated more harshly than higher status actors. However, more recent psychological research suggests that evaluator status may moderate this classic target-status effect, such that the biasing effect of the deviant's status is greater with higher than lower status evaluators. Research on the psychology of social dominance shows that members of higher status social groups (e.g., men vs. women, racial majorities vs. minorities) tend to espouse more hierarchy-enhancing beliefs, such as that some are more deserving of privileges than others. In contrast, members of lower status social groups tend to espouse more status-attenuating beliefs, such as embracing ideals of equal treatment (Sidanius and Pratto, 2001). Similarly, research on in-group bias indicates that high-status groups display greater in-group favoritism than do low status groups, presumably because those of higher status have greater motivation to preserve their place in the social hierarchy (Bettencourt, Charlton, Dorr, and Hume, 2001; Mullen, Brown, and Smith, 1992; Pettigrew, 1979). Status also influences the propensity toward rule abidance, specifically, because higher social status generally permits greater self-direction in one's behavior and pursuits (Kohn, 1977). Lower status groups are socialized to greater conformity and, as a result, tend to be more strictly rule oriented with regard to discipline (Kohn, 1977). Even just the psychological experience of being in a lower power position makes actors conform more to social norms (Galinsky, Magee, Gruenfeld, Whitson, & Liljenquist, 2008; Keltner, Gruenfeld, & Anderson, 2003). The attitude to work for senior workers is often poor while that of the junior workers is often high. Going by the literature in this study. They may or may not have who to report or deliver to, at the expense of those of lower status. This makes their attitude to work process insignificantly poor. For the junior staff, the fact that they have those to whom they report or deliver to compels them to take work with all sense of seriousness (Fuller, 2003)

Based on the third hypothesis of the study which states that there is a significant relationship between job tenure, job status and employees' attitude to work, the results of the findings show that, there is a significant relationship between job tenure, job status and employees' attitude to work. In line with this, Todd (2003) opined that job tenure and job status have both interactive influence on workers' attitude to work. According to him, a worker who has stayed on a job for a very long time, and has over the time attained some level of ascendancy on the job is likely not to take work too seriously, leaving most of his responsibilities to his subordinates to do. The trend is always that the senior status of work is a position for relaxing and resting from loads of work responsibilities. Therefore, the idea is often that before getting to that status (senior), the junior staffs should have

accomplished enviable achievements at the workplace. A lackluster worker is not likely to get to the senior rank of work. Therefore, how employees perceive organization tasks depends on their job tenure and job status.

Conclusion/Recommendations

Based on the findings of this study, the following conclusions are drawn; that the workers with longer tenure on the job do not really take work seriously and are rarely bothered about losing their job for certain work deviances, while workers with low tenure on the job often get worried and scared of losing their job which influences their positive attitude to work. As a result, the job tenure and job status of workers influence their attitude to work. The junior workers are committed and hardworking, while the senior workers are rarely positive towards work. Hence, this paper recommends that:

- ❖ Management should pay more attention to those who have stayed longer on the job so that their excesses can be checked.
- ❖ Management should make regular arrangements for its workers to undergo periodic training and retraining which will assist in realigning the workers' attitude to the goal of the organization;
- ❖ An objective performance appraisal should be conducted among workers on a regular basis. This will influence workers to have a positive attitude to work and thus, limit the influence that job tenure and job status can have on their job.

Limitations of the study and Suggestions for Future Research

It should be noted that this research has its limitations. First, the population samples used for the study were limited to non-academic staff of Olabisi Onabanjo University, Ago Iwoye, Ogun State, Nigeria. This was due to cost considerations, which constituted a limitation to the study. Thus, the findings cannot be generalized to other universities or other organizations in Nigeria. Also, there is a lack of qualitative method of data collection and analysis. Therefore, further research can be done by extending the study population to include other universities' or organizations staff, and triangulating method of data collection and analysis should be put into consideration. By drawing samples from a wider range of respondents, a more meaningful result can be obtained, thus improving the generalizations of the findings. Future research should consider the role of tenure and status as a moderator to work engagement, job commitment and job satisfaction as well as the relationship between work attitude and employees' performance.

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THE EFFECT OF INCOME ON HOUSEHOLD CONSUMPTION EXPENDITURE -EVIDENCE FROM NIGERIA

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Abstract

The study estimates the consumption function for Nigeria applying strictly “Absolute Income” hypothesis as posited by Keynes (1935). We formulate a model that specifies real consumption as a stable function of real income by applying the Granger representation theorem which is used to determine the short and long run relationship between the variables of study. The data set used is the Gross Domestic Product by type of expenditure (proxy of income) and Household Consumption Expenditure (both at constant 2005 prices - Naira) for the period, 1970-2013. The long run marginal propensity to consume (MPC) is ≈ 0.73 , while the shortrun is ≈ 1.12 . Nigeria’s autonomous consumption is estimated to be 2.55 trillion Naira though not statistically significant. The average propensity to consume (APC) at 0.74 in the long-run violates the non-proportional rule as posited by Keynes. The paper concludes that the Keynesian consumption function is still relevant in explaining the MPC in Nigeria. Our recommendation is that government should positively review the minimum wage structure to enhance the propensity to save by low income earners.

Keywords: consumption expenditure, Keynesian, gross domestic product, error correction

JEL Classification: E2, E12, E01, C13

1.0 Introduction

Individual spending habits are influenced by a large and complicated set of interrelated factors for example age, sex, family size, current income, price of the commodity and that of its substitute. In considering the personal income of an individual which is subject to various windfalls, his or her consumption pattern may be closely geared to the long range circumstances than what his or her current income can accommodate. In this situation, the person may find that it would be appropriate to redefine the whole concept of his income for purposes of predicting his consumption and savings behaviour (Dernburg and McDougall 1976).

On the aggregate, household behaviour to national trends in income exemplify how the overall economy operates. This behavior manifests as national consumption trends because consumption behaviour is crucial for the understanding of both short-term business cycles and long term economic growth (Samuelson and Nordhaus 1998).

In the case of Nigeria, Figures 1 and 2 in the appendix reveal the trends in the movement of income proxy by real Gross Domestic Product (GDP) when compared with the Household Consumption Expenditure (HHCE) in the period of the study (1970-2013). The comparison of these two variables in Figure 3 shows that in some situations (in absolute terms) when income declines consumption expenditure also declines (vice-versa) as posited by Keynes, but the pattern of movement between the two variables does not follow a similar trend after the year 2000.

The patterns of HHCE and GDP in Figure 3 show that changes in the growth rate of real income led to changes in real consumption expenditure in the period, 1970-1978. During this period, increases in the growth of real income translated to a less than proportionate increase in real household consumption. While this pattern persists in the period, 1984-1989, the growth rate in the period, 1990-2000 differs because real consumption expenditure growth rate fluctuates at a wider margin compared to that of growth rate of real income. Finally, the period, 2000-2013 experienced a moderate and steady fluctuation in the real income while the real consumption expenditure fluctuated between wider margins.

The proposition of Keynes' theory of consumption function held out the hope that a firm has a basis for forecasting consumption expenditure based on the aggregate MPC. Since that time, economists have devoted considerable research effort on

theorizing the determination of consumption function for policy use. This paper investigates how the trend in the real aggregate national income does affect the households' consumption expenditure in Nigeria and also determine whether the MPC and APC are proportional in the long run.

The main objective of this paper is to determine the short and long run relationship between real household consumption and income in Nigeria in the period, 1970-2013. Unlike the studies reviewed in section two of this paper, we formulate models that specify real consumption as a stable function of real income. We also take a step further from least squares to the application of error correction model so as to identify the short and long run consumption-income relationship in Nigeria in the period of the study. Section two of this paper is on theories of consumption, section three and four discuss methodology and results, and section five concludes the paper.

2.0 Theory of the Consumption Function

2.1 Conceptual Framework

The concept of consumption function was introduced by Keynes (1935). It is based on the hypothesis that there is a stable empirical relationship between consumption and income. In symbols, this definition can be written as:

$$C = C(Y_d) \quad (1)$$

Where C is the amount of consumption expenditure and Y_d is personal disposable income.

Equation 1 simply indicates that the most important factor influencing consumption expenditure is the level of income. It can be rewritten mathematically in a linear function for it to be given an economic interpretation;

$$C = a + bY \quad (2)$$

The coefficient ' a ' is the intercept which denotes amount of consumption when income is zero. This is often referred to in the literature as autonomous consumption. The bY is the amount of consumption which varies with the level of income. The coefficient ' b ' of Y mathematically gives the slope of the consumption function. The economic interpretation is that it measures the rate of change in consumption as the level of income varies. This is termed the marginal propensity to consume (MPC). The MPC is the extra amount that people consume when they receive an extra naira of disposable income. Thus,

$$MPC = b = \frac{\Delta C}{\Delta Y} = \frac{\partial C}{\partial Y} \quad (3)$$

Based on the assumption that C will be less than Y , the MPC is always positive and lies between 0 and 1 i.e. $0 < MPC < 1$. This implies that when income increases

the whole of it is not spent on consumption and when it falls, consumption expenditure does not decline in the same proportion and never reaches zero. Another important concept is the average propensity to consume (APC). The APC is derived thus;

$$APC = \frac{C}{Y} \quad \text{---- (4)}$$

Keynes concern was primarily with the MPC due to its short run effects, while APC is useful for long run analysis.

2.2 Theoretical Framework

Keynesian consumption function, otherwise called the absolute income hypothesis (AIH), was based on the assumption that in a given modern society, as the real income of the society increases, the real consumption of such society is not likely to increase by an equal absolute amount.

Keynes's conjecture which emphasizes short run consumption function is therefore;

- i) $0 < MPC < 1$
- ii) Average propensity to consume (APC) falls as income rises.
- iii) Income is the main determinant of consumption.

The Inter-temporal choice theory propounded by Irving Fisher (1930) is the foundation for subsequent work of other scholars on consumption theory. His model is based on a two-period model where Period 1 represents the present and Period 2 represents the future.

Income and consumption for these periods are represented in the form;

Y_1, Y_2 = income in period 1, 2

C_1, C_2 = consumption in period 1, 2

$S = Y_1 - C_1$ = saving in period 1 ($S < 0$ if the consumer borrows in period 1)

Fisher assumes that consumer is forward-looking and chooses consumption for the present and future to maximize lifetime satisfaction, and that consumers' choice are subject to an inter-temporal budget constraint (a measure of resources available for present and future consumption). The timing of income is irrelevant as consumers can borrow at real interest rate r . If the consumer is a saver, the rise in r makes him better off since he becomes richer. This tends to increase consumption in both periods.

The difference between the Keynesian consumption function and the two-period model is that Keynes' current consumption depends only on current income. In the two-period model, current consumption depends only on the present value of lifetime income. The timing of income is irrelevant because the consumer can borrow or lend between periods.

The Permanent Income Hypothesis (PIH) by Friedman (1957) posits that consumers do not respond equally to all income shocks but that consumption responds primarily to permanent income. This theory suggests that consumption will not change at all under the impact of temporary income changes and even if the changes are permanent, it will take time to adjust consumption expenditure to the change in income. For example, if an employee is promoted to earn a higher income he is likely to consume a large fraction or proportion of such increase in income but if he receives a bonus (like end of the year productivity bonus) a larger proportion of the bonus may be saved. Thus, Friedman refutes the use of current income as the major determinant of consumption expenditure.

He represented PIH consumption function in the form:

$$C = \alpha Y_p \quad \text{—————} \quad (5)$$

$$Y = Y_p + Y_t \quad \text{—————} \quad (6)$$

$$C = C_p + C_t \quad \text{—————} \quad (7)$$

Where: α is the fraction of permanent income people consume per year (equation 5), current income (Y) is split into permanent (Y_p) and transitory components (Y_t) (equation 6) and same for consumption (equation 7).

In Friedman's postulate APC is represented in the form:

$$APC = C/Y = \alpha Y_p / Y \quad \text{—————} \quad (8)$$

Other testable postulates in this area of study include that of Ando and Modigliani (1963) which implies that people strive to smooth their consumption pattern over their life time so as to ensure maximum utility. Consumers will save while working in order to sustain their consumption pattern in their twilight years. On this premise, his consumption would be proportional to his resources but the spent proportion in his plan for consumption would to a large extent depend on his age at the time of the plan.

The above theories still feature in current discussions (see Hall (1978), Boskin (1978), Carroll (2001), Liabson et al 2002)). In our attempt to provide evidence for the consumption pattern in Nigeria, this study consider AIH as propounded by Keynes because the theory largely deals with the current income as opposed to the lifetime income hypothesis by Fisher and Ando/Modigliani in which available data may be inadequate to test this hypothesis.

2.3 Empirical Evidence

Scholars have made attempts to ascertain the best option (from the bundle of theories) in determining the consumption function without a consensus (Olofin, 2001). Kuznets (1946) carried out a study on consumption and income data for the USA during the period, 1869-1938. He found the estimated consumption function for the period as 0.9. These finding was later verified by Goldsmith (1955) who found the long run consumption function for USA to be stable at 0.87. These two studies revealed that the short run consumption function is non-proportional because $MPC < APC$ and the long run consumption function is proportional as $MPC = APC$.

Tobin (1951) and Smithies (1945) also tested Keynes absolute income hypothesis (AIH) in separate studies and came to the conclusion that the short run relationship between consumption and income is non-proportional but the long run relationship is proportional. A revisit to the Keynesian AIH was applied by Emerson (2011) who used historical data from the United States of America (USA) to investigate the consumption-income relationship and took structural breaks into account for the following periods - 1929-1941; 1946-1985 and 1986-2009. He found that the MPC was 0.73, 0.86 and 0.99 respectively in these periods. The evidence from the study suggests that the Keynesian consumption function still performs quite well in describing what is seen in the USA.

Based on Keynes' consumption function, Akekere and Yousuo (2012) carried out an empirical analysis of change in Income on Private Consumption Expenditure in Nigeria from 1981 to 2010. Using the classical (ordinary least squares (OLS) simple regression analysis, results agree with the researchers' theoretical expectation of the existence of a positive significant impact of nominal GDP (income) on Private Consumption Expenditure. They found that MPC is 0.67 in the long-run at 1 per cent level of significance. In other words, evidence shows that there is a significant relationship between income and private consumption expenditure in Nigeria.

Alimi (2013) also investigated the AIH for the case of Nigeria for the period, 1970 to 2011 using the OLS for both long and short run models. The study found that the MPC is 0.73 at 1 per cent level of significance although the intercept estimate was negative. While the MPC conforms to the Keynesian theory on consumption function, the coefficient estimate of the intercept which is negative does not conform to the Absolute Income Hypothesis as posited by Keynes.

Ofwona (2013) in a paper discusses the consumption function for Kenya in the period, 1992-2011. He considered the total household consumption expenditure

against total income according to Keynes' AIH. The model was tested by OLS and the results show that consumption is determined by income with an MPC of 0.12. Although the MPC is relatively low the intercept is positive, thus, the results conform to the Keynesian Absolute Income hypothesis.

3.0 Methodology

3.1 Sources of Data

For the purpose of this study, we obtained real aggregate data on household consumption expenditure and gross domestic product (by type of expenditure, at constant 2005 prices - naira) for the period, 1970-2013 from the United Nations Statistics Division National Accounts Main Aggregate Database.

3.2 The Model

The model for this study relies on the work of Emerson (2011) who conducted a study on the stability of consumption function in the USA for the period, 1929-2009. In this paper we adapt the model on real variables as opposed to nominal variables by Emerson. We used least squares and error correction mechanism to investigate consumption-income relationship in Nigeria for 44 years (1970-2013) so as to test for the long and short run relationship between the study variables. As a first approximation, we ignore other influences and investigate only the real aggregate consumption-income relationship due to data limitation.

Our simple Consumption function based on Keynes AIH is in the form:

$$\frac{C_t}{P} = \beta_0 + \beta_1 \left[\frac{Y_t}{P} \right] \quad (9)$$

Where:

C_t/P is the real household consumption expenditure

Y_t/P is real income represented by real gross domestic product

β_0 β_1 are coefficient estimates, β_1 represents MPC (slope) and β_0 is the intercept.

A priori: $\beta_0 > 0$ and $0 < \text{MPC} < 1$.

3.3 Method of Data Analysis

We employ the least squares method and error correction mechanism (ECM) technique in the estimation of our model. The study started by conducting a unit root test on the variables of study. Then, we obtained the correlation matrix for the variables before regressing household consumption expenditure (HHCE) on gross domestic consumption (GDP). To know if we can refer to this regression as a

static, long run or cointegrating regression we conducted a cointegration test (Trace and Maximum Eigenvalue), as suggested by Engle and Granger (1987). The Granger representation theorem advised that if two variables, like HHCE and GDP, are cointegrated, the relationship between them can be expressed as ECM so as to know if equilibrium error exists in the short run.

$$\frac{C_t}{P} = \beta_0 + \beta_1 \left[\frac{Y_t}{P} \right] + u_t \quad \text{---} \quad (10)$$

$$\frac{\Delta C_t}{P} = \alpha_0 + \alpha_1 \left[\frac{\Delta Y_t}{P} \right] + \alpha_2 u_{t-1} + \epsilon_t \quad \text{.....} \quad (11)$$

Equation 10 is our cointegrating regression model while equation 11 is the error correction model. α_2 is expected to be negative.

4.0 Discussion of Findings

To verify the stationarity of the two variables in our model the Augmented Dickey-Fuller (ADF) Test for unit root was conducted and summarized in Table 1. None of the variables are stationary at its level, but they are stationary at second difference I(2) at 1 per cent level of significance.

Table1: Unit root test

variable	ADF statistics		Remark
	t statistic	lag	
HHCE*	-9.4577	0	I(2)
GDP*	-9.5361	0	I(2)
Critical values			
10%	-2.6102		
5%	-2.9434		
1%	-3.6210		

Note: * imply significance at 1% level of significance

Source: Authors 2016

The correlation result in Table 2 depicts consumption (HHCE) increases as Income (GDP) increases i.e. they have a strong positive linear association.

Table 2: Correlation between HHCE and GDP

	HHCE	GDP
HHCE	1.0000	0.9609
GDP	0.9609	1.0000

Source: Authors 2016

The consumption function from our static or long run regression result (see Table A, Appendix) shows that real income (GDP) is statistically significant in explaining changes in real household consumption at 1 per cent level of significance. The estimated coefficient values of consumption-income relationship is expressed in equation (12)

$$C_t = 2.55E + 11 + 0.7328Y_t \dots \quad (12)$$

The results affirm that the intercept of income is positive and the MPC is also positive at 0.73. Furthermore the MPC is significant at 1%, so we accept H_1 which means $0 < MPC < 1$. Although the constant is greater than zero, it is not statistically significant at all levels of significance. The MPC is approximately (H'') 0.73 and Nigeria's autonomous consumption could be 2.55 trillion naira.

The cointegration test conducted (see Table B, Appendix) depicts the consumption and income have a long term relationship at 5% level of significance in Nigeria. This gives us procession to perform the ECM. The equilibrium error term (ECM) is nonzero as it is significant at 1% informing us to reject H_0 and accept H_1 . This means that the model is out of equilibrium in the short run and consumption is expected to restore the equilibrium in the next period. That is in about one year, one month and twenty one days or about 416 days (see Table C, Appendix). The ECM regression result is expressed in equation 13 bearing a priori expectation.

$$\Delta C_t = -2.73E + 11 + 1.1199\Delta Y_t - 0.8778\hat{u}_{t-1} \dots (13)$$

The constant in the ECM regression result is not significant, while the coefficient of change in GDP is significant at 1%. One can interpret the short run MPC as H'' 1.12 (for our period of analysis) which does not fulfill the Keynes conjecture of $0 < MPC < 1$. This implies that the economy's expenditure on consumption is higher

than its income in the short run. The possible explanation for this may be that the low income earners not only lack the ability to save but they borrow in the short-run to argument their current income in other to meet their basic needs.

In spite of the strong positive correlation between real income and average propensity to consume as shown in Table 3, evidence from this paper does not completely depict that there is a stable relationship between the short-run MPC and APC but we found that MPC (0.73) in the long-run is close, but not equal to APC (0.74), while in the short run MPC at 1.12 is relatively higher than APC. The high MPC may be accountable for the lack of savings in the short-run for investment purposes in Nigeria.

Table3: Correlation between GDP and APC

	GDP	APC
GDP	1.0000	0.9283
APC	0.9283	1.0000

Source: Authors 2016

4.1 Diagnostic Tests

The essence of our diagnostic tests as reported in Table 4 is to check for the misspecification of our models. The R squared and the Adjusted R squared of our static model is ≈ 0.92 , implying 92% variation in consumption is explained by income in Nigeria. This is a good fit compared to the R squared and the Adjusted R squared of our Error Correction Model of 0.43 and 0.40 respectively, in which change in income and the error term explains only 43% variation in consumption (see Table A and C, Appendix).

Table 4: Results on diagnostic tests

Model	R ²	Adjusted R ²	Durbin Watson stat
Static Regression Model	0.9234	0.9215	1.6289
Error Correction Model	0.4327	0.4043	2.0580

Source: Authors 2016

The Durbin Watson statistics (d), in Table 4, of the two models fall within the decision range of $d_u < d < (4 - d_u)$

$$d_u = 1.566$$

$$(4 - d_u) = (4 - 1.475) = 2.525$$

$$1.566 < d < 2.525$$

That is, d for the static model and the error correction model are 1.6289 and 2.0580 which are greater than d_u and lower than $(4 - d_u)$. Thus, we cannot reject H_0 , meaning there is no autocorrelation, positive or negative.

5.0 Conclusion

This study uses the historical data of household consumption expenditure and the gross domestic product of Nigeria to estimate the Keynesian consumption function ignoring other factors that could affect consumption. We found that the coefficient estimate of 0.7328 being the long run marginal propensity to consume (MPC) for Nigeria is relatively lower than that of USA, which was 0.99 in the period, 1986-2004 (Emerson, 2011), but substantially higher than that of Kenya 0.1168 that covered a period of 1992-2011 (Ofwona, 2013).

Furthermore, evidence from our study affirms that the value of the intercept is positive but the slope of the consumption function is $0 < MPC < 1$ in the long-run. Our results conform to the theoretical position of the Keynes model of absolute income hypothesis (AIH) in this regard. Although the short run MPC (1.1199) does not comply with Keynes' theoretical position, this implies that in the short-run, marginal propensity to save (MPS) is not feasible but this is possible in the long-run for Nigeria. The long run MPC is exactly proportional to the APC (0.7328 "0.7444) but the difference is very negligible. Second, our findings defy the Keynesian AIH short run consumption function of being non-proportional ($MPC < APC$). Finally, this study also confirms that in the case of Nigeria and as it were in other countries where the theory has been tested that income is the main determinant of consumption as posited by Keynes.

We conclude that the Keynesian consumption function is still relevant in explaining the MPC in a developing country like Nigeria and recommend that government should review the minimum wage structure to enhance the propensity to save by low income earners.

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Appendix

Real GDP Growth Rate

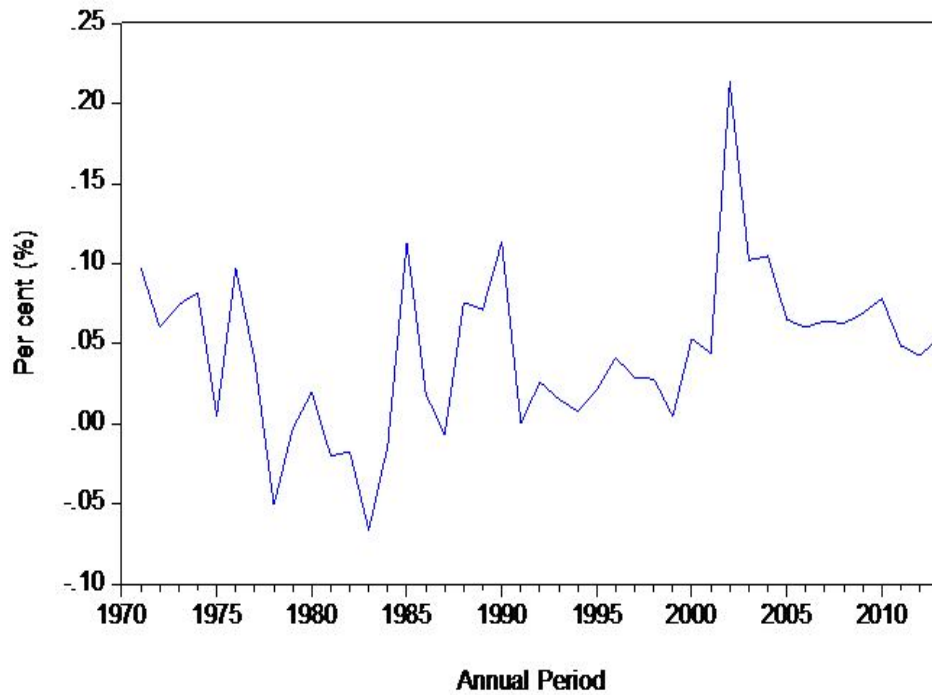


Figure 1: Aggregate Income (Proxy by Real GDP) 1970-2013

Real Household Consumption Expenditure: Growth Rate.

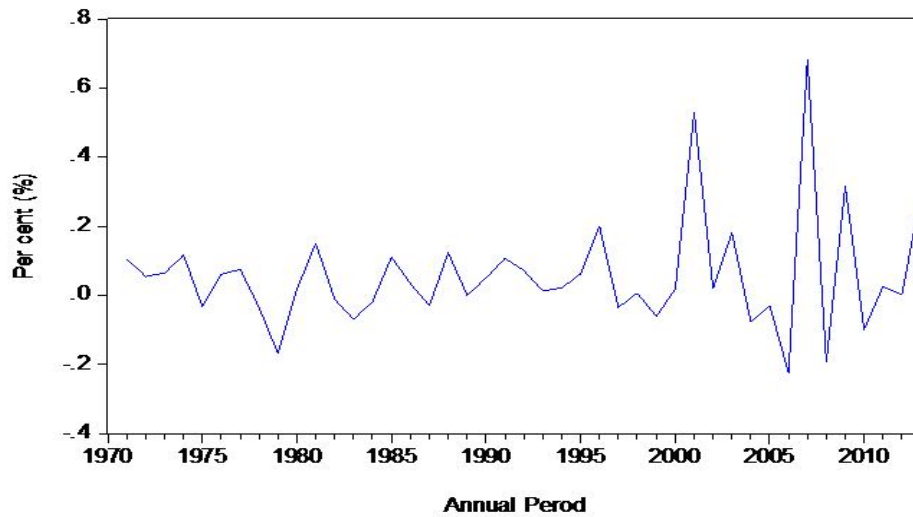


Figure 2: Real Household Consumption Expenditure (1970-2013)

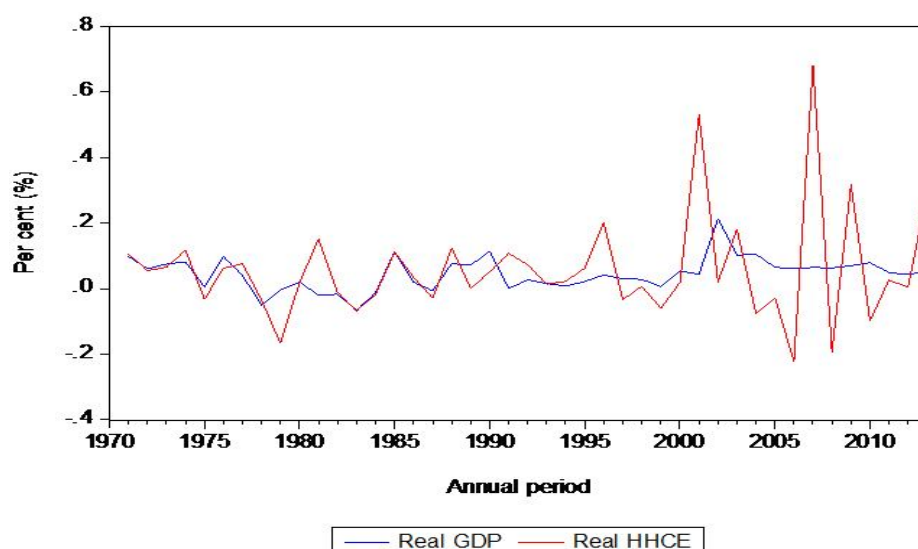


Figure 3: Real Gross Domestic Product and Household Consumption Expenditure

Table A

Static Regression Result

Dependent Variable: HHCE

Method: Least Squares

Date: 01/07/16 Time: 18:18

Sample: 1970 2013

Included observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.55E+11	5.66E+11	0.449836	0.6551
GDP	0.732782	0.032573	22.49656	0.0000
R-squared	0.923371	Mean dependent var	1.12E+13	
Adjusted R-squared	0.921547	S.D. dependent var	6.80E+12	
S.E. of regression	1.91E+12	Akaike info criterion	59.43342	
Sum squared resid	1.52E+26	Schwarz criterion	59.51452	
Log likelihood	-1305.535	Hannan-Quinn criter.	59.46350	
F-statistic	506.0954	Durbin-Watson stat	1.628852	
Prob(F-statistic)	0.000000			

Source: estimated by authors

Table B
Cointegration Test

Date: 01/07/16 Time: 18:19
Sample (adjusted): 1972 2013
Included observations: 42 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP HHCE
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.358947	22.96949	15.49471	0.0031
At most 1 *	0.097196	4.294511	3.841466	0.0382

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.358947	18.67498	14.26460	0.0094
At most 1 *	0.097196	4.294511	3.841466	0.0382

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Estimated by authors

Table C

Error Correction Model

Dependent Variable: D(HHCE)

Method: Least Squares

Date: 01/07/16 Time: 18:20

Sample (adjusted): 1971 2013

Included observations: 43 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.73E+11	3.98E+11	-0.687087	0.4960
D(GDP)	1.119943	0.367211	3.049863	0.0041
ECM(-1)	-0.877808	0.164110	-5.348913	0.0000
R-squared	0.432706	Mean dependent var	5.91E+11	
Adjusted R-squared	0.404341	S.D. dependent var	2.45E+12	
S.E. of regression	1.89E+12	Akaike info criterion	59.44512	
Sum squared resid	1.44E+26	Schwarz criterion	59.56799	
Log likelihood	-1275.070	Hannan-Quinn criter.	59.49043	
F-statistic	15.25510	Durbin-Watson stat	2.057978	
Prob(F-statistic)	0.000012			

Source: Estimated by authors