

EFFECT OF INSTITUTIONAL QUALITY ON FIRM ENTRY IN NIGERIA: AN ARDL APPROACH

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ABSTRACT

This study examines the effect of institutional quality on firm entry in Nigeria for the period of 1986-2015 using ARDL bound test approach to cointegration. Bound test shows that the variables such as firm entry, institutional quality, financial capitals, unemployment and economic condition are cointegrated. The study confirms that in the short run, institutional quality has significant and negative effect on new firm creation while the long run coefficient shows that there is positive and significant effect of institutional quality on new firm entry. By implications, the result shows the importance of institutional quality in creating new firms in Nigerian environment. Therefore, top priority needs to be given to the regulatory environment by reducing barriers to entry and improves overall institutional quality in Nigeria.

Keywords: Institutional quality, firm entry, Nigeria, ARDL

INTRODUCTION

The literature on the relationship between institutional quality and firm entry suggests that the quality of institutional environment serves as a key driver of firm creation in different countries and plays important roles in reducing uncertainties in business environment (Bjørnskov & Foss, 2016). Firm entry is one of the important functions of an entrepreneurial process. However, entrepreneurship process is complex. It includes but not limited to the creation of ideas, firms, and patents and it encapsulates the thinking process behind the firm creations. Meanwhile, there are different modes of entrepreneurship (firm creation) in an industry. First, formal entrepreneurship occurs when the creation of legally registered firms exists in a country (Klapper & Love, 2011). Secondly, informal entrepreneurship occurs when firms are created but not legally registered and unregulated (Nystrom, 2008; Fuentelsaz, Gonzalez, Maicas & Montero, 2015).

This study is concerned with the first form of firm entry (legally registered firm creation). Studies on entrepreneurship have examined the impact of institutional quality on firm creation using panel of developed and developing countries (Stenholm, Acs, & Wuebker, 2013; Jiménez, *et al*, 2015; Chambers & Munemo, 2017). Most of these studies assume that institutional quality is the same in all countries. This assumption still persists as a result of none availability of data making it difficult to identify single country study that investigates the effect of institution on new firm creation. However, it is important to note that institutional quality and its context differ from one country to another country. The peoples' cultural values, their social norms, bureaucratic quality, the level of corruption in a country, democratic accountability, the level of government stability, law and order also differ from country to country.

It is against this background that we conduct our investigation on how institutional quality affects firm entry in a single country (Nigeria). It can be noted that Nigerian business environment is featured with high level of corruption (Ajide & Ajisafe, 2017). Corruption can create uncertainties in business environment while installation of anti-corruption systems can improve the level of institutional quality. Efficient institutions reduce the uncertainty of entrepreneurial interactions. If institutions produce a net benefit for productive opportunities such as arbitrage and innovation, entrepreneurs would exploit these opportunities (Avnimelech, Zelekha & Sharabi, 2014). On the other hand, if institutions create pretty high incentives by engaging in rent-seeking, some potential entrepreneurs will take advantage of those opportunities. Corruption affects the magnitude of the rewards that can be earned from productive entrepreneurship (Baumol, 1990). By assuming that these features of institutions are the same across countries may be biased and the generalization may be misleading. Therefore, the study contributes to the literature by providing further insights into the effect of institutional quality on firm entry using a single country in Sub-Saharan Africa (Nigeria) and adopts Autoregressive Distributed lag Model (ARDL) analytical technique which is capable of generating short run and long run analysis. It is the first study to be conducted that examines the situation of a single country which provides insight on the relationship between institution and firm creation.

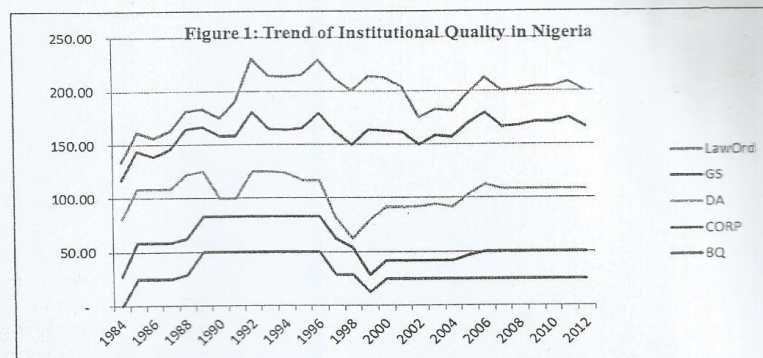
Institutional quality has been regarded as an important factor that continuing to influence and affect the way business organization is practiced in a society (Bell, 2002). It can shape the mode of entry of firms into an industry and it can serve as an incentive for firm entry. Institutional quality in Nigerian business environment has long been shaped and affected by a number of factors including Bureacracy Quality (BQ), Corruption (CORP), Democratic Accountability (DA), Government Stability (GS), Law and Order(LawOrd).

Table 1: Nigerian Institutional Quality Indicators (1985-2012)

Year	BQ	CORP	DA	GS	LawOrd
1985-1991	36.31	33.33	40.67	43.65	18.85
1992-1998	44.05	32.14	31.15	59.13	50.00
1999-2005	23.21	17.46	51.49	68.11	35.12
2006-2012	25.00	25.00	59.03	62.00	33.33

Source: International Country Risk Guide (2012), NB: Bureacracy Quality(BQ), Corruption (CORP), Democratic Accountability(DA), Government Stability(GS), Law and Order(LawOrd)

For a country to witness mass firm entry, it is necessary for such a country to have stable political institution and government (Amenta & Ramsey, 2010). The government stability would ensure that a country's rules, laws, and regulations as well as its enforcement are practiced with high level of success. In this case, Table 1 shows that the degree of government stability is improving in Nigeria. The percentage moves from 43.65 to 68 but drop to 62 within years 2006-2012. The rule of law still remains weak in Nigeria. The Table shows that the percent is 18.85 within 1985-1991 and increases to 50 percent in 1992-1998 but continues falling until 2006-2012 in which 33.33percent is recorded in Nigeria. It is important to note that the government instability can shape the implementation of the laws and regulations of business entry.



Source: International Country Risk Guide (2012), NB: Bureacracy Quality(BQ), Corruption (CORP), Democratic Accountability(DA), Government Stability(GS), Law and Order(LawOrd)

Figure 1 illustrates the trend and movements of the institutional quality indicators. Government stability has been stable but drops in 1999. This represents the year when democratic regime is witnessed in Nigerian society. This is reflected in other indicators including Bureacracy Quality and Democratic Accountability. In practice, legal and regulation enforces the private property right and protect the legal rights of individuals. It provides supports for private contracts arrangements. If this arrangement exists, investors are more inclined to invest in industries and more firms enter such industries (La Porta, Lopezde-Silanes, Shleifer, & Vishny, 2000; Beck & Levine, 2005). Otherwise the opposite is likely to occur in a country like Nigeria where weak legal and regulatory institutions are neither supportive of the right to private property nor do they honor private contractual agreements, and by so doing distort the flow of firm entry and stunt capital market development (Aguilera & Jackson, 2010).

Table 1 and Figure 1 show that corruption affects institutional framework of business operations in Nigeria. It has been stated that high corruption distorts good governance practice in a society. Firms would not demonstrate good practices where the society is polluted with corruption. Nigerian business system is eroded with corrupt practices. It blocks and reduces the level of transparency in dealing with government officials. This practice such as paying bribe has been taken as norm and culture within Nigerian business environment. This has also spanned and remained the practices in Nigerian public administration in the areas of the issuance of licenses and permits. It brings uneven distribution of public goods such as access to public services and resources, delays in the delivery of public services. It has demolished the integrity of private setting leading to poor business auditing and tax administration (Ajide & Ajisafe, 2017; Ajide, Ajisafe, Adedokun, & Akinkoye, 2017).

In terms of doing business indicators, it requires eight (8) procedures, takes thirty-four days and costs 70.6% Gross National Income per capita to start a business (Doing Business, 2013). In addition, government and economic policies along with its implementation usually results in resource constraints to businesses and even deter firm entry. It is important to note that, liberalization policies of the 1986 expose many firms to greater external competition (Doing Business, 2017).

Finance represents another challenges faced by many firms in Nigeria environment. Studies have identified poor access to finance as one of the most critical constraint facing enterprises especially small firms. 50% of the surveyed enterprises received external finance while 79% indicates financial constraint; hence, no access to external funds. Another challenging of doing business in Nigeria is poor infrastructure such as lack of good roads, poor power supply, little or no access to potable water and basic and ineffective

regulatory agencies. In particular, electricity supply is poor and expensive, therefore individual entrepreneurs are not willing to engage in entrepreneurial activities. High level of economic uncertainty discourages potential businessmen. Electricity cost contributes about 40% to the cost of productions (Okpara & Koumbiachs, 2009).

However, the recent reforms show that Nigerian governments are really concerned with the problems facing the ease of doing business in Nigeria. Thus, reforms are introduced year in year out. These business reforms range from starting a business to getting credit among others include reduction of days to get business registered by introducing online registration and simplification of E-stamping of documents, transparency in the registration and granting permission for construction activities. Major improvements have been made in the areas of getting credits. This involves registration of borrowers' property with credit bureau in which it would be very ease to access the credit worthiness of the borrowers by financial institutions in Nigeria. New channels have been introduced to take care and making it easier to remit tax liabilities and among others (Doing Business, 2017).

The remainder of this study is organized into five. The next section discusses the theoretical and empirical literature on the relationship between institutional quality and firm entry. Section 3 provides the methodology while section 4 provides the empirical results and discussion. Section 5 gives conclusion to the study.

LITERATURE REVIEW

Theoretical Literature

North (1990) states one of the major functions of institutions in a society is to reduce uncertainty. It is the constraint that shape human interactions in the society. Institutions can be either formal (such as regulations, contracts enforcement and procedures), or informal (which include the culture, values or social norms of a particular society). The formal institutions regulate human interactions by lunching an effective, stable structure of human interactions which leads to reduction in transaction cost. It follows that higher certainty builds up confidence in business dealings and reduces the contract costs with protection of property right. This, in turn, attracts more entrepreneurial activities and behavior in the society. It has been argued that higher certainty and incentives for productive behaviors can be influenced by the degree to which private property rights are protected, including the dimensions its takes including transparency and accountability in public decision making, and, importantly, an expectation that property rights are effectively enforced (Bjørnskov & Foss, 2013). Institutions through lowering the transaction costs for searching for contract partners, bargaining, and monitoring and enforcing contracts, can positively influence the ease of doing business and speed up the flexibility of resource allocation by entrepreneur. This is because lowering transaction costs are the results of a well defined, regulated property right enforcement. In addition, institutional quality and political system including the quality of regulations and the judicial system, that directly and indirectly influence property rights can affect the entrepreneurial activities and firm entry in a society (Bjørnskov & Foss, 2016). It has been noted that applying institutions into entrepreneurship enquiries is necessary because entrepreneurial decisions to create firms in the society could depend on the context in which they are involved (Bruton *et al.*, 2010).

Empirical Literature

Gnyawali and Fogel (1994) propose environmental and institutional dimensions in which entrepreneurial activities revolve; this includes government policies and procedures, social and economic factors, entrepreneurial and business skills, financial assistance to businesses and non-financial assistance. Using these dimensions, studies have been conducted while others adapt the approach of North (1990, 2005) who

proposes that government policies and procedures and financial and nonfinancial assistance to businesses are related to formal institutions (De Clerq *et al.*, 2010; Bruton *et al.*, 2010; Stenholm *et al.*, 2013). Most of these studies show that institutions improve entrepreneurial activity.

Some studies seek to answer the questions of how different formal institutions affect opportunity and necessity entrepreneurship, while others look at different forms of informal institution such as culture and its effect on firm entry. One of such was carried out by Anokhin and Schulze (2009). Their findings reveal that effective control of corruption improves levels of innovation and entrepreneurship.

In the related study conducted by Avnimelech, Zelekha and Sharabi (2014), it was discovered that corruption reduces entrepreneurship. Furthermore, Alvarez *et al.* (2014) take note of regulative, normative and cultural-cognitive dimensions of the institutional quality in relation to individual entrepreneur. They confirmed that all dimensions increase the probability of being an entrepreneur. The work of Fuentelsez *et al.* (2015) further confirmed that opportunity entrepreneurship benefits from improved institutional quality while necessity entrepreneurship is deteriorated. Also, Aparicio, Urbano and Audretsch (2015) found that informal institutions have a higher impact on opportunity entrepreneurship than formal institutions. Bologna and Ross (2015) revealed that higher level of corruption reduces business establishments. Meanwhile, Bastian and Zali (2016) documented that low-quality institutions create environmental uncertainties which affect strategic choices of an entrepreneur. Furthermore, Asongu, Nwachukwu and Orim (2017) showed that mobile phone penetration modulates the effect of different indicators of governance on some indicators of the ease of doing business in Sub-Saharan Africa. The recent work of Chambers and Munemo (2017) revealed that new business creation is significantly lower in countries with excessive barriers to entry, a lack of high-quality governmental institutions, or both.

The recent study of Dilli and Westerhuis (2018) leveraged on the possibility that the possession of human capital through education is a crucial explanation for cross-national differences in entrepreneurial activity. This phenomenon made them the author to focus their paper on the importance of education in subjects such as science, technology, engineering, and math (STEM) for the promotion of entrepreneurial activity. They utilize data gathered from the Global Entrepreneurship Monitor for 19 European countries and the USA. They study the role of these differences in STEM education at the national level for three stages, thus: entrepreneurial awareness, the choice of sector for entrepreneurial activity, and entrepreneurial growth aspirations. They test the effects of gender differences in education moderated by the nature of institutional environment. Their findings revealed that individual-level explanations including education account for the gender differences during all three stages of early-stage entrepreneurial activity. They also document that countries with greater gender equality in science education are characterized by higher entrepreneurial activity in knowledge-intensive sectors and high-growth aspirations. The study of Acs, Estrin, Mickiewicz and Szerb (2018) examined the relationship among economic growth, factor inputs, institutions, and entrepreneurship. Precisely, they investigate whether entrepreneurship and institutions, in combination in an ecosystem, can be viewed as a "missing link" in an aggregate production function analysis of cross-country differences in economic growth. Their study makes use of data from a representative global survey and institutional sources for 46 countries over the period 2002–2011. Their findings promote and emphasize the role of the entrepreneurial ecosystem in economic growth.

METHODOLOGY

The main focus of this study is to investigate the effect of institutional quality on new firm entry in Nigeria. The study employed time series data covering the period of 1986–2015 (30 years). These data were sourced from National Bureau of Statistics, Corporate Affairs Commission, Central Bank of Nigeria, World Bank Development Indicators and International Country Risk Guide.

Data on new firm registration per year were sourced from National Bureau of Statistics/Corporate Affairs Commission while data on working population (within 16-64 years) were sourced from World Bank Development Indicators. The study therefore generates firm entry variables by dividing new firm registration with working population. This forms the data structure used to capture new firm entry (FM) (Klapper & Love, 2011; Hartwall, 2014).

It has been established that institutional dimension and its quality can influence individual decision to start a business (Bruton, Ahlstrom, & Li, 2010). In this case, most literatures take their bases from the institutional theory as the theoretical framework to explain our understanding of the effect of this phenomenon on many microeconomic variables such as business start up and entrepreneurship in different countries (North, 1990; Fritsch & Storey, 2014). They established that institutional quality is the rules of the game which regulates political, social and economic environments in a country and shape human behavior to set up businesses in a location. Institutions not only affect entrepreneurship level, but also feature and qualify entrepreneurship initiatives, by making them more or less productive (Baumol, 1990). In this case, the study draws data on Institutional quality from International Country Risk Guide which is normalized by taking the natural logarithm of the data and forms the proxy for institutional quality (LIQ).

Financial capital is well recognized one of the major obstacles to entrepreneurial activities and every entrepreneur is vulnerable to financial restrictions because they need finance to start up and establish firms. It has been argued that financing can be considered as the institution that carries more weight in allocating effort for entrepreneurial activity. This is because it is usually an important barrier to venture into a business (Levie & Autio, 2008). Schumpeter (1934) also point out that finance is an essential prerequisite for business activity. In this case, the study proxies finance as the natural log of private credit as a percentage of Gross Domestic product (LFC).

Furthermore, the study employs level of unemployment rate in Nigeria economy (LUN) and natural log of GDP as control variables. High rate of unemployment rate can serve as an incentive to establish business or venture into entrepreneurial activities. Establishing firms in an economy can reduce the rate of unemployment. This means that there could be negative relationship between unemployment rate and firm entry (Schumpeterian effect). On the other hands, unemployment could have positive relationship with firm entry. This means that as more firms are created unemployment rate continues increasing (Refugee effect). Also, expansionary effect of an economy can increase the level of firm creations while contractionary effect can also reduce it. In this regard, these two variables are important in the entrepreneurial functions in an economy.

Based on the forgoing, the study follows the theoretical explanation of Bruton *et al* (2010) and adopts the model of Fuentelsaz *et al* (2015) with little adjustment to arrive at the functional and econometric relation of the variables of the study as shown below:

$$FM = f(FM, LIQ, LUN, LFC, LGR) \quad (1)$$

$$FM_t = \alpha + \beta_1 LIQ_t + \beta_2 LUN_t + \beta_3 LFC_t + \beta_4 LGR_t + \mu_t \quad (2)$$

Where α = constant, and $\beta_1 \beta_2 \beta_3 \beta_4$ are coefficients while μ_t = error term

FM represents new firm entry, LIQ is the natural log of institutional quality variable, LUN is level of unemployment rate, LFC is the financial capital and LGR is the log of GDP.

The study utilizes Autoregressive Distributed lag Model (ARDL) analytical technique. The technique does not require previous knowledge of the properties of the variables. This means that irrespective of the integrated order of the variables provided that order is below or equal to one, the

technique is still applicable. A detailed specification of the ARDL with respect to the study variables is presented by transforming equation (2) to (3)

$$\begin{aligned} \Delta FM_t = & \beta_0 + \sum_{i=1}^k \Pi_i \Delta FM_{t-i} + \sum_{i=0}^k \gamma_i \Delta LIQ_{t-i} + \sum_{i=0}^k \theta_i \Delta LUN_{t-i} \\ & + \sum_{i=0}^k \delta_i \Delta LFC_{t-i} + \sum_{i=0}^k \partial_i \Delta LGR_{t-i} + \beta_1 FM_{t-1} + \beta_2 LIQ_{t-1} + \beta_3 LUN_{t-1} \\ & + \beta_4 LFC_{t-1} + \beta_5 LGR_{t-1} + e_t \end{aligned} \quad (3)$$

Where Δ is first-difference operator and k is the optimal lag length,

The estimation of the above equation would reveal the long run causality test by comparing the results from F-test of the Wald test with the Narayan critical values at 5% level of significance with unrestricted and no trend series. Furthermore, where there is long run co-integration, the long run equation is regressed and the error term included as an explanatory variable, this results in the Error Correction Model (ECM) as presented in equation (4)

$$\begin{aligned} \Delta FM_t = & \sigma + \sum_{i=1}^k \Pi_i \Delta FM_{t-i} + \sum_{i=0}^k \gamma_i \Delta LIQ_{t-i} + \sum_{i=0}^k \theta_i \Delta LUN_{t-i} + \sum_{i=0}^k \delta_i \Delta LFC_{t-i} \\ & + \sum_{i=0}^k \partial_i \Delta LGR_{t-i} \\ & + \beta_0 ECM_{t-1} \end{aligned} \quad (4)$$

The ARDL technique uses *F-statistic* to test for the existence of co-integration which involves the use of asymptotic critical value bounds; and depend whether the variables are I(0) or I(1) or a mixture of both. Critical values for the I(1) series are referred to as *upper* bound critical values, while the critical values for I(0) series are referred to as the *lower* bound critical values. If the *F* test statistic exceeds their respective upper critical values, the study would conclude that there is evidence of a long-run relationship between the variables regardless of the order of integration of the variables.

RESULTS AND DISCUSSION OF FINDINGS

The descriptive statistics of the variables are presented in Tables 2. The mean and median of the variables are very close to each other signifying symmetry. The variable of economic condition (LGR) seems to be the most highly volatile compare to other variables while the least volatile variable is firm entry (FM). In terms of degree of association among the variables, the features of all the variables are permissible for estimation. None of them seems to have multicollinearity with one another. Therefore, all the variables can be estimated together in a model.

Table 2: Descriptive statistics

	FM	LIQ	LUN	LFC	LGR
Mean	0.000744	5.287816	2.180009	2.621147	1.367344
Median	0.000437	5.298326	2.488987	2.566608	1.860176
Maximum	0.009091	5.440492	3.349904	3.647693	3.424565
Minimum	8.20E-05	5.051457	0.641854	2.164426	-1.609438
Std. Dev.	0.001616	0.092062	0.830701	0.341834	1.211562
Correlation Matrix					
	FM	LIQ	LUN	LFC	LGR
FM	1.000000				
LIQ	-0.173045	1.000000			
LUN	-0.326908	-0.021266	1.000000		
LFC	-0.296712	-0.056085	0.385737	1.000000	
LGR	-0.007212	-0.240686	0.365636	0.088560	1.000000

Source: Authors' Computation

The correlation between institutional quality and firm entry is negative. Similarly, the same observation is for other variables in association with firm entry. Table 3 presents the results of unit root test.

The study adopts Augmented Dickey Fuller test (ADF) to examine the stationary property of the data used to proxy the variables. As presented in Table 3, it can be observed that all the variables are stationary after first differencing except firm entry (FM) which is stationary at level.

Table 3: Unit root test results

Variables	ADF Statistic	t-statistic	P-value	Remarks
FM	-4.637129	-2.967767	0.0009	I(0)
LFC	-4.686390	-2.971853	0.0008	I(1)
LGR	-11.28332	-2.971853	0.0000	I(1)
LIQ	-5.261749	-2.971853	0.0002	I(1)
LUN	-3.556031	-2.971853	0.0137	I(1)

Source: Authors' Computation

In this case, we have mixed of integration of order one, I(1) and integration of order zero, I(0). Based on this, the study proceeds to test if there is any possibility of long run relationship among the variables using bound test approach to cointegration. The results of the bound test are reported in Table 4. The number of optimal lag length is allowed to be selected automatically by the software. The results show that the value of F-statistic is 638.3860 is greater than the Narayan critical values at all level of significances. Therefore, the study concludes that there is evidence of co-integration among the firm entry and all independent variables in the model. The study proceeds to estimate the short run, error correction model and long run equation for the relationship between firm entry and institutional quality in Nigeria.

Table 4: ARDL Bounds Test

Selected Model (2,4,4,4,4)		
Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	K
F-statistic	638.3860	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.50%	3.25	4.49
1%	3.74	5.06

Table 5: ARDL Short Run Estimate Results

Dependent Variable: FM

Selected Model: ARDL(2, 4, 4, 4, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
$REIT_{t-1}$	-0.012498	0.014449	-0.865009	0.4507
$REIT_t$	-0.001925***	0.000782	-2.462564	0.0907
$REIT_{t-1}$	-0.002005**	0.000583	-3.440912	0.0412
$REIT_{t-2}$	-0.000794	0.000399	-1.989463	0.1408
$REIT_{t-2}$	-0.002288**	0.000645	-3.548017	0.0381
$REIT_t$	-0.000012	0.000059	-0.204616	0.851
$REIT_{t-1}$	-0.000087	0.000064	-1.359224	0.2672
$REIT_{t-2}$	0.000403**	0.000071	5.692438	0.0107
$REIT_{t-2}$	-0.000434***	0.000155	-2.793723	0.0682
$REIT_t$	-0.00004	0.000082	-0.48074	0.6636
$REIT_{t-1}$	0.000033	0.000097	0.33837	0.7574
$REIT_{t-1}$	-0.000196	0.000124	-1.583142	0.2115
$REIT_{t-1}$	0.000203	0.000134	1.509346	0.2284
$REIT_t$	-0.000188**	0.000052	-3.587356	0.0371
$REIT_{t-1}$	-0.000051	0.000022	-2.293597	0.1056
$REIT_{t-1}$	-0.000199**	0.000049	-4.016317	0.0277
$REIT_{t-2}$	-0.000133**	0.00004	-3.285344	0.0462
$REIT_{t-1}$	-0.813342*	0.037357	-21.772259	0.0002

*, **, *** indicate 1%, 5% and 10% respectively

Source: Authors' Computation

Table 5 reports the short run estimation between firm entry and institutional quality in Nigeria. The coefficient of error correction term corrects for equilibrium is correctly signed and significant at 1% significance level. The error correction term, with a negative and significant value of 0.81%, confirms earlier findings of cointegration as evidenced in the report of bound test approach in Table 4. The error correction term suggests a fast speed of adjustment of the firm entry to equilibrium after a deviation as a result of shocks. It takes 1.23 years for the variables used in the study to be adjusted in the long run.

Table 5 also shows that the coefficients of the institutional quality remain negative and significant, irrespective of the number of lag in relation to firm entry. This shows that firm entry as one of the means of demonstrating entrepreneurial activities does not benefit from institutional quality in the short run. This result is related to the findings of Chambers and Munemo (2017) who investigate the impact of start-up regulations and institutional quality on new business activity in 119 countries. They found that new business creation is significantly lower in countries that lack high-quality institutions. The institutions of Nigerian environment damaged entrepreneurial behavior. The main reason for this relationship is that the quality of the institutions in Nigeria is low. The low-quality institution creates environmental uncertainty that has significant, deteriorating effects on an entrepreneur's strategic choices of firm entry. In the work of La Porta, Lopezde-Silanes, and Shleifer (2002), they demonstrate that creation of firms and good corporate governance may not thrive in the absence of sound legal and regulatory framework as seen in Nigerian business environment. For mass entry of firms to be witness in a country, it is important that the legal and regulatory institutional establishments are sound and transparent. In this case, entrepreneurs would rely on them when they enter into contractual agreement.

Furthermore, Nigerian entrepreneurs are confronted with a weak or poor institutional environment which is featured by ineffective dimensions that weaken competitive firm management system and tends to discourage entrepreneurial behaviors. Among the samples of weak institutions confronted by entrepreneurs are ambiguous property rights protection, bureaucratic problems, corruption and poor law enforcement. In this case, entrepreneurs need to allocate significant amounts of financial and non-financial resources to be able to cope with the deficiencies (Bruton *et al.*, 2010; Bastian & Zali, 2016). It has been documented that the degree of entrepreneurial value creation would rely on the entrepreneurial resources allocation between productive activities, and unproductive activities (rent seeking). This decision is being influenced by laws and regulations. In turn, it can either enable or prohibit entrepreneurs from deriving profit from certain entrepreneurial activities. It follows that high-quality institutions enhance entrepreneurial activities; however institutions of lesser quality motivate socially unproductive entrepreneurial choices (Baumol, 1990, 1996).

For the short run coefficients of unemployment, it can be observed that it has negative effect on firm creation in Nigeria. This is expected, one of the main objectives of encouraging entrepreneurial behavior is to reduce the level of unemployment in the society. As more firms are being created, it is expected that more jobs are created; hence, the rate of unemployment is reduced. This result is in line with the preposition termed 'Schumpeter effect'. This states that the phenomenon of unemployment is inversely related to new-firm start-ups (entrepreneurship) (Garofoli, 1994; Audretsch & Fritsch, 1994). In other words, when new businesses are established in the economy, employability is stimulated through the power of creative destruction. High level of unemployment is often associated with a low degree of entrepreneurial activities, that is, where people are not motivated to set up business enterprises, the rate of unemployment would be very high. The implication of Schumpeter effect is that unemployment tends to be very high because people have lower endowments of human capital and entrepreneurial talents required to start and sustain new firms (Lucas, 1978; Jovanovic, 1993).

The coefficient of financial capital is not significant in the short while the coefficient of economic condition (LGR) is significant and negative in short run as well. This is consistent with view of Thai and Turkina (2014) who states that when the economy develops, several opportunities would open. This makes

self-employment a less attractive career option. This argument supports the work of Serviere (2010). He demonstrates that economic advancement negatively affects necessity entrepreneurship.

Table 6: Long Run Estimate Results

Dependent Variable: FM				
Selected Model: ARDL(2, 4, 4, 4)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EQ	0.003487***	0.001264	2.759527	0.0702
EN	-0.000329	0.000142	-2.323948	0.1027
LFC	-0.000292	0.000165	-1.766268	0.1755
LER	0.000109	0.000108	1.01057	0.3867
C	-0.016647***	0.006566	-2.535322	0.085
*, **, *** Significant at 1% 5% and 10% respectively				

Source: Authors' Computation

Table 6 shows the results of long run coefficients. The long run coefficient of the institutional quality is positive and significant. This means that in the long run, as the institutions are reformed and the quality of these institutions improved more firms creation are witnessed in the economy. Also, it has been documented that administrative and regulatory burdens are some of the major factors leading most entrepreneurs to move from formal creations of firms to informal creations of firms in most developing countries like Nigeria as seen in the short run results. However, in the long run, where there are improvements in the efficiency of the regulatory environment, this entices businesses and firm entry and most entrepreneurs engage in the creation of new firms through official channels (European Commission, 1998; Kaufmann, Kraay & Mastruzzi, 2006).

Table 7: Diagnostic Test

Adjusted R-squared	0.970383
F-statistic	38.23217 (0.005884)*
Breusch-Godfrey Serial Correlation LM Test:	7.540732 (0.2494)*
Heterosked/ ARCH	1.951293 (0.1481)*
Normality Test	JB value 0.521218(0.77058)*

*P-Value in () Source: Authors' Computation

Table 7 reports the diagnostic test conducted based on the estimations. The study varies the serial correlation of the variables in model using Breusch-Godfrey Serial Correlation LM Test. The result accepts the null hypothesis of no serial correlation among the variables used in the model. The results also confirm that there is no evidence of heteroskedasticity among the variables. The test further shows that the model passes normality test while the model overall significance is reported as the F-statistic demonstrates. The model also reports about 97.03% total variations in firm entry. The stability tests of the coefficients are also conducted using cumulative sum (CUSUM) and cumulative sum of squares (CUSUM-Squares). The results are shown in Figures 2 and 3. It shows that the models are stables.

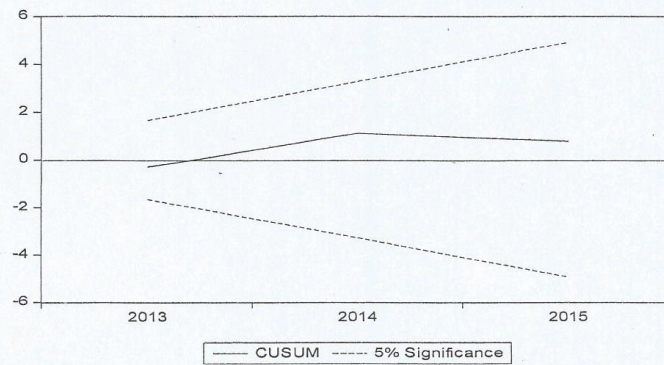


Figure 1: CUSUM

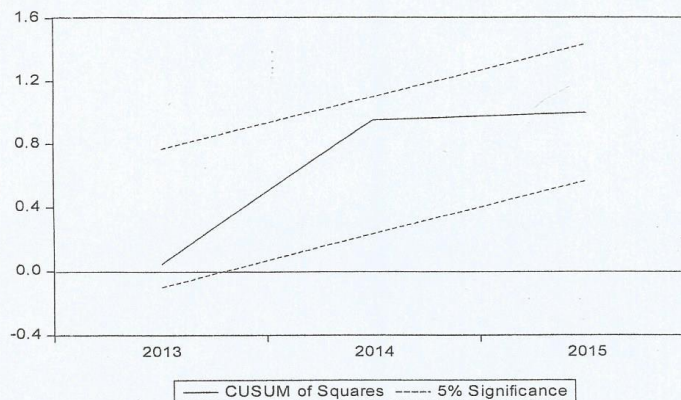


Figure 2: CUSUM-Square

CONCLUSION AND POLICY RECOMMENDATIONS

In this study, an investigation is carried out to examine the effect of institutional quality on new firm entry in Nigerian economy for the period of 1986-2015. Bound test approach to cointegration shows that the variables are cointegrated. That is, there is long run equilibrium among the variables included in the study. The coefficients of ARDL shows that in the short run, institutional quality has significant and negative effect on new firm creation while the long run coefficient shows that there is positive and significant effect of institutional quality on new firm entry in Nigeria. By implications, the result shows the importance of institutional quality in creating new firms in Nigerian environment. Furthermore, since the Nigerian governments wish to promote and improve higher levels of domestic entrepreneurship in both the short and long run, top priority need to be given to the regulatory environment by reducing barriers to entry for new firms and improve overall institutional quality. Good regulations, property right protection and efficient rule of laws would encourage more entrepreneurial behavior in the long run. In addition, attention needs to be given to the development and creation of strong institutions and straighten the effectiveness of existing ones. Also, the government should do the needful to reduce the cost of doing business in Nigeria. By doing so both entrepreneurial firms and other small businesses would benefits a lot from such

development. A major move is to provide an institutional framework that would ensure; conducive business environments. In order to achieve this, infrastructural facilities consisting of good road network, stable and effective power systems among others should be provided as a matter of priority. Adequate security system should be beefed up in all communities and the problem of corruption should be realistically addressed.

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