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MANAGEMENT SKILLS AND STRATEGY DEVELOPMENT

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Dedication

Dedicated to the International Institute for Policy Review & Development Strategies for providing a platform and supporting Institutional and Collaborative Research and Sustainable Development.

Acknowledgment

Contributors are greatly acknowledge for supporting the agenda towards achieving sustainable development in developing economies of the world, especially in Africa.

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INTRODUCTION

Bassey Anam

Managing Editor

Interactive Knowledge

Management Skills and Strategy Development

For organizations to grow, expand and achieve set goals, the management team need to follow basic, yet profound skill sets to achieve success. Management skills overlap with leadership skills. Both involve problem-solving, decision-making, planning, delegation, communication, and time management. Good managers are often good leaders. And yet the two roles are distinct. If these skills are not taken seriously enough the end result is a business failure.

Strategy development, also known as strategic planning, is fundamental to creating and running an organization. Simply put, it's a game plan that sets specific goals and objectives but like a game plan, it is capable of being changed in response to shifting market dynamics. Even though developing a strategy can be seen as an art, it necessitates a systematic process that helps to consider all main steps: at first, the mission, vision, and values need to be developed or reaffirmed. In a second step, the concrete goals and outcomes that would represent the achievement of the vision need to be determined. The identification and analysis of key issues, including internal and external forces that might affect the strategy, has to be conducted in a third step. Finally, the new strategy needs to be formulated and the case for change needs to be created (Kaplan, 2008).

•Management Skills and Strategy Development•

Good management skills are required to develop development strategies in the organization. It is the ability for managers to make right choices while managing the overall performance of the organization. Managers who can develop and implement development strategies are true assets to their organizations. This type of interaction not only increases productivity and employee satisfaction, but it sets a good example as well.

Read “Management Skills and Strategy Development” to become a better manager, improve your management skills and learn more about new strategies in management and strategic development.

Strategic Leadership and Management - Recipes for Success

Bisk Education

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Introduction

Strategic leadership occurs in three key places within an organization: (1) At the top, where strategy for a number of business units is formulated over a given time period; (2) In the middle, where top-down strategy is translated into a business unit or regional strategy and goals are created; and (3) At a department level, where the business unit strategy goals are translated into a number of individual objectives which are executed.

At these three key levels, strategic leadership provides the scope and direction to help drive success for the organization. A major part of this success is derived from effectively managing continuous change through improvements to both people and processes. For that reason, all executives and managers must have the tools necessary for strategy formulation and implementation, and they must be ready to use those tools at a moment's notice. Managing in an environment of change and uncertainty requires strategic leaders to consistently maintain a sense of direction, while simultaneously building ownership of goals and objectives for action within the teams they are responsible for leading.

The fusion between an analytical point of view, utilized to build the processes for a successful strategy, and a human element, which allows managers and executives to build successful, motivated, performing teams is essential to strategic leadership success.

Perspectives of strategic leadership

Strategic leadership often fails because the right balance between these two perspectives is not struck. If there is a high concentration on the execution of the process and the outcome, often with disregard for the human dimension, a leader is seen to be a taskmaster, and dispirited individuals will be unmotivated to perform, often “voting with their feet.” If leaders are most concerned about the human dimensions at the expense of the process or the work ethic, work can take on the feeling of a “country club.” A good place to go to work, but little clarity about what people is there to do.

So, successful strategic leadership, wherever you are in the organization, must be a careful balance between analytics and process development and the human dimension. Let's consider some key questions that may be asked within these two key dimensions:

1. What is the main objective of a strategic leader?

a. **Analytic and process:** Strategic leaders should always strive to be the designer of the “perfect strategy” by interpreting the market and its needs, placing it in line with the strengths, core purpose, and competence of the organization and its workforce. No strategy is complete unless it is executed and this implementation should be closely matched to or exceeds the strategic plan.

b. **Human dimension:** The constructed “perfect strategy” should be owned by all pertinent people – up, sideways and down the organization. Therefore, good strategic leaders collaborate in the construction of the strategy with all vital stakeholders and members of their teams. While the strategy is being constructed, owned and executed, leaders should ensure that all grow knowledge and skills in strategic thinking. This evolution towards a strategically consciously competent membership group will enable the organization to become more proactive and faster to act as a change in the market, customers and competitors continuously occur.

2. What does a strategic leader do when strategy becomes continuous and ongoing?

a. **Analytic and process:** The most important element is to continue to provide strong direction in line with overall strategies and core purposes of the organization. A strong vision should be maintained, as well as specific success measures. This means that at sometimes leadership must be seen to be from the front, setting examples, being the first to try out a new initiative. But equally, the leader must learn to lead from the middle of the rear and when new initiatives, processes or solutions are suggested by others, be the first to give praise and reward. What the leader should avoid is to personally supply the “only right one answer.”

b. **Human dimension:** Good strategic leaders should see themselves as becoming coaches and mentors. The job becomes one of interpreting the organization's strategy and purpose, so that when the strategy is proposed they can explain why it may not work, or that the process proposed is better than the one that is currently in place. It is important to ensure all are engaged and own the strategy that is continuously evolving and know the part they have to play in developing success through execution.

3. What kind of team does a strategic leader construct?

a. **Analytic and process:** The most important thing for the strategic leader to ensure is that their team members are comfortable and that they are fully competent to do the strategic task at hand. They should be consistently updated with the latest data, process knowledge and skills to be able to develop continuously changing strategy. It is also imperative that the leader enable understanding among teams about how each individual part of the strategy is fitting in with the whole. A financial person should understand the marketing plan. An operations manager should know all elements of what the strategy of customer service is.

b. **Human dimension:** A strategic leader must build a sense of citizenship among the members of the team. The end goal is to generate a sense of comfort and acceptance among team members, resulting in a sense of ownership across the organization. People in all teams work much more efficiently when they know where they are going, how they are going

to get there, what they have to do to be successful for themselves, their team and organization and what it means to them and to the whole organization they are a part of once the success is being achieved.

4. Is strategy making an unremitting process?

a. **Analytic and process:** Twenty years ago, most organizations thought that the strategy making process was done annually, typically during one month of the year. The process was an essentially linear process with a distinct beginning and end. As each objective was completed, it would be checked off of a predefined list. This led to “snapshots” of points in time which had little to do with the ever-evolving wants and needs of the organization's customers and the outside world. The strategic leader focuses time on the process of change, goals and execution strategy that can be quantified and measured. Within this continuous change, innovation becomes a key driver, and this is seen by good leaders to be a number of continuous little steps that can be measured in terms of efficiency and effectiveness.

b. **Human dimension:** Vision is a very important aspect of ensuring that the work of strategy creation is never complete. An environment of continuing work in process, continuously shaped by interactions with customers and competitors, of being able to spot the next business opportunity should be engendered. Strategic leaders will constantly evaluate important assumptions and, based on feedback from team members, will make necessary changes to the strategy. Change becomes a mark of success, and those that gain market share or customer dependency should be seen as being successful.

5. How can I start to be a fully rounded strategic leader?

Many think a good place to start is to create a common standardized vocabulary with a common set of frameworks or tools. Jack Welch had a very simple vocabulary of only five questions. Within the five questions were nestled common tools set to test and answer the individual questions. Once all the questions were answered, using data, common tools and frameworks, ultimately an answer would present itself which Welch called “the big aha.”

Before the questions were asked, it was important to ensure a current understanding of why the change should occur, and what this could mean to the organization. Then, the questions were asked:

1. What does the playing field look like now?
2. What has the competition been up to?
3. What have we been up to?
4. What's around the corner that customers may need?
5. What is our winning move?

A simple vocabulary, team leaders, and members that understand common tools, frameworks, and templates for success, who practice both the human and analytic dimensions, is a very good starting point. This is followed by learning and practice, learning and practice and more learning and practice.

Reference

Bisk Education (2017). Strategic Leadership and Management - Recipes for Success

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Chapter **1**

UNDERSTANDING ORGANIZATIONAL CULTURE

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Introduction

The concept of organizational culture is an inconclusive phenomenon due to the ambiguity in its meaning as well as relating organizational culture to real life situation, especially in the area of organisational performance. It is on this note that this chapter attempts to examine the concept of organisational culture and its association with performance using hypothetical illustration of two big automobile organisations in the world. The chapter hopes to give an insight on the subject matter by employed explorative research design. The choice of this design is anchored on the fact that the chapter covers conceptual framework and information used were derived from textbooks, journal articles, published materials on the internet, newspaper and gazettes as well as public lectures. Discourse content analysis was carried out to explain the collected information. It was found that the interconnections that exist between organizational performance indicators and the culture parameters are inconsistency. Therefore, the typology of methodological adopted affects the end-result of such association. The book chapter concludes that the idea of using organizational culture to promote and influence ethical behaviour in an organization through the identification of problems, and

later acted as a catalyst for proffering solution was considered inappropriate. Thus, organizations need to devote enough resources for working out subcultural practices while norms can be reconciled without compromising core value and ethic of the organization.

Meek (1988) traced the emergence of Organizational culture to the idea borrowed mostly from anthropology and sociology, and argued that some sociologist like Emile Durkheim influence the study of organizational culture. The author stressed that though there is nothing wrong with one discipline borrowing concept from one another but when the concepts are borrowed cautions must be followed in order to avoid stereotype or distortion in the transfer of the concept. This, the scholar attributed to the fact that when concepts are borrowed from another discipline, it might not be borrowed in a totality which may affect the usage.

The author emphasized that some scholars only select an aspect of a concept that suit their interest and thinking at that particular point in time. Thus, the result of the concept may be biased in its application, therefore adoption of concept need to be carried out in a meaningful and careful manner. However, the concept of organizational culture can be a powerful analytical tool in explaining and interpreting human actions within a complex organization. Therefore, it is misused can distort the social reality of the organizational life.

Nevertheless, the idea of transferring the concept of culture to organizational analysis from anthropology and sociological theoretical tradition of structural-functionalism, calls for critical rethink because the concept is Unitarily expressed in these two disciplines without taking into consideration social cohesion and integration aspect like organizational effectiveness, that is, using force to achieve organizational goals was not considered by these two disciplines. The prominent scholars of Structural-Functionalism school only built the theory of organizational culture upon Talcott Parsons and Emile Durkheim analogy of biological/metamorphic perspectives.

Conceptual Clarification

Many definitions of organizational culture have been developed by different scholars and authors but it depends on the perspective of the

person defining the concept as well as the background of the scholar's discipline. This will determine the scope of the concept under study. Ravasi and Schultz (2006) cited in the Wikipedia Encyclopaedia state that organizational culture is "a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behaviour for various situations".

Kilmann (1982) cited in Meek (1988) refers to organisational culture "as the collective will of members", that is, what member of corporation want to achieve and how to achieve it. Schwartz and Davis (1981) also cited in the same article defined Organizational Culture as "a pattern of beliefs and expectation shared by the organization's members that create norms that powerfully shape the behaviour of individuals and groups in the organization". Here, the definition is similar to the earlier one but with little distinction that the members –will or shared value should create a norm in the organization.

Purcell et al (2003) cited in Armstrong (2006) defined organizational culture as "a system of shared values and beliefs about what is important, what behaviours are important and about feelings and relationship internally and externally". Furnham and Gunter (1993) cited in the same book refer to organizational culture as "the commonly held beliefs, attitudes and values that exist in an organization". Summarily, organizational culture is the 'way we do things around here'.

The most simplest, detailed and descriptive definition of organizational culture was given by Schein cited by Wilson (2001) where he refers to organizational culture as "a pattern of basic assumptions, invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think and relate to those problems" (Schein, 1991).

That is, organizational culture is the totality of ways of life in an organization stating what is expected of a person working or about to work in such an organization in the form of norms, belief, values or expected attitude in the organization. However, the concept of organizational culture is often time refers to Corporate culture both concepts are used interchangeably, they both means similar thing.

Features and Components of Organizational Culture

By features of organizational culture, we mean the basic characteristic that distinguishes organizational culture from another cultural practice. Denison (1996) cited in Armstrong (2006) believed that organizational culture is the deep structure of the organization where values, beliefs and assumptions are rooted and held by the organizational members. That is, organizational culture described how members of the corporation should work.

Organizational Culture components can be described in terms of values, norms, artefacts, assumption and leadership or management style. It also includes working language, systems, symbols, beliefs and habits which are taught to the new member of the organization.

- 1. Value:** These are the beliefs in the organization, that is, what the organization considered to be good or ought to be right. It is a set of idealistic view recognized at the top level of the organization and it's shared throughout the business as a driven force. Values help to determine what the organization considered to be important and desirable in order to achieve organizational goals and objectives such as performance, competence, competitiveness, innovation, quality and customer services to mention just a few. However, the stronger the values of an organization, the more they will influence members' behaviour. Values are translated into reality through norms and artefacts.
- 2. Norms:** These are unwritten rules that guide the behaviours of organizational members. It is like guidelines on how to behave. Norms tells members on what they are supposed to be doing, saying, believing, wearing and sometime how to be looking. Norms are passed by the word of mouth and members are expected to comply without violation or reaction, any reaction will attract a very powerful pressure from other members. Organization norms include behavioural aspects like loyalty, approachability, formality, mannerism, controlling power, status and ambition to mention just a few. It is worthy to note that norms are unwritten, when it is written it become the policies or procedure of the organization.
- 3. Artefacts:** These are the visible and tangible aspect of the organization that people perceived and feel. That is how member

hear, see or feel each other and outsiders of the organization. Artefacts include working environment, the tone or language of communication, the manner of addressing people, greeting to other members or outsiders of the organization. It shows how these features are operational in the organization, that is, Artefacts is very revealing on the behaviour of the organizational members.

- 4. Leadership Style:** These are often referred to as management styles, it is the approach adopted by the leaders to influence the behaviours of others in the organization. Leadership styles are an art of ensuring compliances to the expected behaviours in the organization. It includes styles like autocratic, bureaucratic, laize-fair, Transactional, Transformational and Charismatic. However, the usage of any of the styles depends on the leader and the situation at hand in the organization in order to ensure compliance. Although, every leader in the organization has different style but this often influenced by organizational culture in order to produce a prevailing norms and expected behaviours in the organization.

How to develop an Organizational Culture

Armstrong (2006) explained how organizational culture can be formed. He identified four (4) major situations that can lead to the emergence of culture in an organization. These include:

- 1. Leadership:** He said organizational culture can be developed from leaders' point of view, that is, how leaders behave and what they expected from the followers. The organization members pay attention to what the leader does, want or like and treat them as role models. This kind of behaviour becomes the culture of the organization.
- 2. Situation:** This is another way organizational culture emerges. Here, culture is formed as a result of critical incidences, that is, important event from which lessons are learnt about a desirable or undesirable behaviour. Organisational culture in this formation is very systematic because it link situational behaviours which will be adopted as a way of life in the organization.
- 3. Relationship:** Organisational culture is sometime developed with the need for establishing an effective working relationship in an

organization. This is in place to establish value and expectation from every member of the organization in order to meet the organization predetermined goals.

- 4. Environment:** Organisational culture can also be formed based on external environment influences which always shape the behaviours of organizational members. The external environment may be relatively dynamic or unchanging.

The scholar concluded that organizational culture is learned over time but this according to him can be done in two major ways namely: trauma model and positive reinforcement model. The former refers to a kind of organizational culture learning in order to cope with challenges posed by the external threat while the latter is an organizational culture learns as a result of embedded and entrenched to handle the situations.

However, where culture is embedded and developed over a long period of time, it becomes firmly entrenched in the organization and might be difficult to change quickly unless a traumatic event occurs. By and large, organizational culture offers a shared system of meanings which is the basis of communications and mutual understanding. If these functions are not fulfilled in a satisfactory way, culture may significantly reduce the efficiency of an organization (Furnham & Gunter, 1993 cited in Armstrong, 2006).

Approaches to the study of Organizational Culture

Approaches to the study of organizational culture are the viewpoint of scholars in relation to how culture in an organization should be perceived. These perceptions are based on different viewpoint of scholars on how organizational culture should look like which also reflect on their definition of the concept. It's a form of techniques or methodology adopted in studying culture development in an organization.

Although there are many approaches to the study of organizational culture which lead to the emergence of many definitions, according to Seel (2000) he identified two major approaches to the study of organizational culture namely conventional approach and complexity approach. He refers to the conventional approach as a model of organizational culture which show member where they are going and how to get there. This kind of approach of culture studying is linked to the model developed by Roger Harrison when

characterizes the culture of Power, Role, Achievement and Support need by organizations to get to the promise land. That is, the classical organizational development model of change.

However, this approach has been challenged by some scholars on the ground that changes as little lasting radical effect, therefore there is a need for alternative approaches (Seoul, 2006). This is so, because culture is dynamic. This implies that any programs intended to change organizational culture must be planned within the organization not necessary influence from outside. Thus, the analogy of this planned culture marked the beginning of complexity theory of organizational culture.

The complexity approach of organizational culture emphasized that culture need to be negotiated, based on daily conversation among members in the organization and not necessarily emerged as claimed by the conventional schools. Therefore, the cultural change must be centred on the structure, system and processes of the organization. This according to Seel (2000) will lead to emergent behaviours because most changes in complex model come up as a result of interaction between the agents in the system.

Owen and Steinhoff (2007) cited in Seel (2000) agreed with the complexity model of organizational culture on the principle that culture in an organization can only be done in joint efforts between insider and outsider not necessary through ethnographic techniques of observation or collecting data from outside. This according to the authors will allow for cooperation and significant contribution from the member of the organization.

However, irrespective of method or approach adopted for the study of organizational culture, its relevance cannot be underestimated because organizational culture is key influencing factor that portray the image and expectation of the outsiders on the organizational members. Normann (1991) cited in Wilson (2001) mentioned that there is no other component or action that give the real picture of organizational members than its organizational culture. He said the social process of personnel in the organization is driven by the inherent beliefs, norms and values existing within the organization. This is so, because the personnel are the face of the organization and effective utilization of them depends on the understanding of the culture that exists in the organization.

Also Lumsden (1990) cited in Wilson (2001) stressed that the 75 percent of corporate identity work of consultants was based on the understanding of organizational culture. Therefore, the need for the complexities of organizational culture becomes pertinent because the study only based on superficial manner without taking into cognizance the specific development of the culture in the organization. That is, the Metamorphic root of organizational development that are formed as a result of social interaction. The social integration of culture makes it a mechanism for the achievement of managerial effectiveness and control (Wilson, 2001).

The Nature of Organizational Culture

According to Martin and Meyerson (1988) cited in Wilson (2001) identified three major perspectives in understanding the complexities nature of organizational culture in research. These are:

1. The integration perspective: This is a strong consensus and consistence organizational culture, where values are in consistence with formal norms, beliefs and attitudes while cultural members shared the value and promote loyalty to the organization.
2. The differentiation perspective: Here, there is no consistence rather the organizational culture is within the purview of the boundaries of subculture in the organization. That is, there is a different culture within the organization but give room to coexist of cultures in a harmonious manner.
2. The Fragmentation Perspective: In this perspective emphasis is focused on the ambiguity of culture with consensus and dissension based on co-existing which is influenced during the decision making process, therefore the need for separation becomes pertinent where commonality of culture is not physical.

It's worthy to note that there are subcultures in organizational culture; therefore the need to have a competitive advantage by organizations required the understanding of cultural difference among the respective individuals, groups or departments which must be integrated in order to allow for uniformity in the organization. This has become pertinent as human resources in an organization is seen as the most important asset of organizations resources that need to be treated with respect if the

organizational goals must be achieved, particularly developing organizational culture to have competitive edge.

Thus, creating a strong organizational culture is a powerful tool to influence employees' behaviour and improve performance (Hartog & Verburg, 2004). The informal relationship in the organization allows for expectations of employees with regards to culture which invariably makes them comply to or obeyed the organizational culture.

Guest (1994) cited in Hartog and Verburg (2004) suggests that, through "selection, socialization and training procedures, HRM may contribute to both the emergence and maintenance of shared patterns of norms, values and informal rules within organizations". Thus, HRM practices and, more specifically, high performance work practices may have an impact on organizational culture. The scholar argues that through training of employees about organizational culture can make them contributed positively to the growth of the organization in the form of high performance while their performance sometimes can lead to the establishment of organizational culture through HRM practices, just like the dominant culture influence the adoption of HRM policy and practices of the organization.

Also, high performance work practices may play an important role in shaping culture particularly in the area to recruit, select, promote, retire or excommunicate organizational members or by the organizational structure, systems and procedures, and formal statements of organizational values, philosophy or creed. This is what Schein (1992) called 'culture articulation and reinforcement' mechanisms.

Relationship between Organizational Culture and Performance

On measuring organizational performance with respect to organizational culture depends on the parameter or indices used as a yardstick for organizational culture measurement.

In the study of Hartog and Verburg (2004) they use different parameter to measure organizational culture namely innovative orientation, support orientation, goal orientation and rules orientation. They concluded in their finding that there is a significant positive correlation with the above

mentioned indices of organizational culture on profitability, market share, employee involvement as well as quality product among others in the sampled organizations.

Although, the perception of chief executive and other top management staff were used in the study to measure performance in relation to organizational culture, therefore further studies could be carried out to measure organizational culture with regards to performance in the organizations using different actor like employees or employers not necessarily manager or top management staff. While different yardstick could be employed to measure culture of the organization as well as new determinant for performance, it is therefore necessary for future studies to probe.

Another flaw of the aforementioned study is concerned with what was used for firm performance measures were perceptual in nature, because they're different organizations with different parameter as a determinant of performance. However, in order to draw a conclusive analogy on the relationship between culture and organizational performance, the study of Scott et al (2003) on the organizational culture influence on the performance of public health workers was also reviewed.

Scott et al (2003) concluded that there is no link between organizational culture and health care performance but emphasized that those aspects of performance valued within different cultures may be enhanced within organizations that exhibit those cultural traits. Before the conduct of the study, it was argued in some quarter that there is a decline in the performance of health care service in the UK and this was attributed to structural and cultural policies experienced in the sector, therefore there is need for transforming culture as a means of improving quality, efficiency, patient focus in the sector.

Though most of what they used as organizational culture is assumptions like non-order, affective regulation, management control, sacred cow, exchange regulation among others. Perhaps what they considered as culturally through assumption need be perceived, feel and person have reasonable knowledge of it and can be transferred to another as a better way of doing things in an organization. It is important to mention that assumption is also a component of culture but in abstract format not visible

like artifacts, beliefs and normative behaviours expected in the organization.

In the study conducted by Scott et al (2003) it was observed that the concept of 'performance' is ambiguity to define, therefore the components for its measurement is relatively disturbing particularly where the study uses as a case (health sector). The scholars stressed that the three main senses will be used in the study to determine performance these are enacted behaviours, outcomes and dramatic events. These parameters were chosen because of their interrelatedness and interconnectivity to each other, especially in the chosen sector. However, in linking organizational culture with performance in the health sector it was observed that the outcomes is suggestive but far from definitive because the findings does not look beyond positive predicted effects by earlier empirical studies on non-health care but this has been percolating into the health care sector presently.

According to Scott et al (2003) one of empirical studies used to measure the relationship between organizational culture and performance was a study in the USA health organization where the researchers used normative complementarity (an agreement between professional groups on the norm governing relationship) and normative consensus (an agreement within a group about norms that exist in the organization). These two norms were used for organizational culture indicators while promptness of care; quality of nursing care; and quality of medical care were employed as indicators for organizational performance or effectiveness. Both indicators of organizational culture in the study shown a significant relationship with the promptness of care, quality of nursing and quality of medical care but the effect sizes were larger and statistically significant for the measures of between group agreement (complementarity), but smaller and not significant for the within-group measures (consensus). This implies that one of the indicators is in favour of performance while the other one is not favourable as a result of distinction between individuals and group agreement.

Its worthy to note from Scott et al (2003) article reviews on organizational culture and performance that the typologies of cultural indicator adopted is a determinant of performance of such organization. Again, some of the studies find it difficult to distinguish between dependent and independent

variables while this makes the outcome to be more subjective rather than being objective particularly among the indicators used for the measurement of organizational culture. Similarly, the study provides only weak and inconsistent evidence of associations between culture and performance. Methodological components of the studies were also flawed by the reviewers as a challenge in measuring the culture-performance relationship, most especially in the area of sampling techniques that lack the power to detect appreciable effects.

Sinclair (1993) work on organizational culture as a determinant of influencing ethic in an organization, that is , how people behave in an organization which management can use to promote performance. She said organizational culture can be used to identify problems and proffer solution when thing goes wrong in the organization. In doing so, the scholar evaluates two models of organizational culture as a determinant of ethical behaviour which will improve organizational performance. First was a prevailing approach that created a unitary cohesive culture around the core moral value as a solution to enhance ethical behaviours. The second model queries the existence of organizational culture and argues that organizations are nothing than a shift in coalitions of subculture.

The latter provides a catalyst scrutiny to critiques norms and practices while the former questioned the outcome of the ethical behaviour after organizational culture has been adopted. Sinclair (1993) argued that organizational leaders exhort the importance of organizational culture to manage and promote high standards of ethical behaviour among members of the organization because a working organizational culture is that which consists of what people believe and how it work for them in the organization as well as, the physical outcome of the behaviour pattern of their beliefs.

Though, a developmental research has shown credence that organizations produce a mind-set among individual members which encourage people to behave in a way that is inconsistent with individual or pre-existing norm but apparently endorsed by organizational members (Sinclair, 2003). Clinard (1988) cited in Sinclair (1993) argues that corporate law-breaking is a product of cultural norms operating in the corporation as a result of the members been socialized in the pattern of obedience or breaking laws in the corporation. However, for management to control the activities of

members in line with the organizational interest, the need for the establishment of formalized rules like bureaucratic mechanism, economic rewards and sanctions, values and norms about how works are done becomes pertinent. Thus, through a sense of purpose, involvement or ownership and shared set of meaning, organizational culture could directly enhance organizational effectiveness. Organizational culture both helps to explain the incidence of unethical behaviour (where it acts as a vicious circle), and can be covered by diligent and skilful management into a "virtuous circle" (Gagliardi, 1991 cited in Sinclair, 1993).

One of the criticisms of a unitary approach of organizational culture is that individual responsibility to correct some unethical practices will be discouraged. But this critique was flawed on the ground that a strong cultural approach is that by engendering high levels of commitment, ownership and purpose among employees, strong cultures foster good performance. Again, establishing a strong culture all in the name of effectiveness in the organization does not guarantee ethical behaviour within management and employee because it makes individual surrender their wishes to the organization and this affect their integrity whereas the purpose of corporate culture is to create ethical conformity which will be distorted.

Hence, understand the value differences of subcultures and the terrain of controversy within the organization become necessary (Gregory, 1983 cited in Sinclair, 1993). This was based on understanding the individual belief system and recognition of subculture to control organizational culture. Bridges (1986) cited in Sinclair (1993) argues that "culture is not a pattern of total agreement but a dialogue between opposing forces that agree on the nature of their opposition". Therefore, there must be an existence of subculture in an organization because of the benefit they bring from their discourse about a value. Though, subculture might difficult for manager to tolerate but its inevitability will assist the corporate culture.

Subculture is referring to as "a subset of an organization's members who interact regularly with one another, identify themselves as a distinct group within the organization, share a set of problems commonly defined to be the problems of all and routinely take action on the basis of collective

understandings unique to the group" Van Maanen and Barley (1985) cited in Sinclair (1993). As earlier mentioned subculture bring a very powerful potential resource of commitment and control to the organization. This is so, because many members of the subcultural group have already belongs to one social commitment and language moral through socialization. Therefore, instead of manager discarding this set of group, they need to be integrated into the organization so that the corporate ethical value and belief can be achieved.

However, relinquishing power to subculture could be very harmful as well, thus encouraging co-existence of subculture with organizational culture has produced a robust outcome in the past in so many circumstances. Bourgeois (1984) cited in Sinclair (1993) said "in a highly volatile environment it is essential that the members of the strategic decision-making team have highly differentiated perspectives" because the diversity of norms and style is necessary for team performance and enhances creativity. In summary, subculture awareness in the organization can inspire more ethical behaviours due to the fact that they stand as a critiques and surveillance group over other groupings the organization.

A Hypothetical Example of Organizational Culture (Ford Motor vs. Tata Motor).

Organizational culture is what distinguishes one organization to the other. It can be in the form of their mode of operandi, symbols, mission and vision statement, dressing code, innovativeness and creativity or quality of product and services to mention just a few.

In this part, I shall do a little comparism between two organizations to underpin their organizational cultural differences.

First, the organizational cultures of Tata Motor and Ford Automobile industries were justly examined. Both firms were chosen because of homogeneity in their product and services that they provided. The mission statement of Tata Motors is to create a seamless organization that incubates and promotes innovation, excellence as the Tata core values while Ford Motors want to be a global family with a proud heritage passionately committed to providing personal mobility for people around the world. In

order to achieve the mission statements, the two automobile firms developed a formidable organizational culture.

Like in the Ford Motor, to achieve their objectives and goals the organization allows for employee opinion which is valued and it is heard through a survey the companies sent out for employee contribution towards the growth and development of the organization. That is, a communication mechanism is in place for workers to make contribution to the development of the organization or whatever that affects their well-being in the companies. This is done by the CEO of the organization who leads cultural change as a top priority and encourages the leadership team to admit mistakes, share more information and cooperate across divisions.

Tata Motor Company on the other hand, follows a strong culture given much importance to ethical and moral values as well as extending social welfare activities to the communities around where the firm is located. Though, there is a strong employee relationship. The role of CEO is unique that they give directives from the top and other employees take instruction from CEO and relentlessly pursue goals. In the area of value of ethics, Tata Motor never compromised the ethics.

That is, every employee of the companies must exhibit culturally appropriate behaviour in the countries they're operating and deal on behalf of Tata Motor with high professionalism, honesty and integrity that conform to moral and ethical standards. Failure to carry out this by any employees or violated the value of ethics will attract the attention of ethics counsellors that will investigate the shortcomings and come up with a disciplinary action against the worker.

Ford Motor on the other side, there is a conflict of interest in the value of ethics because the companies allow for the relationship of the company with third parties with personal use of company assets. This leads to the use of company property, information or position for personal gains as against what the organization stands for. Although, there is a trace of confidentiality among the Director of Ford Motor on information entrusted to them by the company and any other information about the company that comes to them. Thus, there is a stringent action against unethical acts.

In the area of customer service, Tata Motor provides a 24 hour helpline with qualified and trained technicians to provide service advise and good customer relationship while at Ford Motor, customer satisfaction is their primary objectives at best quality least price. The aim is to provide their customers with life easy to meet whatever they want. The service has been 24hours for 7 days by the roadside with an interest free payment. Ford motor also, as an effective corporate social responsibility package like greenhouse emission gas reduction plan in all its locations while Tata Motor identify the potential area of employees volunteering and organize a training programme.

Conclusion

Having discussed what organizational culture is all about with its meaning, components, approaches, how to develop organizational cultures in an organization as well as, linking the relationship between organizational cultures with organizational performance and citing a hypothetical example to buttress my discussion. It is pertinent to conclude by giving out some hints and recommendations on organizational culture.

First and foremost, the definition of organizational culture is inconclusive due to the ambiguity in the meaning of relating organizational culture to real life situation. The concept is defined on a surface without rooting the meaning to the metaphor school of anthropology and sociology. Therefore the definition should not be in an assumption alone rather it must contain other components like norms, beliefs, pattern of behaviour and artifacts which are all visible indicators of organizational culture.

Secondly, in looking at the relationship between organizational culture and performance, emphasis should be focused on the indicators used for the measurement of organizational performance. The indicators should encompass enacted behaviour, outcomes and dramatic event as a yardstick for the significant relationship between culture and performance. This becomes so, because of the interconnections that exist between organizational performance indicators and the culture parameter.

Also, it was observed from the literature review that the typologies of organizational culture are a determinant of performance. This should be substituted because the typology or classification depends on the

perspective of the writer or the researchers. Similarly, difficulty to separate variables either independent or dependent also affected the outcomes of many empirical studies on organizational culture and performance. That is, methodological inconsistencies affected the end-result of the relationship between organizational culture and performance.

Furthermore, the idea of using organizational culture to promote and influence ethical behaviour in an organization through the identification of problems and later acted as a catalyst for proffering solution was considered inappropriate as discussed by some scholars. To achieve this, requires two approaches as identified by Sinclair (1993) and other researchers' namely unitary approach and subculture approach. As argued in some quarters, allowing subculture in an organization will promote the effective achievement of corporate culture. This is so, because the subculture groups always act as a critique to the unitary/strong approach.

This will give room for new ideas that might influence good ethical behaviours and value in the organization but it must be done with caution to avoid organizational anarchy between the unit and the subculture. In order to outweigh this, common core value must be seen as a benchmark against any operating norms introduced by the subculture and need to be evaluated. Therefore, organizations need to devote enough resources for working out subcultural practices while norms can be reconciled without compromising core value and ethic of the organization.

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Chapter **2**

A REVISIT OF THE NEW INTERNATIONAL ECONOMIC ORDER

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Introduction

As the title connotes, this chapter is an attempt at revisiting the new international economic order which is a set of proposals put forward in the seventies by some developing countries on the platform of the United Nations Conference on Trade and Development to promote their interest by improving the terms of trade, development assistance, developed country tariff reductions, and other means. Using secondary materials, the chapter provided reasonable insight into the basic tenets, resource allocation mechanisms, criticism of price regulations, the NIEO as an intervention in international law and the NIEO as a political project. It aims at providing the student with a general overview of the new international economic order with a view to appreciating the need for such an order.

Background to the study

The New International Economic Order (NIEO) was a set of proposals put forward during the seventies by some developing countries through the United Nations Conference on Trade and Development to promote their interests by improving their terms of trade, increasing development

assistance, developed country tariff reductions, and other means. It was meant to be a revision of the international economic system in favour of Third World Countries, replacing the Bretton Woods system, which had benefited the leading states that had created it - especially the United States. This order was demanded by the 'Non-aligned movement'.

The term was derived from the declaration for the establishment of a new international economic order, adopted by the United Nations General Assembly in 1974, and "referring to a wide range of trade, financial, commodity, and debt-related issues" (Bhegwati 1977). This followed an agenda for discussions between industrial and developing countries, focusing on restructuring of the world's economy to permit greater participation by and benefits to developing countries (also known as the "North-South Dialogue") (Robert, 1979). Along with the declaration, a programme of Action and Charter of Economic Rights and Duties of States were also adopted in the 1970s and 1980s; the developing countries pushed for NIEO and an accompanying set of documents to be adopted by the UN General Assembly.

Subsequently, however, these norms became only the rhetorical and political value, except for some partly viable mechanisms such as the non-legal, non-binding Restrictive Business Practice Code adopted in 1980 and the Common Fund for Commodities which came into force in 1989.

Tenets

The basic tenets of NIEO were:

1. Developing countries must be entitled to regulate and control the activities of multinational corporations operating within their territory.
2. They must be free to nationalize or expropriate foreign property on conditions favourable to them
3. They must be free to set up associations of primary commodities/producers similar to the OPEC; all other states must recognize this right and refrain from taking economic, military, or political measures calculated to restrict it.
4. International trade should be based on the need to ensure stable equitable and remunerative prices from raw materials, generalized non-reciprocal and non-discriminatory tariff preferences, as well as transfer of technology to developing countries, and should provide economic and technical assistance without any strings attached.

Resource allocation mechanisms

According to Haggard and Simmons, “a number of social mechanisms are possible to affect resource allocation in any economic order”. An authoritative allocation mechanism involves direct control of resources while at the other end of the spectrum, more market-oriented private allocation mechanisms are possible. Most debates within the NIEO occurred over allocation mechanisms, with the southern hemisphere countries favouring authoritative solutions. However, “NIEO proposes central planning as opposed to true markets” (International Progress Organization, 1979). Mustapha, Schoenbaum and Mavroidis (2003), explain that, Tensions and disagreements between developed and developing countries continue in which the latter expect a greater degree of special treatment than industrialized countries have afforded them. This demand was expressed comprehensively in the New International Economic Order and the Charter of Economic Rights and Duties of States promoted by UNCTAD in the 1970s.

Although the Charter was never accepted by developing countries and is now dead, the political, economic, and social concerns that inspired it are still present. This charter called for restitution for the economic and social costs of colonialism, racial discrimination and foreign domination. It would have imposed a duty on all states to adjust the prices of exports to their imports; the realization of the New International Economic Order was an impetus for developing country support for the Tokyo Round of trade negotiations. Critics of the WTO continue to state that little of substance for developing countries came out of either the Tokyo or Uruguay Rounds.

Criticism of price regulation

The powerful countries of North America and Western Europe felt threatened by the NIEO and continuously tried to criticize and minimize it. These countries believe that the most efficient way to help the poor is to transfer resources from those most able to pay to those most in need. Instead, NIEO proposes that those poor countries which enjoy monopoly power should be able to extort these transfers. “In practice, such power has caused most harm to other poor countries” (Murphy, 1984). In his view, Satter (1984) holds that, “commanding prices above their natural level usually reduces consumption and thus causes unemployment among producers”. Moreover, “price regulation typically gives the extra income to those in control of who is allowed to produce, e.g. to governments or land-owners” (Satter, 1984).

It needs be underscored that the concept of non-alignment is directly related to the cold war. The world was divided into two power blocs as at when the process of decolonization began. By the time India became independent in 1947, the existence of American Bloc and Soviet Bloc had already become a prominent feature of the international system. But as the cold war began to decline and the soviet and its alliance system began to crumble, the focus shifted from political to economic aspect of the Third World Movement. Thus, so long as the world remains divided between North and South in the context of economic prosperity and poverty, the need for seeking economic justice will remain relevant.

The demand for a just and fair economic order was first made in 1973. It was later formally resolved by the sixth special session of the United Nations General Assembly in 1974, to call for the establishment of New International Economic Order (NIEO). As the existing order favoured the developed countries of the North, the third world countries realized its discriminatory nature.

Three important financial institutions were established which constitute the Economic Order of Post-second World War period. They include: -

1. International Monetary Fund (IMF)
2. International Bank for Reconstruction and Development (IBRD)
3. General Agreement on Tariffs and Trade (GATT).

The concept of NIEO is not based on donor-donee relationship. It does not seek charity from the developed countries. There is the growing realization that economic problems of developing states cannot be solved only through aid and assistance. North-south relations have to be transformed into a mutually beneficial relationship. NIEO seeks a new relationship between the developed and the developing countries on the basis of mutual reciprocity, i.e. give and take, in which ultimately, the developed countries will also stand to gain. It seeks to create a futuristic and forward looking scenario.

The aim of NIEO has been to create a restructured system based on cooperation rather than confrontation. It looks at the resources of the world as common heritage of mankind. Finally, NIEO believes that peace and prosperity go together. So long as the developing countries continue to be deprived, there can be no real and lasting peace in the world. Thus, NIEO is essential for international peace and security. It is a message for the world

based on social justice and freedom from exploitation. It will ensure adequate transfer of technology to the developing countries to ensure all-round development. It will discourage Brain-Drain by providing opportunities within the country to young intellectuals, scientists, researchers, etc. There is no doubt that the efforts of NIEO have made valuable contribution in making the world “a large global village”; yet, the economic order is still far from being just and non-discriminatory. What is needed is that the process of structural changes should be enhanced while efforts are made for a genuine, just and fair New International Economic Order.

The NIEO as an Intervention in International Law

The economic objectives of the NIEO were important, so also were the novel means it sought to implement such objectives – which are through new mechanisms of international law. Rather than accepting international law as a neutral device, NIEO legal theorists claimed that existing international law, unsuited to promoting structural reform, were biased toward economic incumbents and needed recasting in order to favour developing nations. More narrowly, NIEO proponents argued that states in the south should not be bound by legal agreements made under an illegitimate transnational legal regime, particularly if those agreements had been concluded by pre-independence administrations or with private corporations. Just as the economic goal of the NIEO was to enable the self-sufficiency and self-determination of countries in the south, the legal strategy was similarly predicated upon the bedrock assertion of the absolute sovereign equality of every nation.

Proponents of the NIEO, especially those of UNCTAD, sought to use the UN General Assembly, with its more plausible claims to represent world interests, as a forum for developing new international legal structures that would promote the agenda of the south. Choosing the General Assembly as a vehicle for transnational legal change made political sense given the evolving composition of that body. When the UN was founded in the mid-1940s, not only were “north” and “south” not yet operative concepts in the geopolitical imagination, but even the distinction between “industrialized” and “developing” countries (or economies) barely existed (Stanley, 1944, Madelbann, 1945). Decolonization changed this rapidly, as the number of UN member states ballooned from the original 51 to 76 in 1955 and 110 by 1962- the large majority being “developing” states in the south (Arndt, 1987).

The most important legal theorist for the NIEO was the Algerian jurist Mohammed Bedjaoui, who provided the most elaborate legal-theoretical articulation of how to accomplish the NIEO's economic objectives. Bedjaoui criticized the existing formal structure of international law, which he claimed was organized to systematically favour former imperial powers, which in turn reflected and enabled the structural inequality of the global economy. Unlike legal localists who argued that different communal situations necessitate different sorts of legal regimes, Bedjaoui advocated legal universalism. He argued, however, that the power dynamics embedded within the structure of international law required that certain key terms of internal law be undone. For instance, he rejected the notion that postcolonial and post-revolutionary states had to meet treaty and contractual obligations joined under previous regimes. In short, Bedjaoui presented Algeria's own post-independence international legal positions toward France as a model for what an alternative global, transnational legal order might look like (Gathii, 2000).

The central problem for NIEO jurists was how to assert the absolute national sovereignty of southern states without at the same time empowering northern states to ignore, in the name of their own national sovereignty, the supranational legal injunctions proposed by the NIEO (Scully, 1982). The tension within the legal doctrine of the NIEO mirrored the one in the economic sphere: claims of absolute economic sovereignty flew in the face of transnational economic interdependence. At the end of the day, NIEO success required leveling power disparities between states, but for that to happen, its legal strategy had to be embedded in a political strategy

The NIEO as a political project

Flowing from the narrative above, the NIEO was more than just a set of technical economic-legal proposal; it was also an explicitly political initiative, an attempt to extend the realignment of international power which the process of decolonization had begun. At the level of political identity, the G-77 and the NIEO claimed to embody the idea that the "developing nations" formed a coherent political group; one whose common political identity rested on a share history of resistance to colonialism and imperialism (Ferguson, 1977). As such, the NIEO may be viewed as a continuation of what Erez Manela has referred to as the "Wilsonian moment" for the peoples of the South or of the "Bandung Era"

which had opened with the Afro-Asian conference in 1955, itself often criticized as the start of the Non-Aligned Movement (Manela, 2007). The economic proposals of the NIEO and the legal ideas for their implementation were, in the end, merely instruments in the service of the political goal of creating true global democracy of equal (and equally) sovereign states, thereby completing the process of decolonization. In this sense, the NIEO represented arguably, the most direct and sustained political challenge of the post-colonial era to the ongoing authority and legitimacy of the incumbent industrial powers.

Implicit in the NIEO Declaration was the assumption that a shared interest in rearranging global economic governance provided a sufficient basis for political solidarity. Sharp divisions existed within the G-77 about political tactics, however. For the more radically inclined proponents of the NIEO, the fulfillment for a new order meant rolling back western power and augmenting the power of local elites who ruled in the name of their own peoples. Typical of this stance was Algerian President Houari Boumediene, who would emerge as perhaps the single most prominent political proponent of the NIEO. The site of a particularly vicious colonial war of independence, Algeria's ultimate victory represented the promise and efficacy of simultaneous confrontation with the north across diplomatic, economic, political and legal channels. "For Boumediene, there was a direct line from the Battle of Algiers to the NIEO" (Connelly, 2002). Speaking of a "dialectic of domination and plundering on the one hand, and the dialectics of emancipation and recovery on the other," he warned of an "uncontrollable conflagration" should the north refuse to cede "control and use of the fruits of resources belonging to the countries of the Third World" (Boumediene, 1975).

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Chapter **3**

**MAKING MSMEs BANKABLE: KEY TO
INDUSTRIALIZATION, JOB
CREATION, ECONOMIC GROWTH
AND SUSTAINABLE DEVELOPMENT
IN NIGERIA**

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Introduction

In the last four decades or so various economic policy makers in the developing world have aggressively focused on the promotion of entrepreneurship as a strategy to deal with the challenges of growing unemployment and poverty. From Africa to Latin America and Asia, Micro, Small and Medium Enterprises (MSMEs), have become the pillars of growth in many economies. For instance, small businesses are believed to account for Taiwan's fast growing economy. However access to finance has become a major challenge to the micro, small and medium scale enterprises in Nigeria for obvious reasons. The small businesses lack the requirements often demanded by banks for credit extension. Majority of them do not keep records, neither do they have collateral acceptable to banks for accessing facilities from banks. Secondary sources of data will suffice for this study, such as text books, journals, newspaper, and internet documents. The research recommends that entrepreneurs must avoid preparing business plans without investigation, vague business opportunity that show no

evidence of real demand, window dressing the business, overstatement of sales revenue and poor cash flow management among others in order to become bankable so as to be able to access bank facilities and contribute to economic growth and sustainable development.

Background to the study

Micro, Small and Medium Scale Enterprise (MSMEs) have become an indispensable catalyst for economic, social and even technological development. Their contribution in an economy has been given attention worldwide. MSMEs have contributed immensely to industrialization, wealth creation, employment generation, poverty reduction, production of primary and intermediate products and service for large enterprises. They also contribute immensely to foreign exchange earnings and export promotion, development and use of technology as well as the mobilization and utilisation of domestic savings.

The MSMEs are the bedrock of industrialisation and development of local entrepreneurship. They assist in output expansion and strengthening of industrial linkages. They provide all sorts of product ranging from, household products, industrial products, recreation and entertainment, healthcare, waste disposal, professional services and so forth. In Nigeria, the MSMEs dominate the Agricultural sector of the economy.

The flexibility in the management of MSMEs, enable them to respond swiftly to change than the larger ones. Despite their limitations, some MSMEs have become initiator of many technological innovations which usually brings enormous fortune to such firms, their owners and other investors within a few years.

Government also benefit tremendously from MSMEs through generation of revenue in form of taxes. As the MSMEs sector grows, less pressure will be on the government to provide employment, there is a greater likelihood of security being improved as many able bodied individuals will be engaged in productive activities. MSMEs established in rural areas reduce rural urban migration thus minimizing excessive pressure on urban infrastructure.

Since the legal and capital requirements for establishing MSMEs are low, many individuals and families in both urban and rural communities can establish their own businesses, thus, MSMEs provide a good ground for skills development and the testing of new production techniques as well as new products.

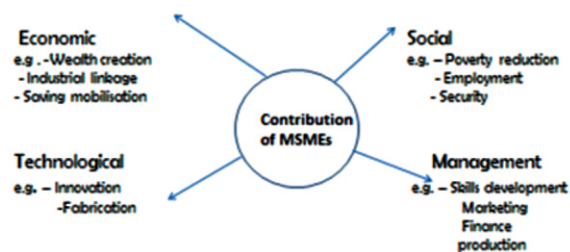
The industrial revolution that led to the rapid advancement of western countries started in micro 'cottage' and small scale enterprises. Similarly, momentous economic growth of emerging economies (e.g. China, India, Brazil, South Africa, etc.) was largely due to the rapid growth and impact of MSMEs sectors. Majority of large and established enterprises started as micro, small enterprises and grew into large ones over time. This was due to their strong strength of being very bankable. They have attracted funds from banks, investors, etc.

Despite all these benefits of MSMEs, majority of MSMEs in Nigeria are vulnerable due to many challenges such as inability to access fund and poor infrastructure. They are unable to attract external funds (e.g. Long term loans and equities) because their owners have difficulties in making their business bankable. Therefore, obtaining short term loans to smooth out cash flow remains a challenge if a business is not bankable. Bankers are discouraged once credit risk is high.

The objective of this paper is to provide an insight into the concept of MSMEs in Nigeria, what drives bankability (Fundability) and how to make MSMEs bankable .It deals with some of the core issues of MSMEs bankability. That is, factors that impacts their attractiveness to bankers, investors and even donors for Financial Support. This research is non-exhaustive; however it will form a basis for further studies by scholars and other interested parties in view of the long-term benefits of sustainable growth and development that will accrue therefrom.

Impact of MSMEs in Economic Growth and Sustainability Development

MSMEs and Development



Literature Review

Operating a small scale business is not necessarily the same with entrepreneurship. Entrepreneurship is also found in large established organisations. However, unlike entrepreneurship, which is a subjective concept, the small business can be defined base on criteria such as (1) turnover; (2) number of employees; (3) profits; (4) capital employed; (5) available finance; (6) market share; (7) relative size within the industry and so on.

Many countries derive their own definition of the small business based on their roles in the economy and as a result of public policies or programmes designed by government and donor agencies mandated to develop small businesses. Therefore, what may be regarded as a small business in the developed economies of Western Europe, United State, Japan, etc., may be considered as medium or large in a developing economy like Nigeria. The definition also varies overtime from one agencies or development institutions to another depending on their policy focus.

Okafor (2000) explained that in highly developed economies such as the United Kingdom, Netherlands, Germany, United States, Canada, etc., a combination of turnover and number of employee's are criteria's adopted in defining the small enterprises. On the other hand, Japan adopted a size classification criterion that reflects paid up capital and employment level, but these also depend on the industry type. In Japan, a small scale business in the manufacturing sector is defined as one with paid up capital of 100 million Japanese yen or less and staff strength of '500' or less. In the commercial sector, this is limited to 300 million Japanese yen or less in paid up capital or staff strength of 100.

The 1985 Companies Act in the United Kingdom states that an enterprise with a turnover of less than \$1.4 million is small, those between \$1.4million and \$5.75million are medium size and those over \$5.75million are large. The same Act also states that firms that employed fewer than 50 workers are considered small, those that employed between 50 and 250 workers are medium size and those with over 250 workers are large.

Obviously, this definition can be misleading. For instance, inflation can make the turnover definition useless as some firms are labour intensive and so may be very big in terms of the number of people employed. Capital

intensive firm may be large but with few employees. Using profit basis can also be misleading as both small and big can incur losses in a given period.

Obviously, this definition can be misleading. For instance, inflation can make the turnover definition useless as some firms are labour intensive and so may be very big in terms of the number of people employed. Capital intensive firm may be large but with few employees. Using profit basis can also be misleading as both small and big can incur losses in a given period.

In South Africa, the MSMEs are grouped as Survivalist Enterprises, Micro Enterprises, very Small Enterprises, Small Enterprises and Medium Enterprises. In Nigeria, asset base criterion is more popular. The Central Bank of Nigeria (2010) in its guidelines on 200 billion SME Credit Guarantee Scheme (SMECGS) defined Small and Medium Scale Enterprises as an enterprise that has asset based (excluding land) of between N5 million –N500 million and labour force between 11 and 300. The National Policy on Micro Enterprises (MSMEs) developed by SMEDAN with support from UNDP in 2007 describes MSMEs as follows:

Micro Enterprises

Micro enterprises are enterprises with less than 10 employees and total asset of not more than N5million excluding land and buildings. They are usually operated by sole proprietor with support from family members, business associates, apprentices and a few paid employees. They dominate the informal sector of the Nigerian economy and provide employment to large number of people in areas such as agriculture, furniture making, textiles, leather making, metal work, art and craft, printing, wholesale, and retail trade, transport, hotel and restaurants, repairs and maintenance of vehicles, electronic, building and so on. The levels of technology and skills as well as output value are relatively very low. They are sometimes referred to as cottage enterprises. Sourcing finance from the formal sector such as banks is still difficult for micro businesses. The advent of formal micro finance institutions has provided succour for this category of enterprise.

Small Scale Enterprises

These have between 10 to 49 employees and asset bases of 5 million naira and less than 50 million naira (excluding land and buildings.) The levels of technology and skills are relatively very high when compared with micro enterprises. Organisational and control system are well structured. A large number of small enterprises are incorporated companies or partnership

firms. They have significant potentials to sole proprietorship or partnership. They also have significant potential to source funds from the formal sector such as deposit money banks, leasing institution and venture capitalist. This category of enterprises are also found in all sectors covered by Micro Enterprises including service sectors such as schools, hospitals, publishing organisations and professional firms for lawyers, accountants, architects, etc.

Medium Scale Enterprises

This category dominates the formal sector in Nigeria. Medium scale enterprises have between 50 to 199 staff and an asset base of 50 million naira and not less than 500 million naira excluding land and buildings. They are concentrated in key sectors such as manufacturing, information and communication technology, transportation, building and construction, multiple and departmental stores, etc. They have highly developed technology and resources. They have access to many sources of finance ranging from deposit money banks to development banks. They can also easily go to the capital market to source for additional capital such as equity and debenture.

As earlier mentioned, the attempt to define the small business using quantitative variables may be misleading and the use of number of employees has proven unsatisfactory in many respects. This is due to the fact that the size definition expressed in monetary terms such as turnover, asset value, profit, etc., will be raised frequently due to inflation. Also, some firms may be large in asset and turnover, but small in employment. For these reasons, a quantitative definition base on some major characteristics of small business is necessary. Therefore, a small enterprise might be defined as a firm actively managed by its proprietor in a personalized way, localized operation and with a relatively small market shares within an industry.

Table 1: Definition of MSMEs

<p>In 1971, the Bolton Report in the United Kingdom considered that one definition of the small scale enterprise was inadequate and inappropriate. The report recommended three alternatives:</p>		
<p>(i) The Employee Basis: this suggested the classification of small scale enterprises based on maximum number of employees, depending on the nature of capital intensity which varies from one industrial sector to another. Thus, a manufacturing venture with less than 200 employees was considered small, whereas the maximum for construction was 25 employees.</p>		
<p>(ii) The Turnover Basis : The report considered a turnover of £50, 000 for small retail enterprises (which might be almost \$1m today)</p>		
<p>(iii) The Characteristic Basis: The Bolton Report gave the characteristics of a small enterprises as follows:</p> <ul style="list-style-type: none"> • Small market share • Manage by its owners or part-owners in a personalized way. • Operates independently • 		
<p>In 1996, the European Union (EU) gave its definitions of MSMEs as an enterprise employing less than 250 employees. These were further categorized into micro, small and medium enterprises as indicated below.</p>		
<p><u>Number of Employees</u> <u>Size of enterprise</u></p>		
0 < 10		Micro
10 < 50		Small
50 < 250		Medium
<p>In Nigeria the national policy on MSMEs categorized enterprise as follows:</p>		
Size of the enterprise	Number of employee	Assets (₦ million) excluding land & buildings
Micro	1-10	Less than 5
Small	11-49	5 less than 50
Medium	50-199	50 less than 500
Large	200 and above	Above 500

Source: Author, 2018

Theoretical Framework

The term 'Bankable 'as used in this paper is a term used to describe a business ability and capacity to generate returns (profit or cash). With this, the business can pay off its debt as at when due and still provide returns for investors. This increases the attractiveness of the business to access fund, (Fundability).

Certain Major factor drives bankability. These are capacity and ability to tap realistic business opportunity; Innovation or value added capability; Entrepreneur personal character; management team expertise and capability; good demand, adequate cash flow, adequate record keeping, compliance with relevant regulatory requirements, collaterals.

These factors are explained as follows:

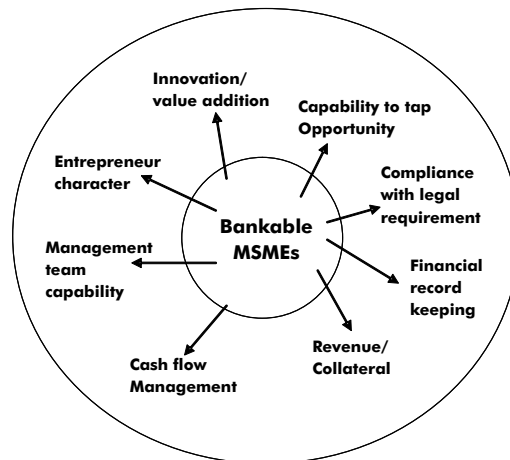
- 1. Innovation (Value Added Capability):** An innovation usually results to the introduction of a new idea, product or method with great value than the cost. This value addition gives competitive advantage over rivals. If this is sustained with added capability to add further value, the business becomes more bankable.
- 2. Capability of Tapping Business Opportunity:** Bankability is a function of the ability to tap an opportunity created through innovation (added value) or by some business environmental factors e.g. An embargo on import can trigger opportunity in the domestic market as market share expand. Innovation or discovering and satisfying latent demand can be a fantastic opportunity etc. However, the business capacity and ability to take advantage of such opportunity is what matters.
- 3. Entrepreneur Personal Character and Capability:** An indication of the Entrepreneur credit worthiness and willingness to repay loans is an evidence of the ability to run the business profitably. Resilience and persistence in the face of obstacle and having good relationship with bankers and investors inspire confidence. These are excellent entrepreneur quality that can impact on bankability.
- 4. Management Team Expertise and Commitment:** The management team which also includes the entrepreneur should have a wide range of skills and experience in finance, production, marketing etc. A stable and committed workforce is an indication that business is being run successfully and profitably. However, excessive remuneration and fringe benefit for those in the top will make financier to raise questions.
- 5. Compliance with Legal Requirements:** Compliance with the necessary regulatory requirement gives bankers confidence that the entrepreneur is ready for business. Up to date registration with relevant government agencies and submission relevant returns (e.g. annual returns, tax returns) impact strongly on bankable.
- 6. Maintenance of Adequate Financial Records:** Record keeping is an indication that the business is operating in an orderly and

transparent manner. Its activities can easily be monitored. Banks also look historical data such as Profit and Loss Account/ Balance Sheet and Tax Returns. This indicates transparency and accountability.

- 7. Revenue/ Collateral:** A demonstration of an ability to pay from revenue instead of collateral enhances bankability. Collateral is a term used when bankers have access to an Asset that the business or entrepreneur is willing to cede in case of non-payment or a guarantee by a respected person to repay the loan in default. (Churchill and Frankie wick 2006). Having collateral enhances bankability. However, many SMEs operation don't have collateral.
- 8. Cash Flow Management:** Good credit and cash management will increase net cash flow. This is a prove of liquidity indicating that business can pay its debt.

Figure 1: Key Drivers of Bankability

In a nutshell the key to becoming bankable that MSMEs must pursue can be demonstrated as follows:



Source: Author, 2018

Making MSMEs Bankable in Nigeria

a. Conduct a Feasibility and Viability Assessment:

Once an opportunity and a project idea is developed, it is good to conduct a feasibility and viability study. A feasibility or viability assessment is a fundamental step towards the preparation of a bankable Business Plan. The

Feasibility assessment establishes the practicality or possibility of the proposed venture. It assess whether a project can be done given the prevailing physical, technological, economical, legal, social, etc. environment or circumstances. A viability assessment considers the worthiness of the venture in generating satisfactory benefits that will significantly exceed the cost of resources invested. These provide empirical evidence on viability of the venture.

b. Prepare a Bankable Business Plan:

The Business Plan is a valuable document for all stake holders in the entrepreneurial process-The entrepreneurs and management team, potential investors, banks, donors, etc. A bankable Business Plan is professionally prepared to meet the needs of financiers or investors – bankers, venture capital, etc. Therefore, the entrepreneur should be able to see his/ her project or venture through the eyes of a banker and investors. They want to see strategies that will help the entrepreneur achieve his or her goals and eliminate risks associated with losing their money. A Bankable Plan should describe clearly the basic business idea, opportunities, objectives and strategies.

The plan must be realistic and attainable. This will minimize uncertainty. It should also provide detail information to address the concerns of bankers and investors, such as risk and return on investment, repayment of borrowed fund and interest, management capability and dedication, knowledge of the market and customers' needs competitors' activities etc. It's also address cost and benefit of the venture.

c. Prepare Operating Budget with Emphasis on Cash Flow:

Budget for sales, production operating expenses, income statement and cash budget should be prepare elaborately. These give projection of profitability and cash flow over the period of the plan. This will be used to track net cash flows. Banks are highly interested in positive cash flow. This is an indication of liquidity and business capability to repay loan.

d. Communicate the Business Plan Properly:

Once the business plan is drafted, the entrepreneur must effectively communicate it to his or her banker or potential investors. Languages use to describe the venture no matter the level of technology, should be simple, concise and understandable. The basic business idea, production, marketing and financial strategies supported models must be articulated

clearly. No matter how good the plan is, if it is poorly communicated, it impact negatively on bankability.

e. Secure a Route to Market:

The entrepreneur should have research into how he or she intends to access the customer's base. That is, secure his or her route to the market. Select appropriate channels of distribution and promotion method to improve market share and increase sales. Any sign to show that the marketing and sales capability of the venture has been improved upon will enhance the bankability of the business.

f. Demonstrate Management Competence:

A demonstration of the level of management knowledge, skills, experience, and commitment will enhance bankers and investors confidence in the business enterprise. Bankers and investors look for dedicated management. Therefore, entrepreneur and management team strongly expresses their expertise as well as passion and dedication for the business. Investors invest in management – not just ideas.

g. Personal Funding (Own Capital):

If the entrepreneur can significantly invest his or her own money in the business, financier will be convinced that he or she will be committed to the business sustenance. To fund project, many banks usually ask for a significant contribution (equity) of up to 30 per cent from the entrepreneur. The demonstration of significant personal investment, enhance bankability.

h. Legal Status/ Registration:

Many micro and small businesses in Nigeria are not registered with Corporate Affairs Commission. This is an obstacle in accessing fund from Micro Finance Bank. A key requirement of opening an account in the bank is the presentation of business name registration or certificate of incorporation. Compliance with other legal requirement such as filing of annual return, filing of tax return, product registration (e.g. with NAFDAC) obtaining a patent or copyright, license will enhance the bankability of the business.

I. Accounting Record/Financial Reporting:

Keeping proper accounting records and preparation of financial reports is sign of seriousness in managing a business. Incomplete financial information can frustrate a banker or investor in making decisions. A poor

accounting procedure may hamper the ability of the management to produce credible financial report. This also gives impression that something is being hidden. Once a banker discovered that the financial statement is not revealing enough information, fund will not be given until there is a cleanup, the loan will not be granted. It is important not that personal and business finance should be kept separately.

j. Develop a Good Credit History:

This happen when the entrepreneur maintains a good track record of credit worthiness. He or she can start small and gradually build a sound relationship with the banker by been credit worthy. First, a line of credit can be open for a reasonable amount and paid back within the agreed period, obtain another, use it, and pay off. This gives enough proof to the bank that the entrepreneur knows how to manage credit relationship. The bank will be willing to give higher line of credit.

Maintain Honest and Transparent Relationship with your Banker:

This will enable the entrepreneur to understand the way his or her banker thinks and the relationship will be more open and cordial. If there is a demonstration of honesty Banker can assist in giving valuable advice. A personal banker can spend all time to counsel you without given you a bill like other professional service providers (accountant or lawyer).

Qualities of a Successful Entrepreneur: According to Adebayo, 2011 there are five most important qualities that drives successful entrepreneur which the young entrepreneurs must imbibe if they must become bankable and attained financial inclusion. These include:

- a. Integrity: Right is right even no one is doing it, and wrong is wrong even if everyone is doing it. Integrity guarantees success in business ventures.
- b. Self-Discipline: To become a successful entrepreneur, requires a high level of discipline. The entrepreneur must be disciplined in spending money so that you do not eat up your profit before it is earned. Times is also important, discipline must apply in time management.
- c. People Skill: It is important to learn how to relate well with people, customer as well as staff, customer is the life wire of any business. The customer does the business a favour when he patronizes the business and not the other way round. For well-motivated staff, input of extra hour for success to emerge may not be an issue.

- d. **Strong Work Ethics:** There is no short-cut for hard work, especially when the business is a new start-up.
- e. **Sales Ability:** The entrepreneur must have the ability to convince others to make conscious buying decision which is the key in becoming a successful entrepreneur.

Conclusion

Despite the numerous obstacles of sustaining and growing MSMEs in Nigeria a large number of MSMEs are being established every year. Running a business in such a challenging environment requires a wise usage of opportunities and resources the entrepreneur can access to support and expand his/her venture. One of the great opportunities that can be tapped is accessing the many different fund made available to support MSMEs in micro finance banks, commercial banks and development financial institutions. However, so many MSMEs are not bankable because of lack of understanding of bankers and investors requirements. To be bankable, the entrepreneur must tailor their business plans with the banker and investors in mind. A good knowledge of these requirements will produce a winning plan. Entrepreneurs are also expected to communicate their objectives and strategies effectively, build a good management team, comply with legal requirements, produce credible financial statement, and maintain a good history of credit worthiness and so no.

If these are properly done, MSME can attract not just credit from banks but significant equity investment. Therefore every stakeholder in MSME development – micro finance institutions, commercial banks, development finance institutions, NGOs and professional adviser such as accountants, management consultants, lawyers, etc. should be involve in making MSMEs to become bankable.

Recommendations

In putting effort to build a bankable business, new and young entrepreneurs must avoid the following common mistakes:

1. Preparing a business plan without adequate investigation.
2. Presenting complex business plan. This can create communication barrier
3. Vague business opportunity that show no evidence of real demand.
4. Incredible financial projection or developing projections that is inconsistent with other aspect of the plan.

5. Concentrate all effort on the development of product instead of other important elements such as how to access customer base.
6. Overestimation of sales revenue and poor cash flow management.
7. Attempt to clean up the business only when there is opportunity for loan.
8. Window dressing the business.
9. Diversion of loans to other purposes
10. Relying on collateral instead of the business capacity to generate revenue and pay off loans.
11. Having a poor credit rating
12. Combining business cost with personal expenses
13. Having little or no experience and competence in the area of business
14. Doing business in a sector with high failure rate
15. Excessive remuneration and fringe benefits for entrepreneur and top management

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Chapter **4**

**CHALLENGES BEFALLING AUDITORS IN
CONVERGENCE WITH CORPORATE
FINANCIAL REPORTING (CFR) AND
INTERNATIONAL FINANCIAL REPORTING
STANDARD (IFRS) IN NIGERIA**

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Introduction

The study looked at the challenges faced by the Nigerian Auditors in compliance with IFRS. The study uses the survey method to obtain information from sampled audit firms. Data were obtained through questionnaires and were analyzed with the use of chi-square statistical technique. It was discovered that the major challenges befalling auditors is the issue of adequate training and it was therefore recommended that auditors should train themselves through attending workshops, seminars, professional training and by getting materials that would assist in addressing this challenges and also train their clients to this effect.

Background to the study

If accounting is the language of business, accounting standard is its grammar. The basic objective of accounting standard is to remove variations in the treatment of several accounting aspects and to bring standardizations in corporate reporting. They intend to harmonize the diverse accounting policies followed in the preparation and presentation of financial statement by different reporting enterprises.

Financial statements are prepared to summarize the end – result of all the business activities by an enterprise during an accounting period in monetary terms. These business activities vary from one enterprise to other. To compare the financial statements of various reporting enterprise poses some difficulties because of the divergence in the methods and principles adopted by these enterprise in preparing their financial statements. In order to make these methods and principles uniform and comparable, there is need for coherent accounting standards. Therefore, high – quality accounting standards can facilitate the flow of information from business to a range of different users. These include investors, banks, creditors, regulators, employees and general public. Since, availability of accounts prepared in accordance with recognized accounting standards encourages trade by promoting confidence in business (Lambe & Mark, 2010).

The standards used in Nigeria is referred to as the Statement of Accounting Standards (SASs) which is issued by the Nigerian Accounting Standards Boards (NASB) however, the body has changed to Financial Reporting Council of Nigeria (FRCN) as a result of the adoption of globally accepted accounting standards known as International Financial Reporting Standards (IFRSs). IFRS are defined as standard and interpretations adopted by the International Accounting Standards Board (IASB). They comprise of International Financial Reporting Standard (IFRS), International Accounting Standard (IAS) and Interpretations originated by the International Financial Standard Interpretations Committee (IFRSIC) or the former Standing interpretation Committee (SIC). IFRS are considered “principle based” set of standards in that they establish broad rules as dictate specific treatments.

However, it is clear that there are many challenges in achieving international convergence as all reporting entities are required by Nigerian government to comply and prepare their account in accordance with the

international Financial Reporting Standards (IFRSs). Auditors, especially external auditors are among the key players to ensure the maximum compliance with the standards. The likely questions now are: what level of training do auditors require to achieve this task? What challenges are the auditors likely to face in achieving the international convergence? What type of roles are the auditors expected to play to ensure maximum compliance by the reporting entities and how can the education and training of professional accountants keeps pace with the changing environment in which the international standards are being set?

The following specific objectives are formulated to guide in the study. To examine the level of training undergone by auditor in the adoption of IFRS, To identify the challenges facing auditors in performing their duties base on IFRSs, To evaluate the roles of Nigeria auditors in the convergence of IFRS. The following hypotheses are formulated in accordance with the stated objectives in order to guide the study.

- H₀₁:** Auditors do not undergo any special training to be familiar with IFRSs
- H₀₂:** Auditors does not encounter any challenge in the adoption of IFRS
- H₀₃:** Auditors do not play any significant role in compliance with IFRS by reporting entities.

The significance of the study cannot be overemphasized. As such this work is expected to be of benefit to the following set of beneficiaries.

Auditors: both external and internal auditors will find this study beneficial in the sense that it tend to expose all forms of challenges they are likely to face when carrying out their duties base on IFRSs.

Regulatory Bodies: bodies such as Nigerian Accounting Standard Board (NASB) which has changed to Financial Reporting Council (FRC) and other regulatory bodies will find this study of use because they will know to what extent auditors are trying to be consistence with IFRSs in performing their duties and the way forward to improve their competence in that direction. This study will also serve as a guide in the areas of reviewing existing standards as well as enacting new ones.

Users of Financial Statement: most users of the financial statement who are not aware of the convergence especially shareholders and creditors will find this study beneficial as it will expose all that they need to know as

regards changes in the presentation and interpretation of financial statement due to the convergence with IFRS.

Future Researcher: in the future, researcher who may want to embark on study of similar topic will find this as a guide in achieving the objective, especially in the area of IFRS, accounting standards, audit and accounting practice as a whole.

Scope of the Study

The scope of this study is restricted to cover the challenges that auditors are likely to face in the adoption of IFRS in Nigeria. The prospects of convergence are also covered in the study. In doing these, some audit firms were selected within Nigerian firms.

Review of Related Literatures

This section is devoted to the review of some relevant literatures on ideas and studies of corporate financial reporting and international financial reporting standard and other write ups related to the subject matter so as to set a theoretical framework upon which the research work is based.

Many studies have been conducted on the adoption of IFRSs and its effects on the performance of organizations or on the markets or stock exchanges in a given country and how the adoption has effects on the country as a whole. For the purpose of this study, a number of studies conducted will be reviewed as to bring out the opinion of different scholars.

Antwi (2009) examined the adoption of International Financial Reporting Standards in developing countries using Ghana as a case study. He also examine how the accounting profession has evolved in developing countries over the years, specifically Ghana and also the process and factors affecting the adoption of International Financial Reporting Standards, merits and demerits of IFRS adoption. He used prepared questionnaire to solicit various and opinions on the study and SPSS was used for questionnaire analysis. He then concluded that the advent of companies going international or even global has given rise to the need to develop accounting standard that ensure uniformity and standardization of reporting financial information among parent companies and subsidiaries.

Minga (2008) in a similar study examined the effect of IFRS adoption: a review of the early evidence with the view of documenting the conceptual

and methodological issues that relate to the domain of financial reporting research that attempts to examine whether there are measurable gains stemming from the adoption of IFRS. He also used panel data annalistically method with no control for difference in microstructures. Value relevance studies were also adopted to find correlation between stock market data and actual accounting information. He then concluded that within the realms of empirical thinking, it is battery of test that will show whether or not IFRS/IAS has been useful to a country that has been attempting to integrate itself to the global economy.

Daske, Hail, Leuz and Verdi (2007) examined what they believed to be proxies for the economic consequences of change in the quality of financial report (IFRS adoption) in 26 countries in their study conducted on mandatory IFRS reporting in the United State of America (USA). They analyze the effect on market liquidity cost of equity capital and tobin's Q ratios using a large sample of firms that are mandated to adopt IFRS. They found that, the average market liquidity increases around the time of the introduction of IFRS and also documented a decrease in firms cost of capital and an increase in equity valuation. Zhou et al (2009) in one such study of Chinese firm data concluded that the firms adopting IFRS are less likely to smooth earnings in the post IFRS adoption period.

Pawan (2011) also conducted a study on IFRS implementation in India: opportunity and challenges analyze the information available on IFRS adoption process in India and also discuss the IFRS adoption procedure and the utility of Indian in adopting IFRS.

The study also discuss the problems faced by the stakeholders (Regulators, accountants, firms etc.) in the process of adoption of IFRS in Indian and the ways through which these problem can be addressed. The study is primarily qualitative in nature and do not use any quantitative tool to analyze the data. It has been conducted mainly on the basis of literature survey and secondary information. Arnt, Ann and Daniel (2010) also examines corporate governance and properties of IFRS adoption in Europe, investigating how corporate governance associates with reporting quality and transparency around the first time IFRS adoption and also focus on three prosperities of IFRS adoption. They also investigate how firms' specific differences in these properties associate with corporate governance. In the cause of their study the researchers employ a sample of 223 European

financial and non – financial listed firms belonging to the MSCOP PAREURO index and only consider mandatory IFRS adopters. They also collect financial statements data from the annual reports of the IFRS adoption year relating to disclosure quality of the restatement process, compliance with IFRS and the choice of IAS 39 adoption. Other methods used in conducting the research include regression analysis, sample and governance data developed by risk metrics. They also adopt three specific governance variables which are the functioning of the board of directors (BFUNCTION), the independence of the board of directors (BINDEP) and the quality and effectiveness of audit committee (AUDIT). The researchers then discovered that firm with strong corporate governance mechanism engage in higher financial reporting quality and also disclose more extensive on specific IFRS disclosure standards.

Anne, Ellen and Paul (2009) conducted a study on the globalization of accounting standards: IFRS versus GAAP. They examines the implications of SEC decision to allow foreign companions to use IFRS in financial reporting without reconciliation to US GAAP on investors, multinational corporations and global financial reporting and to also reviewed the decision of the SEC to unite world regulators on the convergence of global accounting standards. They also examine the differences between IFRS and US GAAP. The author's conclusion is that, it is both timely and necessary to converge and harmonize IFRS and US GAAP into a single set of global accounting standards. Karthik and Ewa (2009) conducted a study on why do countries adopt international financial reporting standard using a sample size of 102 non – European Union countries with the aim of studying the variations in the decision to adopt International Financial Reporting Standard.

The researchers used descriptive statistics and univariate technique in analyzing the data. The study concluded that as more countries adopt IFRS, the network benefit from IFRS adoption are likely to increase and this in turn can change the relative importance of direct benefit and cost in determining IFRS adoption.

Lantto and Sahlstrom (2009), in their study of key financial ratios of companies of Finland found that the adoption of IFRS changes the magnitude of the key accounting ratios. The study also showed that the adoption of fair value accounting rules and stricter requirement on a certain accounting issues are the reason for the changes observed in accounting

figures and financial ratios. Chand, and White (2007), in their paper on convergence of Domestic Accounting Standard and IFRS, demonstrated that the influence of multinational enterprises and large international accounting firms can lead to transfer of economic resource in their favour wherein the public interest are usually ignored.

Barth et al. (2008), in their study of financial data of firms where twenty – one countries were examined to determine whether application IAS/IFRS is associated with higher accounting quality. The findings of their study confirmed that firms applying IAS/IFRS evidence less earnings management more timely loss recognition and more relevance of accounting numbers. The study also finds out that the firms applying IAS/IFRS experienced an improvement in accounting quality between the pre – adoption and post adoption period. Steffee (2009), in his article conducted that there are considerable differences in the approaches taken to implementing IFRS by individual western European countries and companies. He viewed that corporation in Luxembourg, Austria and Switzerland demonstrate the most transparent accounting practice and best corporate governance, while European Banks with large capitalization display very aggressive accounting and poor governance standard.

Chen et al. (2010), in their study of financial data publicly listed companies in 15 member states of European Union (EU) before and after the full adoption of IFRS in 2005 find out that the majority of accounting quality indicators improved after IFRS adoption in the EU. They found that there is less of managing earnings towards a target, a lower magnitude of absolute discretionary accruals and higher accruals quality. The study showed that the improved accounting quality is attributed to IFRS, rather than changes in managerial incentive, institutional features of capital markets and general business environment. As evident from the literature reviewed, good number of studies carried out in different countries has highlighted the benefit of having single set of financial reporting standard across the globe. Few of the studies have also brought out the procedural aspects of implementation of IFRS. Some of the studies have given a contradictory view wherein the article talk about the difficulties and complications faced in implementing IFRS.

The decision to adopt IFRS can be analyzed as a decision to adopt a product with network effect. To see this, note that a standard like IFRS is likely to be

more appealing to a country if other countries chose to adopt it as well. This suggests that insights can be use from the economic theory of networks to develop hypothesis on why countries choose to adopt IFRS. Network theory suggests that there are generally two factors to consider in adopting network dependent products: the intrinsic value of the product and the volume of product's network (Katz and Shapiro, 1985).

The network – theoretic framework is use to explain the adoption of IFRS across country, time can be applied in the study of other accounting and corporate governance phenomena. For example, the adoption of accounting methods, accounting standards and corporate governance best of practices by firms and jurisdiction are likely to depend on similar such actions by competitors and associates. In other words, inter – temporal variation in adoption decision in panel data, commonly studied in the accounting literature, can be explained by the network value of product being adopted. (Karthik and Ewa 2009).

Research Methodology

This section encompasses the synthesis of relevant method used in collecting data for the research work. The study attempts to explain the methodology adopted in the course of the study. The section provides highlight on the population of the study, sample size and sampling techniques, methods of data collection and techniques of data analysis. The study adopts the survey research design, since the study is one in which a group of people is studied by collecting data from few organization which is based on Yamane's formula (Yamane 1967). This design is appropriate in this study for the target audit firms in Nigeria, in other to determine the effect of Adoption of International Financial Reporting Standard (IFRS).The improvement for the organization and their impact on the economic development.

The population in this study was three (3) target audit companies in Bauchi State, which have a population of One thousand seven hundred i.e. 1,700 staff. The population used for this study are the top, middle and low management staff which are three (3) CEO's, three (3) external editors, thirty (30) managers, thirty (30) Accountants, forty five (45) cashiers which are sum up to one hundred and twelve (112) staff. Moreover, the sample used is made up of (90), which consists of CEO's external auditors, managers, accountant and cashier. Simple random sampling method was

used. So as, each member of the population had an equal chance of being selected, after they considered the incentive given to them by government.

Therefore, the formula (Yamane, 1967) was used for the calculation

$$n = \frac{N}{1 + Ne^2}$$

Where, n = the sample size
 N = the size of the population
 e = the error of 5 percentage points

i.e.

$$\begin{aligned} n &= 90 \\ N &= 112 \\ 1 &= \text{constant} \\ e &= \frac{5}{100} = 0.05 \end{aligned}$$

$$\text{Therefore, } n = \frac{112}{1 + 112 \times (0.05)^2}$$

$$n = \frac{112}{1 + 112 \times 0.0025}$$

$$n = \frac{112}{1 + 0.28}$$

$$n = \frac{112}{1.28}$$

$$n = 87.5$$

The sources of data used in this study comprises of primary and secondary sources, primary sources is the questionnaire, which was obtained from individual responses, while the secondary source of data, are database, Journal, New papers, and Libraries. This data were analyzed using the statistical methods of simple percentage where a number of tables are used to classify the response of the respondents and answers were provided to the research questions. Under this phase, it is further divided into two demographic profiles of the respondents and other data are not demographic in nature.

Chi – Square X^2

This is illustrated below.

$$X^2 = \frac{\sum (F_o - F_e)^2}{F_e}$$

Where:

X^2	=	Chi – Square
\sum	=	Summation of Value
F_o	=	Observed Frequency
F_e	=	Expected Frequency

Decision Rule

If chi – square value (X^2) is lesser than the result from table at the appropriate level of significance and degrees of freedom, then, the null hypothesis will be failed to be rejected and the alternative will be rejected. However, whenever the chi – square value is greater than the table value at the appropriate level of significant and degree of freedom, the null hypothesis will be rejected and alternative will be accepted.

Data Presentation, Discussion and Analysis

This section presents the result obtained after analyzing the data generated for the study. The results is presented in two parts; the first part covers the presentation, analysis and interpretation of the data while the second part covers the result for testing the hypothesis of the study in order to arrive at a meaningful conclusion.

The relevant personal characteristic of the respondents was analysed so as to obtain assurance of whatever response provided. This will go a long way in determining whether to place heavy reliance on the answers provided by the respondents and also how relevant is what is given by them. The demographic profile of the respondents is given below in the following table.

Table 1: Highest Educational Qualification

Qualification	Number	Percentage
SSCE/GCE	0	0%
OND/NCE	0	0%
B.Sc./HND	8	38%
Above B.Sc./HND	7	33%
Others	6	29%
Total	21	100%
Professional Qualification	11	52%

Source: Field Study (2017)

Table 1 reveals the highest qualification of the respondent. From the table, it can be observed that out of the total respondents, 38% representing 8 respondents possessed B.Sc./HND, 33% possessed above B.Sc./HND and 6 respondents constituting 29% have other qualifications. This implies that none of the respondents has qualification below the grade of B.Sc./HND. It was also discovered that 52% representing 11 respondents have professional qualification. The implication of this is that responses obtained from these respondents are adequate and that reliability can be placed on them. From the table 4.1, the working experience of the respondents is illustrated. It is obvious that 24% of the total respondents have worked below 5 years, 33% of the total respondents have worked between 5 years and 10 years while 43% representing 9 respondents have worked above 10 years. With this working experience, it makes the response obtained more reliable. The working experience of the respondents is very important in this study as it gives assurance of the respondents in terms of answering the question given in the questionnaires.

Table 2: Position

Ranks	Number	Percentage (%)
Principal partner	1	5%
Resident partner	6	29%
Senior manager	3	14%
Manager	3	14%
Audit trainee	7	33%
Others	1	5%
Total	21	100%

Sources: Field Study (2017)

The table 2 indicates the position of the respondents in their respective firms. It indicates that only one respondent representing 5% of the respondents is principal partner, 6 respondents belongs to resident partner, 3 respondents each belong to senior manager and manager categories respectively, 7 respondents are audit trainees while the remaining respondents constituting 5% of the respondents belongs to the others group.

Table 3: Gender of Respondents

Responses	Number	Percentage (%)
Male	18	86%
Female	3	16%
Total	21	100%

Sources: Field Study (2017)

Table 3 shows the gender of the respondents to the questionnaires. From the table, 18 of the respondents that represent 86% fall into the males' category while the remaining 3 respondents representing 14% of the total are females. The questionnaires were shared such that every respondent was given equal chance of being selected.

Table 4: Age of Respondent

Number of Years	Number	Percentage (%)
Below 25 years	1	5%
26 – 35 years	13	62%
36 – 45 years	2	10%
Above 46 years	5	24%
Total	21	100%

Sources: Field Study (2017)

From table 4, it can be deduced that 5% (i.e. 1 respondent) of the respondents is aged below 25years, 62% (i.e. 13 respondents) are aged between 26 and 35 years, 2 respondents representing 10% of the respondents fall in the age bracket of between 36 to 45 years while 5 respondents area above 46 years of age.

Analysis of the Hypotheses and the Chi-square Interpretations

H₀₁: Auditors do not undergo any special training to be familiar with IFRSs.

The data from the response to the research questionnaire will be used and reported in this section to test the hypothesis formulated. In testing the hypothesis I, the response in section two part of the questionnaire, which consists of five questions relating to the hypothesis, will be used. These data is subjected to analysis using SPSS 16.0 and the following results as illustrated in the tables below were obtained.

Table 5: Response from Questions in Section Two

Responses	Q1	Q2	Q3	Q4	Q5	Total
Strongly Agree	7	4	6	5	18	40
Agree	9	12	12	13	1	47
Indifferent	2	3	3	2	2	12
Disagree	3	2	0	1	0	6
Strongly Disagree	0	0	0	0	0	0
Total	21	21	21	21	21	105

Sources: Field Study (2017)

Table 5 shows the response obtained from the respondents for question in section B part of the questionnaire, which bothers on nature of training. The results of the chi-square computation are portrayed in the table 6 below.

Table 6: Chi-Square Cross tabulation

		Section two questions					Total	
		Q1	Q2	Q3	Q4	Q5		
Responses	Strongly agree	Count	7	4	6	5	18	40
		Expected Count	8.0	8.0	8.0	8.0	8.0	40.0
	Agree	Count	9	12	12	13	1	47
		Expected Count	9.4	9.4	9.4	9.4	9.4	47.0
	Undecided	Count	2	3	3	2	2	12
		Expected Count	2.4	2.4	2.4	2.4	2.4	12.0
	Disagree	Count	3	2	0	1	0	6
		Expected Count	1.2	1.2	1.2	1.2	1.2	6.0
	Total	Count	21	21	21	21	21	105
		Expected Count	21.0	21.0	21.0	21.0	21.0	105.0

Source: Generated using SPSS 16.0

Table 6 shows the result of the responses obtained from the respondents. From the table, the count is taken as the actual frequency while the expected count is taken as the expected frequency. The result of the computation is provided in the table 7 below.

Table 7: Chi – Square tests (results)

	Value	Df	Asymp. Sig (2 – sided)
Pearson chi – square	32.757	12	.001
Likelihood Ratio	36.180	12	.000
Linear- by- Linear Association	9.721	1	.002
N of Valid Cases	905		

Source: Generated using SPSS 16.0

$$\text{Degree of freedom (df)} = (R - 1)(C - 1) = (5 - 1)(4 - 1) = 12$$

R= number of rows; C = number of columns

Table 7 shows the result from the computation of chi – square using the data provided in table 6; this data will be used to test hypothesis 1. From the results, it can be seen that the value of the Pearson chi- square 32.757 at a degree of freedom of 12; this implies that $X^2_{CAL} = 32.757 > X^2_{tab} = 21.03$ at 0.05 level of significance. Base on the decision rule stated. The null hypothesis will be rejected and the alternative will be accepted, meaning training is put in place to familiarize auditors with the provision of IFRS.

H₀₂: Auditors does not encounter any challenge in the adoption of IFRS.

In testing the hypothesis II, the responses in section three of the questionnaire will be analysed. These data is subjected to analysis using SPSS 16.0 and the following results as illustrated in the tables below were obtained.

Table 8: Response from questions in Section Three

Responses	Q1	Q2	Q3	Q4	Q5	Total
Strongly Agree	2	0	1	5	6	16
Agree	15	3	4	13	10	45
Indifferent	4	4	2	3	5	18
Disagree	0	14	14	0	0	28
Strongly Disagree	0	0	0	0	0	0
Total	21	21	21	21	21	105

Source: Field Study (2017)

Table 8 shows the response obtained from the respondents for questions in section three part of the questionnaire, which is on the challenges faced by auditors in the adoption of IFRS. The results of the chi-square computation are portrayed in the tables below:

Table 9 Chi-square Cross tabulation

			Section three question					
			Q1	Q2	Q3	Q4	Q5	Total
Responses	Strongly Agreed	Count	2	0	1	5	6	14
		Expected count	2.8	2.8	2.8	2.8	2.8	14.0
	Agreed	Count	15	3	4	13	10	45
		Expected count	9.0	9.0	9.0	9.0	9.0	45.0
	Undecided	Count	4	4	2	3	5	18
		Expected count	3.6	3.6	3.6	3.6	3.6	18.0
	Disagree	Count	0	14	14	0	0	28
		Expected count	5.6	5.6	5.6	5.6	5.6	28.0
Total		Count	21	21	21	21	21	21
		Expected Count	21.0	21.0	21.0	21.0	21.0	21.0

Source: Generated using SPSS 16.0

Table 9 shows the result of the responses obtained from the respondents in section three of the administered questionnaire. From the table, the count is taken as the actual frequency while the expected count is taken as the expected frequency. The data is subjected to the same process as those in table 7 and results of computation are provided in the table below.

Table 10: Chi – Square Test (Result)

	Value	df	Asymp.Sig. (2 – sided)
Pearson Chi – square	65.683	12	.000
Likelihood Ratio	78.290	12	.000
Linear – by –linear association	7.222	1	.007
N of Valid Cases	105		

Source: Generated using SPSS 16.0

$$\text{Degree of freedom (df)} = (R - 1) (C - 1) = (5 - 1)(4 - 1) = 12$$

R = number of rows; C = number of columns

Table 10 shows the result from the computation of chi – square using the data provided in table 9 from the results, it can be seen that the value of the Pearson chi – square is 65.683 at a degree of freedom of 12, meaning that the $X^2_{cal} = 65.683 > X^2_{tab} = 21.03$ at 0.05 level of significant. Based on the paradigm, it implies that auditors face challenges in the adoption of IFRS.

H₀₃: Auditors do not play any significant role in compliance with IFRS by reporting entities.

So as to adequately test hypotheses III, the research will use the responses provided by the respondents on questions structured in section four of the questionnaire. These data will also be subjected to analysis using the same as the previous ones.

Table 11: Response from Question in Section Four

Responses	Q1	Q2	Q3	Q4	Q5	Total
Strongly Agree	4	1	4	5	5	19
Agree	12	7	12	13	8	52
Indifferent	5	13	5	2	4	29
Disagree	0	0	0	1	4	5
Strongly Disagree	0	0	0	0	0	0
Total	21	21	21	21	21	105

Source: Field Study (2017)

Table 11 shows the response obtained from the respondents for question in section four of the questionnaire, which illustrates roles Nigerian auditors, plays in the advent of IFRS adoption. The results of the chi – square computation are portrayed in the table below:

Table 12 Chi – square Cross tabulation

			Tables					Total
			4.16	4.17	4.18	4.19	4.20	
Responses	Strong Agreed	Count expected count	4 3.8	1 3.8	4 3.8	5 3.8	5 3.8	19 19.0
	Agreed	Count expected count	12 10.4	7 10.4	12 10.4	13 10.4	8 10.4	52 52.0
	Undecided	Count expected count	5 5.8	13 5.8	5 5.8	2 5.8	4 5.8	29 29.0
	Disagree	Count expected count	0 0.8	0 0.8	0 0.8	0 0.8	4 0.8	4 4.0
	Strongly Disagreed	Count expected count	0 0.2	0 0.2	0 0.2	1 0.2	0 0.2	1 1.0
Total	Count Expected Count	21 21.0	21 21.0	21 21.0	21 21.0	21 21.0	21 21.0	

Source: Generated using SPSS 16.0

Table 12 shows the result of the responses obtained from the respondents from questions in section four of the questionnaire administered. The table shows actual frequency in the form of count while the expected frequency is taken to be the expected count; results of computation are provided in the table below.

Table 13: Chi – square Test (Results)

	Value	df	Asymp.Sig, (2- sided)
Pearson Chi – Square	37.857	16	.002
Likelihood Ratio	33.449	16	.006
Linear – by- Linear Association	.000	1	1.000
N of Valid Cases	105		

Source: Generated using SPSS 16.0

Degree of freedom (df) = (R- 1) (C – 1) = (5 – 1)(5 – 1) = 16

R = number of rows; C = number of columns

Table 13 above shows the result from the computation of chi – square using the data provided in table 12 from the results, that the value of the Pearson chi – square is 37.857 at a degree of freedom of 16, this indicate that the $X^2_{cal} = 37.857 > X^2_{tab} = 26.30$ at a significant level of 0.05. Going by the rule, the null hypothesis will be rejected, implying that auditors play significant roles in the adoption of IFRS

This research work was carried out to examine the challenges and prospect of IFRS adoption to Nigerian Auditors. It was informed by a move by the government of the Federal Republic of Nigeria to adopt the International Financial Reporting Standards (IFRS) as the country's financial reporting standards in the year 2012. Because of the key role played by auditors in corporate finance, the study became necessary to examine the position and fate of the auditors in the adoption of the newly introduced standards. Hypotheses were formulated to guide in carrying out the study, which were on training for auditors, challenges to be faced in the adoption of IFRS and the roles played by the auditors in its adoption.

Furthermore, for the purpose of this research work, data were obtained from those who are the presenters of information contained in the financial statements to stakeholders. They are specifically audit firms, which constitutes the population of the study. The data collected presented using the simple percentage tables while analysis was carried out with the use of chi – square method of data analysis, which were used to test the hypotheses.

Conclusion

Based on the reviewed literatures and analysis of data, the following findings and conclusions were reached.

Auditors are bound to face challenges in the adoption of IFRS, which is as a result of the newness and complexity of the standards in Nigeria. Most of these challenges stems out of the fact that the standard will require a great change to laws and regulations that auditors are used to and as such, the auditors will have to get used to this new laws alongside the new standards. Moreover, training is put in place for auditors to familiarize themselves with the provisions of IFRS. Auditors have significant roles to play in the process of adopting IFRS in Nigeria. These roles are put in place because it assists

the auditors in minimizing the challenges they face in auditing the financial reports/statements of their clients to be prepared using the provision of IFRS.

Recommendations

Going by the findings and conclusions reached above, the research proffers the following recommendations.

1. Auditors should adopt strategies to address the aforementioned challenges to be faced in the course of adoption of IFRS. This should be done by obtaining materials and attending seminars, workshops etc. on the IFRS issues so that it becomes easier when it is finally adopted.
2. Relevant accountancy bodies such as the Institutes of Chartered Accountant of Nigeria (ICAN). Association of National Accountants of Nigerian (ANAN) should organising adequate training to familiarize auditors with the provision of IFRS. The training should be organized such that it will be mandated for every auditor to be in attendance whenever it is scheduled.
3. Roles of the auditors in the adoption of IFRS cannot be overemphasized, as they are the people more closer to the management of the client companies, and as such, they should create awareness about the provision of the IFRS to the preparers of accounts, and also train and educate the client on the benefits to be derived from the adoption of the new international standards.

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Chapter 5

ECONOMIC GROWTH AS A NECESSARY CONDITION FOR NATIONAL DEVELOPMENT OF NIGERIA

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Introduction

In this chapter, the author will discuss economic growth as a necessary condition for national development of Nigeria. The paper examined growth and development in general, the requirement for economic development and economic growth a wider perspective and the leaching problem or obstacles to growth and development as it affects Nigeria ad a nation. The author suggested remedies to the problems of growth and development as it affects the entire nation. This exercise will bring awareness as to whether Nigeria is a progressive or retrogressive nation or where Nigeria is heading to?

Economic growth and development

Initially there two concepts were taken to mean the same thing.

Economic growth: Simply means the rate at which goods and services increases overtime. That economist use their terms to refer to increases in a country's real output of goods and services or more appropriately real

output per capital output. More formally Simon Kuznet has defined a country's economic growth as a long term rise in capacity to increasing diverse economic goods and services to its population. This growing capacity based on advancing technology and the institutional and ideological adjustment that it demands.

In other words, economic growth has three component products: (i) It a sustained rise in national output. (ii) Advancing technology which provides the bases for continuous growth and lastly institutional attitudinal and ideological adjustments which compliments technological innovations. Thus economic growth is increase in real per capita output. This implies that the standard of living of any economy is best measured in term of real output per person.

Economic development: Has on the past been typically seen in terms of planned alteration of the structure of production and employment so that agricultural share of both declines whereas that of the manufacturing and service industries increases. Economic development was redefined in terms of the reduction in elimination of poverty, inequality and unemployment within the context of a growing economy. Realization from growth became a common slogan.

The question to ask about a country's development is therefore:
What has been happening to poverty?
What has been happening to inequality?
What has been happening to employment?

Of the answer to each of the above question is "Yes" than clearly the phenomena constitute real development and a country in which they are manifested can unquestionably be called developed.

The objective of any meaningful development at the National level is:

- a. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection to all members of society
- b. To realize levels of living including, in addition to higher income, the provision of more jobs, better education and more attention to cultural and humanistic values. These all serves not only to enhance

materials well-being but also to generate greater individual and national self-esteem.

- c. To expand the range of economic and social choice to individuals and nation by freeing them from servitude and dependence not only in relation to other people and nation-states, but also to the forces of ignorance and human misery.

Thus, development is both a physical reality and a state of mind in which society, than through some combination of social economic and institutional process secured the means for obtaining better life. It is the upward movement of the entire social system.

Characteristics of modern economic growth

High rates of social, political and ideological transformation for a significant economic structural change, concomitant or corresponding transformation in attitudes and ideologies are necessary. These include adoption of the ideals of modernization e.g.

Rationality: i.e. the substitution of modern methods of thinking, acting, producing, distributing etc. for age, old and traditional practices such as fatalism, superstition, conservatism.

Planning: This is the search for a coordinated system of policy measures that can bring about and accelerate economic growth and development.

Social and economic equalization: This concerns locomotion of more equality in status, opportunities, wealth, income and levels of living.

Improved institution and attitudes: For increases in the level of efficiency and diligence, promotion of effective competition, social and economic mobility and to permit greater equality of opportunities, institution and attitudes have to be improved. Such institution include out-mode land tenure system, social and economic monopolies, educational and religious structures etc.

High rate of economic structural transformation: High rates of structural and sectoral change are inherent in the growth process e.g.

gradual shift from agriculture to non-agricultural activities and more recently away from industries to services

High rate of productivity: Productivity means output per unit of all inputs. The rate has increased tremendously. This is due to technological progress including the upgrading of the existing physical and mineral resources.

High rate of capital output and population growth: All developed countries have experienced large multiple increases of their previous output and population growth this is greater than those experienced during the entire era before the start of industrial revolution. Thus economic growth demands a stable but flexible social and political framework which is capable of accommodating and even encouraging rapid structural change.

Conditions necessary for the growth of an economic nation

1. Resource endowments both human and physical
2. Per capital income and levels of G. N. P in relation to the rest of the world
3. Climate
4. Population size, distribution and growth
5. Historical role of international migration
6. International trade benefits
7. Basic scientific and technological research and development capabilities
8. Stability and flexibility of political institutions

Requirements for economic development

There are no ready-made answers to the problems of under development viz poverty, high unemployment, vulnerability to external shocks, low income, high population growth etc. Because of the differing condition in the individual LDCs no solution will be unique and universally applicable or effective. Each country therefore has to find the solutions to their own peculiar economic problems. In any case there are many common problems among the low developing countries, like Nigeria and so on in general terms; we can note the following common prerequisites:

1. Efficient, honest, dedicated, patriotic and democratic leadership: The political and other national leaders must first of all sincerely resolve to follow the path that leads to national development. They must adopt a developmental strategy which will help low development countries to break away from their colonial past, and to help them forge into the future as masters of their own destiny. The role of leadership can't be overstressed.

2. The principles of self-reliance: This must be uppermost in the minds of the planners of the economy, and less emphasis should be placed on foreign aid. Chief Awo, in an article in the Daily Times of 16th September, 1967, noted that "... Africa (and other LDCs) is a continent of competing beggar nation. We vie with one another for favours with our former colonial masters. We deliberately fall over one another to invite neo-colonists to come to our nations to preside over our economic fortunes. As long as we permit ourselves to play their role with so much apparent relish and enthusiasm as we have so far been during, so long will poverty, ignorance and disease, with their concomitant phenomenon such as colonialism and neo-colonialism prevail in Africa.... unless beggars resolutely turn his back on his beggarly habits he will forever remain a beggar. For the more he begs, the more he develops the beggar characteristics of lack of initiative, courage, drive, and self-reliance."

The principle of self-reliance embodies hard work, drive and initiatives. It shuns off ostentatious consumption, especially of foreign goods. It must attack the problem of neo-colonialism looking forward to the MDCs (especially West and Britain) as over model. According to Samuel Smiles, "the spirit of self-help is the root of all genuine growth in the individual. Exhibited in the lives of many, it constitutes the true source of national vigour and strength." In this connection, Dr. A.D. Obi of the Department of Economics, UNN, in his article "Development through self-reliance: Theory and policy implication of Nigeria" (1978) has noted that "following the collapse of the worldwide optimism generated during the developed decades of the 1960s about the possibilities of massive foreign aid from the rush to the poor countries, it was remarked that many of the later would come to the realization that in their desperate quest for economic development, they would have to rely much more on their own efforts than

they had supposed.” He also asserted that “any economic growth (or development) which involves a high rate of invulnerable reliance on imported capital goods can't be considered genuine development, as there is nothing in such growth which necessarily deals with the problems of low social capacity for technology problem solving. In addition to not stimulating the development of indigenous technology or the adaptation of foreign technology it may also fail to generate employment and income for increasing share of the population.”

3. Mass participation in economic development: The need to involve the masses in economic development is very crucial. If people don't feel that they belong, they will feel alienated. Paul Gray Hoffman says, “All countries tend to make better use of their physical resources. It is hard to conceive a nation neglecting its diamond mines or overlooking its petroleum deposits. Yet human potentials of an immeasurable greater worth are wasted, and frequently for the most unreasonable of reasons.”

So economic development effort points to skill with which the leadership utilizes the masses for its development plans, how effective it has been able to organize, co-ordinate and mobilize the forces of the people. For this to be possible there must be an interplay of ideas and dialogue between the leaders and the followers. People will only be interested in the development plans only if they are convinced that it will lead to a just order, where naked self-interest is replaced by love for the good of all, and where each is allowed to contribute his best, and then be compensated. If leaders are not self-sacrificing and dedicated the people will be dispirited and they will show apathy. We must therefore involve the masses at every stage and not assuming them as ignorant people without initiative. That is the leaders alone should not have a monopoly of wisdom.

Fritz has said that, “an isolated individual is the person who does not understand the language of his society.” He is therefore of the opinion that technical language that only graduates (in law) can understand is a language of plunder. If you demand obedience and supports from the people, you must say what they understand.

a. Obstacles to growth and development economic: *Climate, soils and terrain*: Because MDCs are concentrated in temperate climates and the LDCs in tropical and sub-tropical zones, some people tend to conclude that climate plays a major role in the process of economic growth and development. These factors pose an obstacle to economic growth and development mainly through their adverse effects on agriculture in LDCs. First, most tropical soil are poor, and contain little organic matter because of heat, torrential rains etc. The torrential rain removes the ground cover and the (thin) layers of humus are washed away. There are also droughts which combine with high temperatures and wind velocities to cause a high rate of water loss through evaporation and transportation. All these cause food produced in the soils to contain very little protein, which in turn contribute to both physical and mental retardation.

Secondly, the tropics seem to be fertile breeding grounds for a variety of debilitating diseases which attack cattle and transmits the Negara disease, weaver birds that eat corns, rice, and other grains, beetles that attack yams etc. There are also such debilitating human diseases as malaria, yellow fever, leprosy, bilharzias, filanasm and trypanosomiasis. All these work to reduce productivity and agric output. And since expansion in agric will influence industrialization a great deal (because of their interrelationships) the latter is also showed down.

Furthermore, the scorching heat impedes this way poses an obstacle to development. This disadvantage in term of climate and soils can however be overcome with the aids of other factors of production especially capital and human skills and with advanced in technology, irrigation projects can make unproductive land fertile, and health programs that helps to eradicate diseases will make many areas habitable for settlement. It is also said that countries with rugged terrain-mountainous regions etc. are disadvantaged. It does not mean however that those with expanses of level land will be developed since some Asian and African countries with such features are still under-developed mountainous region-increased transportation, communication (road construction, landslides etc.).

In conclusion, we say that countries with good climates, soils, and terrain will develop more than others if all requirements hold.

b. Industrial raw materials: Lack of coal, iron ore, copper, petroleum etc. pose obstacles to developing countries that have shortage of these are disadvantaged but in this disadvantaged can be overcome by importing these raw materials for local processing or importing processed ones for conversion into finished products. Important requires foreign exchange, and so the solution lies in expanding or initiating the production of export products, and try increasing agricultural production to reduce food imports.

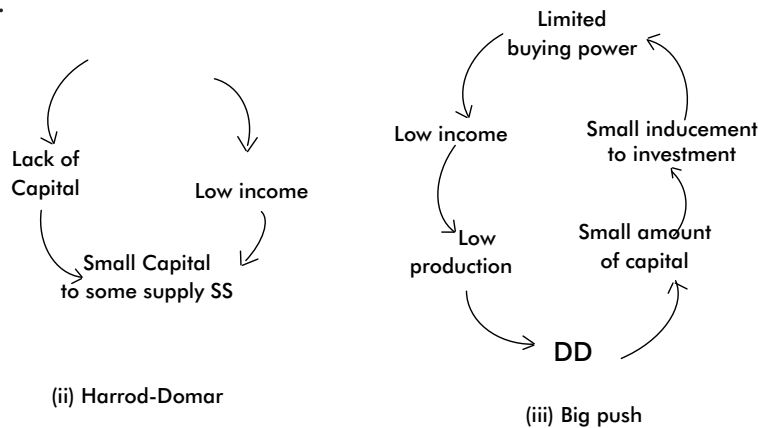
The U. K and Japan illustrate that lack of industrial raw materials need not to be an obstacle to growth and development because both countries are two of the most developed and industrialized though they do not have and therefore import a large proportion of their industrial raw materials. For example, Japan imports 100% of bauxite, 99% of iron ore and petroleum, 90% of copper and 72% of coal, yet it has had one of the fastest growing economies in the world in the last three decades, and is also highly developed. By the same token the mere presence of industrial raw materials is no guarantee of growth and development as attested to by the relatively low level of development in such countries as Bolivia, China, and Liberia.

Again, we conclude that other factors are needed to supplement advantages conferred by natural resources in order to ensure growth and development- for instance capital is required to extract most of these raw materials.

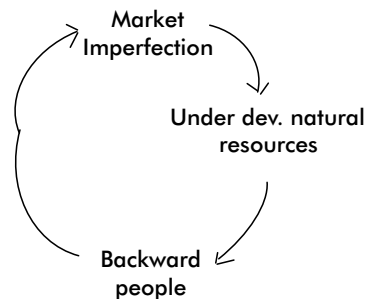
c. Capital: Capital formation is a major determinant of economic growth and therefore its shortage is a major obstacle to growth and development. Capital is decisive because it influences the productivity of labourer. Capital machinery and equipment such as high-speed computers, harvesters and tractors, automated assembly lines make for mass production. But again, capital availability alone won't make for growth and development, there have to be such complementary factors as skilled labour, spare parts, skilled management (for efficient combination

of capital with other factors etc.). Other things being equal, economic growth will be faster, the greater in the share of output devoted to capital formation.

The vicious cycle of poverty: One of the theories based on the notion that lack of capital is the key factor preventing growth and development. It is a theory explaining economic stagnation at every low levels of per capita output.



A third vicious circle envelops under-developed human and natural resources. Development of natural resources is dependent upon the production capacity of the people in a country. If they are illiterate, lack in technical skill, knowledge and entrepreneurial activity, the natural resources will tend to remain unutilized, under-utilized or even mis-utilized. On the other hand, the under development of natural resources may take a country and its people economically backward. Under-developed natural resources are therefore both a consequences and cause of the backward people.



Low rate of capital formation poverty: Due to poor climate, land, low productivity etc. The few rich do not invest their savings in production activities-they dissipate them into real estate, gold, Jewellery, ostentation consumption etc.

Lack of incentive to save and invest

1. Imperfect maintenance of law and order, political instability, the extended family system (rapid population growth)
2. Sheer habit- it is always easier to attempt the familiar than the unfamiliar-unwillingness to take risks in new ventures.
3. Small extent of the domestic market due to low income
4. Difficulties of securing funds for investments purposes
5. Lack of skilled labour and factor mobility raise the cost of production and thereby discourage potential investors.
6. Absence or inadequacy of basic services like transportation, power and water supply etc., further reduce the inducement to invest.
7. Death of entrepreneurial activity

Non-economic

a. Traditional society: resistance to change seeks to preserve their institution or way of doing things-resists virtually all attempts to other established pattern. Some people may try to change the status quos but prevailing institution will be passively accepted if challenges to the existing order are seen to have little chance of success and may invite harsh reprisals. One of the more important characteristics of the traditional society is that individuals believe that they have to no ability to change their environment fundamentally. Religious beliefs and other elements of the illiterate reinforce the patterns that have been established. For example, social, political and economic relationships are said to be the will of God or some deity where sacrifice or similar condition exist like in Latin America serfs or others are told to accept their lot and hope for something better in the next life.

A traditional society views new ideas with suspicious because they threaten the social order. Dissent is discouraged by social ostracism and other penalties including death. Status and occupation in a traditional society are determined by ascription (inheritance), not by ability and achievement.

Since tradition are not easily changed after economic growth begins, persons who assume leadership roles are not necessarily there with the best management, administration, innovation and policy making skills. Rather they were individuals whose assumption of new rules can be traced to membership in traditional elite groups. If the political and economic leadership does not consist of those with the best talents for promoting growth and development, it is not surprising that economic growth will be slow and characterized by inefficiency in both private and public decision-making.

Extended family: Communal attitudes towards individual advancement constitute another aspect of traditional societies which poses an obstacle to growth and development. Effort at self-improvement is often met with disapprovals in LDCs. Perhaps the lack of change in paternal communities leads members to conclude that one person's advancement implies losses for others.

Psychological factor

b. Physical obstacles: Personality traits. it is claimed that, for example the certain nation have remain very poor because their citizens are the emotional unstable paranoid, fatalistic, or just plain lazy-their notional characteristics is said to be empirical to the development. The "Great man" theory of history. This is a physical factor (or a theory of the role of physical factors in development) which attributes social change to the forceful and dominating personality of a single individual. Such individual directs their energies towards national economic development e.g. Kemal Alalurk of Turkey, Lenin and Stalin of Sovient Union, Mao Tse-Tung of China, F. astro and J. Abyarere. But for the development of their countries social, political and economic condition must be conducive. They will need the support or acquiescence of those who desire or tolerate social change.

Furthermore, as Everet Hagan argues, over a period of several generation, the adult personality gradually changes as individual become more self-conscious about their situation, instead of passively accepting it. Innovative personality can emerge out of their situation through such routes as father either demanding achievement or not standing in a way of achievement. The mother often plays a strong supporting role in the development of innovative personality.

Individual with an innovative personality view his environment as amenable to logical analysis. The environment is also seen to value him as an individual-he has high need for autonomy, need achievement, need order, need help in time of need and need nurturance (in physical terms). His need dependence and need submission, on the other hand a low. The implication these have for economic growth and development is that identifying and giving assistance to persons with string innovative personalities can constitutes an investment in "human capital" with a potentially high pay-off.

c. Lack of entrepreneurship: First stressed by J. Schum Meter in his book "the Theory of Economic Development" 1911. Since then it has been considered as the fourth factor of production. Entrepreneurs are not just ordinary businessmen or women they can be regarded as persons combining the traits of the visioning the wheeler, dealer and the empire builder. They are willing to take great risks if they perceive their high potential rewards. They are innovators combing existing factors of production in new and more efficient ways, or adopting a new invention for sale in the market place.

Some societies are better endowed with Entrepreneurship than others, and are more likely to achieve economic growth and development (tribes-e.g. Igbos, Yoruba in Nigeria). The better for that society if its political leaders have Entrepreneurial talents in which case such activity will be tolerated or even encouraged. Max Weber "the protestant ethics and the spirit of capitalism" economic growth and development will be better achieved if governments assists those with Entrepreneurial talents through the provision of motivation training and credit to selected business operators and provide incentives to encourage innovative behaviours in public sector. Such outlays can have high pay-off in terms of future output of income.

d. Political obstacles: Political factors like colonization, neo-colonialism, political instability, authoritarianism, lack of colonializing and sheer incompetence have been identified as obstacles to economic growth and development. Colonial masters were more interested for e.g. in procuring raw materials for the mother countries than in promoting development in the colonies themselves. Educational opportunities were restricted to a small fraction of the colonized population and jobs for there

were limited to relatively minor civil service posts and other white collar positions. Some people argued that the colonialism argument fails to demonstrate satisfactorily that growth and development would have been faster in its absence (unless one assumes that intervention could have been much more enlightened).

They go on to say that there are good reasons to believe that growth and development would have been slower. For instance, the colonies were formally traditional societies the colonist then provided some growth and this laid the ground work even for the eventual undermining of colonialism and the more rapid growth achieved by many of those continues since independence. A more important is one neo-colonialism or extent dependence these theories argue that economic growth and development have been restricted by their internal division of labour resulting from the international trade policies promoted and controlled by the developed countries since the 19th century primary product argument.

Moreover, it is alleged that for governments and multinational corporation (MNC) use various forms of bribery to maintain conservative government in power or to overthrow modernization government's interest in growth and development. As for investment (MNCs) a counter argument is that though large sum are repatriated, they could not have been much growth and development without their former investments. To the extent that external dependence does hold back economic growth and development. It is also recognized that the dependency relationship is sustained by an alliance between former interests and dominant elite groups.

Relationship between political instability and economic growth is not easy to determine. If we mean frequent and irregular changes of governments, there seems to be little correlation since there are both fast and slow growth continues with high instability-same for stable countries. But if we mean a situation of social unrest-strikes, riots or demonstrations which lead to the loss of man-hours and therefore slows down economic growth. Also instability is a symptom of growth rather than an obstacle to it change that social protests of their nature can lead to reforms that results in genuine development.

Authoritarian (Soviet Union), Yugoslavia, China etc. and one party open political system re sometimes said to achieve this. But there is no concrete correlation, William Dick's study of 58 LDCs shows no such relationship, and the result even tended towards the reverse (1974).

Lastly, incompetent public administration or public policies born of ignorance e.g. monetary policies that stifle growth, tax collections that lag behind expectation etc.

1. Socio-cultural

According to Nurkse, "Economic development has much to do with human endowments. Capital is a necessary but a sufficient condition of progress." There are elements of social resistance to economic change in LDCs which include institutional factors characterized by rigid stratification of occupations reinforced by traditional values and beliefs, attitudes involving inferior valuation attached to business roles and their incompatibility with the pattern of living and concepts of social dignity upheld by the high status groups. Such factors tend to inhibit social and geographical mobility and constitute a drag on progress. Social attitudes towards education is further inimical to growth and development purely academic education which train people for government and other clerical jobs is preferred to technical professional education in such countries. There is prejudice against manual work which is despised and ill-revived-there develop a natural distaste for practical work and training that leads to technological backwardness.

Repercussions of international forces

For investments- directed towards a increasing exportable goods, levels of goods, incomes and living standards have not risen in the private sector neither has the level of real wages of unskilled labour in the export sector itself risen appreciably. Weakening capacity to import weakening of the capital of the existing producing industries to support their growing population – failure to transmit to them the benefit of technical progress-every industrial country's independent efforts to raise production of its primary producing sector result in deterioration of terms of trade, example B. O.P disequilibrium –finally lowered their rates of capital formation and thus economic growth.

Basic requirements for economic growth

Lewis-effort to economic the increase of knowledge or its application in production and increasing the amount of capital or resources per head. But since economic development is closely associated with human endowments, social attitudes, political conditions and historical accidents, only economic requirement are not enough- political, physical, social and cultural requirements are also important.

1. An indigenous based: The growth must have a dominant base. The desire to better their lot and initiative to make materials progress must arise among the nationals of the country, development must be willed by the country itself, it cannot be implanted from outside. External forces should only stimulate and facilitate the national forces- supplementing them, foreign aid can only initiate or slim development, it cannot maintain it. Development will fall in the absence of sufficient internal motivation- under the momentum of development comes from within the economy; the initial initiative will be dissipated and short lived. "Development is impossible if too much dependence on foreign aid given a free hand to foreign investors to exploit the natural resources to their own advantage. It is therefore imperative that if the process of economic growth is to be cumulative and longer lasting, the forces of development must be firmly noted within the dominant economy.

2. Removing market imperfections: Market imperfections lead to factor immobility and inhibit sectoral expansion and development. In order to remove these existing socio-economic institutions should be improved and replaced by better ones: curbing monopoly i.e. institutions expanding capital and money markets, making available cheap and larger credit facilities to farmers and businessmen. The economy should aim at the maximum exploitation and most efficient use of existing resources radically pushing the production frontier outwards through the above and higher productivity.

Prof. T. W. Schullz "To achieve economic growth of major importance, it is necessary to allocate effort and capital to do three things: increase the quantity of reproducible goods, improve the quality of the people as production agents and raise the level of product arts." Thus there is need for

structural changes in order to push the production frontier outward.

Structural changes

The transition from a traditional agric society to a modern industrial economy involving a radical transformation of existing institution, social attitudes and motivation. These leads to increasing employment opportunities, higher labour productivity and the stock of capital, exploitation of new resources and improvement in technology, agric sector, industrial sector and service sector.

In L. D. Ds about 70 to 80% are in agric. Structural change may be begin with a transfer of population from (a) to (b) and (c) that in (a) is progressively reduced, it implies reduction in the size of the contribution of agric to Net National Production (NNP). This does not mean a decline in agric output, it must increase in absolute term-product of those remaining agric sector must increase through radical change like land reforms, improved techniques and inputs, better marketing organization etc. The scope for increasing agric productivity and its income is therefore heavily dependent on the structural transformation of the economy a it affects the growth of communal demand for goods produced, the growth of alternative employment opportunities and the increased quantity and quality of purchased inputs available to the agric sector.

Another aspect in transfer of population from (a) and (b) to (c) services producing non-material goods like transport, development the demand for the services increase rapidly because the expansion of agric and industries is dependent largely on the existence of support retail and wholesale distribution, technical and personnel etc.

On the structural changes requires innovations in the legal education, familiar motivational institutional arrangements, technical inventors taking place due to traditionalism giving way to a desire for experimentation-where men are anxious to overcome physical limitations of capacity or labour: Structural changes that will wider both domestic markets create foreign ones.

What is perhaps most important about the structural changes taking place during the take-off period is the adoption of previously existing institutions for new ends especially foreign capital formation." Bert F. Hoselitz (Non-Economic Factors in Ed" –American Econ-Rev. May 1957.

Another important aspect in the development of a new social system: Social institutions like the centre system, kingship, the religious dogman etc. should be so modified as to make economic development possible. These could be brought about through persuasion rather than coercion. Education and demonstration will help in this regard. It is also suggested that more rapid economic progress will come by utilizing as much as possible a frontal breakdown of the existing culture. For example, in Nigeria there are positive attitude and institution for development. Support for local unions and pride in local achievements the landerig together of families, clans and village communities is producers co-operatives, saving clubs etc. are practical and promising illustrations of self-help. Co-operative movement is a vehicle for economic development- an economic organization fully compatible with Nigeria tradition and social sentiment. Remember communal labour etc. This should therefore be encouraged. The need for capital requires financial institutions to collect and channel savings into productive investments.

Education

The supply for skilled personnel-scientists, managers etc. through meaningful, functional and practical education, we need scientific technological and managerial research and training institutes. Increasing the supply of entrepreneur through monetary rewards, providing conducive economic and social condition, provision of social and favourable monetary and fiscal policies, mobility of resources and wider markets, institution of entrepreneurship.

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Chapter 6

FINANCIAL SECTOR MANAGEMENT REFORMS IN NIGERIA

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Introduction

This chapter presents the financial sector management reforms in Nigeria which commenced in 2000 by the federal government. In essence, the reforms aimed at putting in place, measures to improve the quality of spending, particularly with capital budget. Thus, one initial step of government was to restore rule-bound financial management through the re-issuance of financial instructions which saw the pace of reforms gathering momentum after the 2003 presidential elections with the appointment of a strong mandate from Olusegun Obasanjo as president. This left the Jonathan administration with no option than to further push the reform in the light of the unsustainable trajectory of most fiscal variables. The various components of the reform were highlighted and discussed in the sequence of--adoption of the accounting transaction , recording and reporting (ATRRS) system, implementation of the government integrated financial management information system (GIFMIS), adoption of internal public sector accounting standards (IPSAS), implementation of the E-payment and E-remittance of independent revenue, establishment of the government wealth fund (GWF), debt management, assessment of the reform initiative, financial sector reform and Nigeria's economic growth, etc. All data is obtained from secondary sources-books, journals, periodicals, newspapers and the internet.

Background to the study

Prior to the introduction of the democratic governance in 1999, Nigeria had been associated with poor fiscal management. This is worrisome in view of the fact that public management constitutes a vital component of the development process. The erstwhile military regimes had a habit of wasteful spending with continuing inefficiency and leakages in both the current and capital budgets. There was inadequate funding of maintenance and operational costs and inflated payroll costs due to a combination of payroll fraud and overstaffing. Projects were poorly planned and executed as long delays in completion of such projects became the order of the day. This necessitated reforms.

Fiscal management reform process commenced in 2000 by the federal government putting in place measures to improve the quality of spending, particularly with capital budget. In that regard, one of the initial steps of government was to restore rule-bound financial management through the re-issuance of financial instructions. Nonetheless, the pace of reform gathered momentum after the 2003 presidential elections which saw the appointment of a new economic team with a strong reform mandate from Olusegun Obasanjo, the then president. Thus, between 2003 and 2007, the economic team made significant progress towards increasing the transparency of the budget process, ensure more efficient cash management, and reform the process of procurement. In addition, a major effort was made to modernize the legal framework for public financial management, through the passage of the Fiscal Responsibility Act (2007) and Public Procurement Act (2007). Also, Nigeria became an active member of the Nigerian Extractive Industries Transparency Initiative (NEITI), committing the country to higher standards and transparency in the management of mineral revenue. It is noteworthy that the Obasanjo administration equally pursued a more disciplined fiscal policy from 2004 budget. The results of the fiscal discipline were the build-up of substantial foreign exchange reserves and significant reduction in external debt burden. In spite of the progress recorded however, some elements of weakness remained unresolved in the nation's public financial management system.

On its inception, the Jonathan administration had no option than to continue with the need to further push the reform of the fiscal management in the light of the unsustainable trajectory of most fiscal variables. Hence, by 2010, the fiscal deficit which was in excess of the country's annual expenditure over its annual revenue, stood at 3.5% of Nigeria's Gross Domestic Product (GDP). To state the obvious, this level of deficit spending already contravened the Fiscal Responsibility Act of 2007, which stipulates a 3% threshold for the fiscal deficit for every given year.

Further still, the budget was too lop-sided in favour of recurrent expenditure. Such recurrent expenditure was unacceptably high at 73.4% of the total expenditure, while capital expenditure, which was needed for fast-paced infrastructural development, stood at only 26.6% of total expenditure. Thus, by the end of the first quarter of 2010, Nigeria's domestic debt had risen to about N3,6 trillion (or 16.4% of the GDP) from N1.7 trillion in December 2006. It was against the backdrop of these identified problems that the Jonathan administration continued with the reform in the fiscal management.

The Reforms

The following reform initiatives were taken to address the problems identified above:

1. Adoption of the Accounting Transactions Recording and Reporting (ATRRS) System

ATRRS is an ICT Access-based accounting software application to enable rapid improvements in accounting and reporting. It was conceived because the full implementation of Government Integrated Financial Management Information System (GIFMIS) may not be realized within a short period of time. ATRRS is employed to capture accounting transactions and data to facilitate prompt and timely reporting of line MDAs and Federal Pay Offices (FPOs) to OAGF consolidation, finalization of returns, and subsequent production of reports.

As a prelude to GIFMIS implementation, some of the benefits of the interim arrangements are listed below:

1. Familiarize the workforce with the use of IT equipment at the early stage of GIFMIS implementation, which would smoothen the transition to GIFMIS software.

2. Potentially reduce training period and requirement for GIFMIS
3. Potentially reduce GIFMIS implementation cost
4. Shorten business process re-engineering period (i.e., it is faster to transit from a semi-automated process than a manual process)

2. Implementation of the Government Integrated Financial Management Information System (GIFMIS)

The GIFMIS system is currently being used to manage the financial transactions of government in 447 MDAs. As at September 2014, it has drastically reduced waste in the system. The overall objective of GIFMIS has been to implement a computerized financial management information system for the federal government, which is efficient, effective, and user-friendly and which:

1. Increases the ability of FGN to undertake control and monitoring of expenditure and receipts in the MDAs
2. Increases the ability to access information on financial and operational performance
3. Improves internal controls to prevent and detect potential and actual fraud.
4. Enhances access to information on government's cash position and economic performance
5. Improves medium term planning through Medium Term Expenditure Framework (MTEF)
6. Provides the ability to understand the costs of groups of activities and tasks
7. Increases the ability to demonstrate accountability and transparency to the public and cooperating partner.

The GIFMIS is used to support the government in all aspects of budget preparation, execution, and management of government financial resources. The system is designed to cover all spending units financed from the federal government's budget process and manage all expenditure transactions (including interfaces) pertaining to these units. All steps in the expenditure cycle, including budget appropriations, financing limits, commitments, verification, and payment transactions are recorded by and managed through the system. The system is a modern efficient and user-friendly facility, providing comprehensive information on all the financial

affairs of the federal government. The introduction of GIFMIS has greatly improved the efficiency of government expenditure. Its implementation has led to the transformation of government financial management and a general improvement in quality and timeliness of financial reports.

3. Adoption of International Public Sector Accounting Standard (IPSAS)

In July 2010, the federal government approved the adoption of the International Public Sector Accounting Standard (IPSAS). The government's IPSAS Technical Sub-committee produced a harmonized format for both cash and actual IPSAS basis of accounting. The IPSAS was to take effect from 2014; however, it actually took effect from 2016. The objective was to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability both with the entity's own financial statements of previous periods and with the financial statements of other entities. To achieve this objective, IPSAS set out overall considerations for the presentation of financial statements prepared under the accrual basis of accounting.

4. The Adoption of Treasury Single Account (TSA) Concept

As scheduled, the Federal Government commenced implementation of the Treasury Single Account (TSA) for better consolidation of cash balances. This TSA commenced with 92 MDAs and another 97 FCT-based MDAs were added in May 2013. As of November, 2014, TSA had been established in 447 MDAs. This accounts for 70% of the Federal Government Budget. The Treasury Single Accounts:

1. Ensure complete, real-time information on government cash resources.
2. Help prepare accurate and reliable cash flow forecasts
3. Optimize the cost of government operations
4. Facilitate efficient payment mechanisms
5. Improve operational and appropriation control during budget execution
6. Enhance efficiency and timeliness of bank reconciliation
7. Facilitate timely and more complete accounting statements/reports.

The TSA handles payments from all spending units, and unlike the use of multiple bank accounts, the cash balances are rolled up to a single account. It is not just a single bank account but typically, an encapsulation of multiple accounts rolled up to a single account. Therefore, it presents a unified structure of government bank accounts which gives a consolidated view of government cash resources. It could be just one account or a set of linked accounts (main and subsidiary). With the introduction of the system, there has been a reversal of the overall government accounts position, from an average overdraft of N102 billion in 2011 to a credit of N86 billion in 2013.

5. Independent Revenue Enhancement (IRE)

1. Active involvement of OAGF in independent revenue target setting for MDAs
2. Review of extant revenue rates in conformity with existing price levels
3. Review of enabling Acts MDAs to align them with provisions of §180 of the 1999 constitution on revenue remittance to CRF; and
4. Design of FGN independent revenue management guidelines.

6. Modernization of Internal Audit Function across all MDAs

1. Modernization process is on-going
2. Audit manual based on RBA has been developed
3. IDEA Audit software procured
4. Internal Audit Modernization strategy and road map has been developed and approved.

7. Implementation of E-Payment and E-Remittance of Independent Revenue

E-Payment and e-remittance measures were unveiled by President Jonathan during the presentation of the 2009 annual budget to the National Assembly in October 2008 as one of the measures for ensuring transparency and accountability. From January 2009, all financial transactions of the federal government were made electronically. This was followed with Treasury Circular of 1 January 2009.

The e-payment covers all payments to contractors, service providers, staff, and other government agencies. The Treasury Circular of 24 March 2009

introduced e-remittance of independent revenue into the consolidated revenue fund of the federal government of Nigeria and forwarding of evidence of remittance to the sub-treasury of the Federation.

Budget Reform

The Fiscal Responsibility Act (FRA) came into force on July 30, 2007. As stated in its preamble, the Act is meant to provide for prudent management of the nation's resources, ensure long-term macroeconomic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and establish the Fiscal Responsibility Commission. The Act is meant to strengthen fiscal policy implementation from the tradition of short-term fiscal perspective to medium - to long-term sustainability.

The Medium Term Expenditure framework (MTEF) and Fiscal Strategy Paper (FSP) provide the basis for annual budget planning. They consist of a macroeconomic framework that indicates fiscal targets and estimates revenues and expenditure, including government financial obligations in the medium term. The documents also set out the underlying assumptions for these projections, provide an evaluation and analysis of the previous budget, and present an overview of consolidated debt and potential fiscal risks.

Establishment of the Sovereign Wealth Fund (SWF)

The Nigeria Sovereign Investment Authority (NSIA) was created to manage the Sovereign Welfare Fund (SWF) in order to ensure that government had a mechanism which compels it to create buffers needed in times of economic crises. An initial amount of US \$1 billion was transferred into the account for its take-off. The SWF would:

1. Provide for stabilization and ensure that there is a buffer/insurance against external shocks.
2. Provide resources for critical infrastructure
3. Boost savings for future generations in view of the intergenerational dimensions of crude oil

Debt Management

In view of rising domestic debt, the government had begun to develop debt management capacity at the sub-national levels and had prepared the first-ever national medium-term debt management strategy. A sinking fund of N100 billion was included in 2013 budget for repaying the government's maturing domestic debt in order to slow the growth in the debt stock.

Major Achievements of the Reforms

Through the Public management reforms, the federal government has:

1. Reduced budget deficit and changed budget composition.
2. The TSA system has reversed the overall government accounts position, from an average overdraft of N102 billion in 2011 to credit of N86 billion in 2013
3. The GIFMIS has increased the ability to undertake central control and monitoring of expenditures and receipts in the MDAs, which has significantly reduced corruption.
4. Government reduced the flow of domestic borrowing from N852 billion in 2011 to N744 billion in 2012, and then to N727 billion in 2013 budget.
5. There is better access to information on financial and operational performance that makes it easier to produce reports.
6. As a result of these gains, rating by international agencies like Fitch, Standard & Poor's, and Moody have improved to BB- (or equivalent). This implies that rates on the international bonds by some of the country's commercial banks, including Access Bank (\$350 million Euro Bond), GT Bank (\$350 million Euro Bond), and Fidelity Bank (\$300 million Euro Bond).
7. Tax collection improved significantly from a paltry total of N455 billion in 2000 to N1.9 trillion by end of 2009.

Other specific Achievements include:

1. Sensitization and enlightenment of key stakeholders in the six geo-political zones covering the federal, states and local governments.
2. Production of a new National Chart of Accounts to be used by the three tiers of government.
3. Training and re-training of process owners on the accounting standard

4. Production of a user's manual for the National Chart of Accounts
5. Production and exposure of key stakeholders to the General Purpose Financial Statement (GPFS) – IPSAS cash basis.
6. Production of the format of statistical reports in form of functional report, programme report and geo-location report, which are made available to all stakeholders.
7. Production of IPSAS complaint template for budget preparation
8. Production and distribution of what you need to know about IPSAS

Assessment of Reform Initiative

Judged against the 10 criteria for assessing the success of reform efforts, it is clear that while significant successes have been recorded, daunting challenges remain.

S/No	Assessment Criteria	Result of Assessment
1.	Have the public financial management reforms improved the quality and quantity of public service?	The reforms have improved governance as reports are produced timely, thereby instilling some level of transparency around financial management. The government finances are better managed.
2.	Do more people now have access to service, including disadvantaged groups such as women, young persons and people with disabilities?	Not applicable
3.	Have the PFM management reforms reduced the cost of governance?	The reforms have certainly reduced the cost of governance, particularly as the huge amount spent on manual processes has been eliminated. There is also substantial reduction in government overdraft costs
4.	Have the PFM management reforms made the service more affordable for citizens?	Not applicable
5.	Have the PFM management reforms reduced corruption?	Yes
6.	Have the PFM management reforms reduced unnecessary bureaucracy and red tape?	Fiscal management reforms have reduced bureaucracy and red tape, and the delays in processing and payments of government bills have been reduced through e-payment system.

• Management Skills and Strategy Development •

S/No	Assessment Criteria	Result of Assessment
7.	Are the PFM management reforms likely to lead to improved development outcomes?	Better fiscal management definitely leads to better development outcomes, particularly as budget outcomes will lead to development and provision of better services.
8.	Are things improving staying the same or getting worse?	Yes. As a result of the reforms, information is widely available to the population and documents are now produced on a timely basis.
9.	Where things are improving, will those improvements endure?	The improvements that have been made in some areas particularly the automated system are more sustainable than the previous system, although there is no legal framework to back the reforms.
10.	Where things are not improving, what should be done?	Not applicable

In the circular flow of income in an open economy, the roles of the financial market part of which the banking sector occupies a prominent place are well spelt out. These include the provision of services in the areas of payment enhancement, money supply transmission, credit allocation and general intermediation in the economy. To this end, banking sector reform is about issues relating to identification of challenges and provision of capacities for improving the banking system generally. Adeoye and Adewuyi (2005), assert that, “the Nigerian Financial system of the pre-reform period essentially catered for the needs of planned development in a mixed-economy framework where the government sector had a predominant role in economic activity”. The financial sector scenario was characterized by underdeveloped financial markets coupled with limited financial instruments and products. Hence, in corroboration with the evidence of Ologun (1994), Hassan and Olufemi (1994), Eke (1999) and Ebhodaghe (1995), Soludo (2004), lamented that, “the banking system in the pre-reform era was fragile and marginal and that the system faced enormous challenges which if not urgently addressed, could snowball into crisis in the near future”.

The theoretical foundation of economic reform is vast and spreads across the entire spectrum of the neo-classical school of thought. Since the 1980s,

African countries have embarked on aggressive economic reforms in an attempt to stimulate and sustain economic growth. According to Magbagbeola (2004), 'this strategy is in consonance with the neo-classical theory which asserts that a liberalized (free market is premised on the principles of macroeconomic stability, trade openness, a reduced role of government and implementation of poverty reducing strategies" (Olivia and Suarez, 2002). Thus, having identified the problems and challenges facing the banking industry, the Central Bank of Nigeria came up with a 13-point agenda which was believed will reposition the banks for greater efficiency and better performance for enhanced economic growth. Recapitalization and consolidation were the anchor points of the 13-point agenda. According to BIS (2001), "consolidation in the banking industry is perceived as the reduction in the number of banks with simultaneous increase in size and concentration of the consolidated entities in the sector". It is also interesting to observe the historical relationship which exists between banking sector development and early stages of industrialization in England, France, Germany, Russia and Japan as revealed in the results of empirical investigations by Cameron (1967). Even recent studies by Levin (2004) as cited in Obilikwu (2009), emphasize significance of bank liquidity and efficient intermediation in the process of economic growth. Several other studies on consolidation, recapitalization and banking sector reforms in Nigeria (Campbell (2006), (Onwiodukit (2005), Balogun (2007), lend credence to the impact of reforms in banking sector on economic growth.

Financial sector Reforms and Nigeria's Economic Growth

Generally, the financial system is more than just a set of institutions which facilitate payments and extend credit. It encompasses all functions that direct real resources to their ultimate users. It is the central nervous system of a market economy and contains a number of separate, yet co-dependent components all of which are essential to its effective and efficient functioning. The development of this sector determines how it will be able to, "effectively and efficiently discharge its major role of mobilizing fund from the surplus sector which helps in facilitating business transactions and economic development" (Adoribigbe, 2004). The essence of initiating reforms in this sector is to create a more efficient and stable system, which will facilitate optimum performance in the economy. This means, "providing a foundation for implementing effective stabilization policies and

successfully mobilizing capital and putting it to effective use which leads to achieving higher rates of economic growth" (Johnston and SundararJan, 1999). Economic growth is, "a gradual and steady change in the long-run which comes about by a general increase in the rate of savings and population" (Jhinghan, 2005). It has also been described as, "a positive change in the level of production of goods and services by a country over a certain period of time" (Adelakun, 2010). It also implies a reduction in inequalities of income distribution. Opeyemi (1995), regards financial sector of any economy as, "an engine of growth that could greatly assist in the promotion of rapid economic transformation". Financial sector reforms are an integral part of the economic reform package. The reform involves, "packaging, the liberalization of interest rates, promotion of market based system of credit allocation, enhancing competition, and efficiency of the regulatory and supervisory framework" (Adekunle, Salami and Adedibe, 2013).

In the opinion of Deccan (2014), financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture. Such reforms are usually carried out through financial sector deregulation. Deregulation of the financial sector requires, "a set of indicators that can be used for effective policy formulation, implementation and evaluation" (Iganiga, 2010). This being the case, there is no precise definition in the literature of "financial sector development". However, Fry (1978), observed that "the key to financial sector development is the reduction and ultimate unification of fragmented financial markets. This involves a complete set of indicators mainly covering credit intermediation, liquidity management and risk management characteristics of the financial system. Onwioduokit (2006), posits that, "it is hard to find an indicator that can directly measure the development of the financial sector". Nnanna (2005), believes that, "peculiar features of the reforms programmes in Nigeria are the associated inconsistencies in policy implementation". However, some studies have shown that the Nigerian financial system has benefited largely from these reforms, but all the same, the system is still yearning for improvement" (Adam and Agba, 2006).

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APPENDIX

Table 1: Sample Size Used for the Study

FIRMS	POPULATION	SAMPLE SIZE
SKY SCROWN BAKERY COMPANY	47	35
NESTLE FOODS	33	30
LEVERS BROTHERS PROVISION COMPANY	32	25
TOTAL	112	90

Chapter **7**

**MICROFINANCE BANK'S CREDIT
AND THE GROWTH OF SMALL AND
MEDIUM SCALE BUSINESSES (SMBs)
IN NIGERIA (1990-2016):
INVESTIGATING THE NEXUS**

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Introduction

The study examined microfinance bank's credit and the growth of small and medium scale businesses in Nigeria; for the period 1990-2016. Secondary data were used and sourced from the Central Bank of Nigeria statistical bulletin. The variables employed for this study are stated as: Microfinance Bank's Credit to Small and Medium Businesses, Interest Rate and Broad Money Supply used as the independent variables; whereas, Gross Domestic Product is proxy for the growth of small and medium scale businesses and used as dependent variable. Ordinary Least Square (OLS) estimation statistics was adopted to test the formulated hypotheses. The study revealed that microfinance bank loans have a positive significant relationship with Gross Domestic Product in Nigeria. The study also revealed that interest rate has a negative significant relationship with Gross Domestic Product in Nigeria. Broad money supply has a positive significant relationship with Gross Domestic Product in Nigeria. The coefficient of determination indicated that about 64% of the variations in the Gross

Domestic Product can be explained by changes in microfinance banks credit variables in Nigeria. The study concluded that the activities of microfinance institutions have significantly contributed to the growth and development of small and medium scale businesses (SMBs) in Nigeria. The study recommended that microfinance banks should be more concern with ethical and professional conduct by ensuring that soft loans are given to credible and promising entrepreneurs. Microfinance banks should grant soft loan to this important sector of the economy and also reduced stringent policy in supply of credit to the small and medium scale businesses (SMBs). Monetary authority should encourage microfinance banks to set up more branches in the rural areas in order to encourage rural based investors to save and have assesses to credit facilities.

Background to the study

Since the introduction of Structural Adjustment Programme in 1986, the private sector development policy has been reoriented to sustaining and improving the growth and development of small and medium scale businesses (SMBs) investments in Nigeria (Andabai, 2016). This can also be achieved through the establishment of vibrant microfinance banks for the growth and development of small and medium scale businesses in Nigeria. The study carried out by Dada(2014) earmarked that governments appears to have implemented numerous national improvement plans and programmes aimed at boosting productivity, as well as placing emphasis on the growth of small and medium scale sector of the economy. Apart from the potential for ensuring a self-reliant industrialization, in terms of ability to rely largely on local raw materials; and, small scale enterprises are some of the strategies to boost the domestic economy(Idowu, 2012).

Microfinance banks in Nigeria requires some informal practices such as local money lending credit and savings practices, credit from friends and relatives which enable them to achieve government owned institutional arrangements such as poverty reduction programs Kadiri (2012). The central bank of Nigeria survey in 2016 indicates that the operations of microfinance institutions in Nigeria are relatively new; because, most of them have not registered since the deregulation era of 1986. Before now, commercial banks traditionally lend to medium and large enterprises which considered being credit-worthy. The study carried out by Mohammed (2014) observed that microfinance institutions avoided doing businesses

with the poor and their small enterprises; because, the associated cost and risks are considered to be relatively high.

Hence, governments at all level have recognized that for sustainable growth and development to be achieved microfinance institutions must function effectively in the economy (Andabai, 2014). Consequently, the financial empowerment of the rural areas is important; because, been the repository of the predominantly poor in society. Arogundade (2010) stated that expect growth strategy is adopted; the entrepreneurial capabilities of the large segment of people will be sufficiently stimulated and sustained in the economy. The empirical study conducted by Andabai and Bingilar (2015) earmarked that to give effect to these aspirations; various policies have been instituted over time by the Federal Government to improve rural entrepreneurs in the country. In view of this, the importance of microfinance banks in economic growth and development in Nigeria cannot be overemphasized. Bamidele (2012) stated that some rural areas are opportune to grow and develop as credit facilities are easily be given to rural farmers and entrepreneurs as to provide job opportunities.

The empirical study by Olukayode and Somoye (2013) revealed that almost throughout the regulatory era, commercial bank's loans and advances to the SMEs sector deviated persistently from prescribed minimum. Thus, microfinance institutions which comprises of banking and non-banking financial institutions are still considered as one of the most effective strategies in reducing unemployment and poverty by advancing credit to small and medium entrepreneurs to invest in the productive activities in order to increase output. Imoughele and Ismaila (2014) stated that inspite of the efforts of microfinance banks at achieving these objectives, it is rather unfortunate that productivity is relatively low and unemployment and poverty is on steady increase. The study by Bamidele (2012) showed that microfinance banks are faced with some attended problems which include: inadequate and ineffective awareness, insufficient support from the regulars, and undue competition instead of corporation from the mega bank.

The minimum paid-up capital for this category of banks is N20 million for each branch. The branching should be gradual within a local council before

it spreads to other local council and state. Micro finance banks licensed to operate in a state, these are MFBs licensed to operate in all parts of the state at once. Without recourse to gradual coverage (Spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of funds. Awoniyi (2010) revealed that microfinance is not a new concept, small micro credit operations have existed since the mid-1700s although most modern micro finance intuitions operate in developing countries. Like conventional banking operations, microfinance institutions must charge their lenders interest on loans while these interest rates are generally lower than those offered by normal banks. Hence, some opponents of these concepts condemn microfinance operatives for making profit from the poor. The World Bank estimates that there are more than 500 million people who have directly or indirectly benefited from microfinance related operations.

Theoretical Framework

This study is anchored on the financial intermediation theory by Gurley and Shaw (1967). The theory explains the role of bank credit in an economy. The theory stated that the business of financial intermediation in any modern economy is to provide a mechanism to draw financial flows from financially exceeding agents to those having a financial need in the economy. This means that microfinance institutions can influence growth of small and medium scale businesses in Nigeria by extending credit to the sector. The work of Andabai (2016) observed that the role of bank credit to private sector in stimulating economic growth and development cannot be over emphasized. As a result, this is one of the most important sources of financing entrepreneurs; especially, the development of small and medium scale businesses in Nigeria. Nzotta (2014) posits that bank credit is one of the important aspects of financial intermediation that provide funds to economic entities that can put them to the most productive investment in an economy. They conclude that credit availability for consumption and investment are capable of raising the level of private sector output and create employment opportunities in the economy. Hence, microfinance banks are expected to finance any positive net present value project if the cost of investment is below the expected returns. Based on these contributions, there is a justification for anchoring this study on financial intermediation theory.

Empirical Review

Agbeja (2014) investigated the effect of the changes of capital base of micro-finance banks on the economy: A study of each bank from 1992-2007 for a period of sixteen years. The study concludes that micro finance banks had contributed to the growth of the economy. This study gives a best to the reason government and continued to supply such banks most especially is the case of Bayelsa State with the establishment of the Ijaw microfinance bank in each local government areas.

Nacem (2014) wrote on the impact of micro finance on women entrepreneurs. Using a cross section of research model based on household in Quetta, Pakistan, the study revealed that micro-finance had been helpful in empowering female entrepreneurs economically. The study was conducted on a face to face interview with women who had benefited from the credit facility for more than two years.

Dada (2014) examined the consistently repeated complaint of SMEs about their problem regarding access to finance is highly relevant constraint that endangers the development of the sector in Nigeria and investigating the effect of commercial banks' credit on SMEs development employing Ordinary Least Square (OLS) technique to estimate the multiple regression models. The findings revealed that commercial banks credit to SMEs and the saving and time deposit of commercial banks exert a positive and significant influence on SMEs development proxy by wholesale and retail trade output as a component of GDP, while exchange rate and interest rate exhibit adversative effect on SMEs development.

Afolabi (2013) evaluated the effect of SMEs financing on economic growth in Nigeria between 1980 and 2010 the study employed Ordinary Least Square (OLS) method to estimate the multiple regression models. The estimated model results revealed that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product and commercial banks' credit to SMEs exert positive and significant impact on economic development proxy real gross domestic product while lending rate is found to exert negative effects on economic growth.

Mohammed (2014) evaluated the necessity and strategies of re-positioning commercial banks in order to enhance the productive capacities of SMEs employing the Error Correction Model (ECM) and Co-integration Test the results showed that there was co-integration between re-positioning of commercial banks and capacities of SMEs to deliver products/services and also there was significant dispersion resulting from lending conditions and macroeconomic variables. He concluded that the previous Global Financial Crisis really brought with it economic hazards leading to Banking Sector Crises. It was recommended that government should relax the conditions for lending offered by the Commercial Banks through the Central Bank, revitalize the Capital Markets and Prioritize the SME in order to contribute to Economic Growth.

Idowu (2012) asserted that the major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

Imoughele and Ismaila (2014) examined the impact of commercial bank credit on the growth of small and medium scale enterprises: Econometrics evidence from Nigeria (1986-2012).The study used Augmented Dickey-Fuller (ADF) and Ordinary Least Squares (OLS) for the analysis. Output Of SMEs, Commercial Bank credit to SME, Savings and time deposit with banks, Exchange rate and Interest rate were used. The SMEs and selected macroeconomic variables have long -run relationship with SMEs output performance in Nigeria. Savings time deposit and exchange rate are the main determinants of Nigeria SMEs performance.

Olukayode and Somoye (2013) evaluated the impact of finance on entrepreneurship growth in Nigeria using endogenous growth framework, the results show that the finance, interest rate, real gross domestic product, unemployment and industrial productivity are significant to entrepreneurship in Nigeria. The results also show a uni-directional

Granger causal relationship and suggest that access to finance by entrepreneurship has significant relationship with economic growth in Nigeria. The paper therefore recommends the formulation of effective macroeconomic policy targeted to entrepreneurship financing and growth. They recommended that monetary authorities should intervene indirectly by reducing Monetary Policy Rates (MPR) which will directly reduce the transaction costs of funds to entrepreneurship and industrial sectors. Findings, the study proffered that the central authority should create an enabling environment for SME development.

Onakoya, Fasanya and Abdulrahman (2013) examined the impact of financing small scale enterprises on economic growth using quarterly time series data from 1992 to 2009 the study revealed that loan to small scale entrepreneurs have a positive impact on the economic performance and conclude that access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development.

Methodology

The study applied *ex-post-facto* research design to source requisite information. An *ex-post-facto* research design is a systematic empirical inquiry that requires the use of variables which the researcher does not have the capacity to change its state or direction in the course of the study (Onwumere, 2009). Data for this study were sourced from the Central Bank of Nigeria Statistical Bulletin, 2016. Data collected and used for the variables form the basis of this study which covered the period of 27 years (1990-2016). The variables used for this study are stated as: (MFBCSMBs, INTR and M_2). Where: MFBCSMBs = Microfinance Bank Credit to Small and Medium Businesses, INTR= Interest Rate and M_2 = Broad Money Supply used as the independent variables; whereas, Gross Domestic Product is proxy for the growth of small and medium scale businesses and used as dependent variable.

Model Specification

Multivariate linear regression model is used to test the null hypotheses proposed for this study: There is no positive significant relationship with Gross Domestic Product in Nigeria. Interest rate has no positive significant relationship with Gross Domestic Product in Nigeria. Broad money supply

has no positive significant relationship with Gross Domestic Product in Nigeria. Based on these hypotheses, a model is adopted from the work of Aliyu (2014) and stated as: $GDP = f(MFBCSMEs, INFL, M_2)$

Where:

- GDP = Gross Domestic Product as proxy for economic growth
- MFBCSMEs = Microfinance Bank Credit to Small and Medium Scale Enterprises
- INFL = Inflation Rate
- M_2 = Broad Money Supply

The above model is modified in this study by introducing Microfinance Bank's Credit to Small and Medium Businesses as proxy for Microfinance Bank's Credit to Small and Medium Enterprises and was employed as independent variable.

The modified model is stated as:

$$GDP = f(MFBCSMBs, INFL, M_2) \dots \dots \dots (i)$$

The equation form can be written as:

$$GDP = \delta_0 + \delta_1 MFBCSMBs + \delta_2 INFL + \delta_3 M_2 + \mu \dots \dots \dots (ii)$$

Where,

- GDP = Gross Domestic Product as proxy for the growth of small and medium scale businesses in Nigeria
- MFBCSMBs = Microfinance Bank Credit to Small and Medium Businesses
- M_2 = Broad Money Supply
- INFL = Inflation Rate
- $\delta_0, \delta_1, \delta_2$ and δ_3 are parameters or coefficient of the model,
- δ_0 = intercept and
- δ_1, δ_2 and δ_3 are the coefficients of the regression equation.
- μ is the stochastic or error term while
- Ln is the natural log of the variables.

Log transformation is necessary to reduce the problem of heteroskedasticity because it compresses the scale in which the variables are measured,

thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 2004).

Data Analysis and Presentation

The study focused on microfinance bank credit and the growth of small and medium scale businesses in Nigeria, for the period 1999-2016. Data for this study consist of 27 years annual observation period of (1990-2016) and were collected from Central Bank of Nigeria Statistical Bulletin. The study used annual data, because quarterly data may not be accessed for some of the variables. Data collected and used for the variables form the basis of this study which covered the period of 27 years (1990-2016). The variables used for this study are stated as: (MFBCSMBs, INTR, M_2). Where: MFBCSMBs = Microfinance Bank Credit to Small and Medium Businesses, INTR= Interest Rate and M_2 = Broad Money Supply used as the independent variables of the study; whereas, Gross Domestic Product is proxy for the growth of small and medium scale businesses and used as dependent variable as indicated in appendix 1.

Table 1: Dependent Variable: GDP

Method: Least Squares, Time: 04:34

Sample: 1990-2016

Included observations: 27

Date: 08/23/2017	Coefficient	Std. Error	t-Statistic	Prob.
C	36.38045	10.95743	13.30646	0.00000
MFBCSMBs	2.781536	0.007654	0.758345	0.08000
INTR,	3.94E-05	8.34E-06	2.325182	0.00000
M_2	4.11E-05	0.000565	-0.108270	0.00000
R-squared	0.643787	Mean dependent var		212.9160
Adjusted R-squared	0.622016	S.D. dependent var		67.20193
S.E. of regression	23.87555	Akaike info criterion		10.00344
Sum squared resid	26381.10	Schwarz criterion		10.41862
Log likelihood	-136.1856	F-statistic		6.463820
Durbin-Watson stat	1.866977	Prob(F-statistic)		0.000000

Source: Author's computation with the use of E-view 8.0

From table 1 the coefficient of determination ($R^2=0.643787$) indicates that about 64% of the variations in small and medium businesses (SMBs) be explained by changes in microfinance bank variables (MFBCSMBs, M_2 and

INT) in Nigeria. This implies that a significant portion of Gross Domestic Product is explained by changes in microfinance bank's credit variables. The F-Statistics of (6.463820) which is significant at 5% confirms the contribution of microfinance bank credit variables to the growth and development of small and medium scale businesses (SMBs) in Nigeria; for the 1990-2016. The influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero. Finally, the value of Durbin-Watson (DW) indicates the absence of autocorrelation.

Discussion of Findings

From the study, the result reveals that microfinance banks credit has a positive significant relationship with Gross Domestic Product in Nigeria. Interest rate has a positive significant relationship with Gross Domestic Product in Nigeria. Coefficient of determination ($R^2 = 0.643747$) indicates that about 64% of the variations in Gross Domestic Product can be explained by changes in microfinance bank's credit variables (MFBCSMBs, M_2 and INTR) in Nigeria. This implies that a significant portion of Gross Domestic Product can be explained by changes in microfinance bank's credit variables. The F-Statistics of 6.463820 which is significant at 5% confirms the contribution of microfinance bank's credit variables to the growth and development of small and medium scale businesses (SMBs) in Nigeria for the period 1990-2016. The influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero. Finally, the value of Durbin-Watson (DW) indicates the absence of autocorrelation.

Conclusion and Recommendations

The study concludes that the activities of microfinance banks have significantly contributed to the growth and development of small and medium scale businesses (SMBs) in Nigeria. The study recommends that more attention be given to the issue of interest rate and its negative implications on the economy. Microfinance institutions should channel reasonable proportion of their loans to the productive sector of in order to facilitate growth and development in the economy. Microfinance banks should be more concern with ethical and professional conduct by ensuring that soft loans are given to credible and promising entrepreneurs.

Microfinance banks should grant soft loan to this important sector of the economy and also reduced stringent policy in supply of credit to the small and medium businesses (SMBs). Monetary authority should encourage microfinance banks to set up more branches in the rural areas in order to encourage rural based investors to save and have assesses to credit facilities.

Contribution to Knowledge

The study was able to modify the model, expand the existing literature and updated data that will enable researchers and scholars to use it for further studies. The study concludes that the activities of microfinance banks have significantly contributed to the growth and development of small and medium scale businesses (SMBs) in Nigeria. The factors responsible for this can be traceable to economic and political stability and ability to implement the formulated policies by the regulatory authorities (Central Bank of Nigeria and Federal Ministry of Finance).

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Appendix 1: Microfinance Banks Credit and Economic Growth in Nigeria (1990-2016)

YEAR	GDP at Current Market Rate (N' Billion)	Microfinance Bank Credits (N'BILLION)	Interest Rate (%)	Broad Money Supply (N' Billions)
1990	472.65	167.98	25.50	52.86
1991	545.67	164.64	20.01	75.40
1992	875.34	167.47	29.80	111.11
1993	1,089.68	176.52	18.32	165.34
1994	1,399.70	179.35	21.00	230.29
1995	2,907.36	178.36	20.18	289.09
1996	4,032.30	182.93	19.74	345.85
1997	4,189.25	183.52	13.54	413.28
1998	3,989.45	193.34	18.29	488.15
1999	4,679.21	200.07	21.32	628.95
2000	6,713.57	277.67	17.98	878.46
2001	6,895.20	385.19	18.29	1,269.32
2002	7,795.76	488.05	24.85	1,505.96
2003	9,913.52	592.09	20.71	1,952.92
2004	11,411.07	655.74	19.18	2,131.82
2005	14,610.88	797.52	17.95	2,637.91
2006	18,564.59	1,316.96	17.26	3,797.91
2007	20,657.32	1,739.64	16.94	5,127.40

•Management Skills and Strategy Development•

2008	24,296.33	2,693.55	15.14	8,008.20
2009	24,794.24	4,118.17	18.99	9,419.92
2010	54,204.80	5,763.51	17.59	11,034.94
2011	63,258.58	5,954.26	16.02	12,172.49
2012	71,186.53	6,531.91	16.79	13,895.39
2013	80,222.13	8,062.90	16.72	15,158.62
2014	84,534.45	8,656.12	16.55	17,680.52
2015	78,236.78	5,794.99	16.53	15,158.62
2016	78,356.33	5,474.65	17.34	17,680.52

Sources: Central Bank of Nigeria Statistical Bulletin 2016.